LANCASTER CITY COUNCIL

*Promoting City, Coast & Countryside*

***Committee:*** **AUDIT COMMITTEE**

***Date:*** **WEDNESDAY, 13 SEPTEMBER 2017**

***Venue:*** **LANCASTER TOWN HALL**

***Time:*** **6.10 P.M.**

**A G E N D A**

1. **Apologies for Absence**

2. **Minutes**

   Minutes of meeting held on 28th June 2017 (previously circulated).

3. **Items of urgent business authorised by the Chairman**

4. **Declarations of Interest**

   To receive declarations by Members of interests in respect of items on this Agenda.

   Members are reminded that, in accordance with the Localism Act 2011, they are required to declare any disclosable pecuniary interests which have not already been declared in the Council's Register of Interests. (It is a criminal offence not to declare a disclosable pecuniary interest either in the Register or at the meeting).

   Whilst not a legal requirement, in accordance with Council Procedure Rule 9 and in the interests of clarity and transparency, Members should declare any disclosable pecuniary interests which they have already declared in the Register, at this point in the meeting.

   In accordance with Part B Section 2 of the Code Of Conduct, Members are required to declare the existence and nature of any other interests as defined in paragraphs 8(1) or 9(2) of the Code of Conduct.

5. **The Annual Governance Statement 2016/17** (Pages 1 - 11)

   Report of the Chief Executive.

6. **Statement of Accounts 2016/17** (Pages 12 - 133)

   Report of the Chief Officer (Resources)

7. **Internal Audit Monitoring** (Pages 134 - 136)

   Report of the Interim Internal Audit and Assurance Manager.

8. **Counter Fraud - Annual Report 2016/17** (Pages 137 - 149)

   Report of the Corporate Fraud Manager.

9. **Local Government Ombudsman's Annual Review Letter 2016/17** (Pages 150 - 155)

Report of the Interim Internal Audit and Assurance Manager.

**ADMINISTRATIVE ARRANGEMENTS**

**(i) Membership**

Councillors Abbott Bryning (Chairman), Colin Hartley (Vice-Chairman), Nathan Burns, Elizabeth Scott, Malcolm Thomas, David Whitaker and Nicholas Wilkinson

**(ii) Substitute Membership**

Councillors Stuart Bateson (Substitute), Tim Hamilton-Cox (Substitute), Brendan Hughes (Substitute), Roger Sherlock (Substitute) and Peter Williamson (Substitute)

**(iii) Queries regarding this Agenda**

Please contact Sarah Moorghen, Democratic Services - telephone 01524 582132, or email smoorghen@lancaster.gov.uk.

**(iv) Changes to Membership, substitutions or apologies**

Please contact Democratic Support, telephone 582170, or alternatively email democraticsupport@lancaster.gov.uk.

SUSAN PARSONAGE,
CHIEF EXECUTIVE,
TOWN HALL,
DALTON SQUARE,
LANCASTER, LA1 1PJ

Published on 5th September 2017.

Agenda Item 5

**AUDIT COMMITTEE**

# Review of Governance and the Annual Governance Statement 2016/17

## 13 September 2017

## Report of the Chief Executive

| PURPOSE OF REPORT |
|---|
| To seek the Committee's recommendation for the adoption of the Annual Governance Statement for the 2016/17 financial year. |
| **This report is public** |

**RECOMMENDATIONS**

**(1) That the Annual Governance Statement (AGS) for 2016/17 (attached as Appendix A) be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.**

### 1.0 Introduction

1.1 The terms of reference of the Audit Committee include: "*To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted Local Code of Governance. Also to oversee the production of the authority's AGS in accordance with the Accounts and Audit Regulations 2015 and recommend its adoption* (The Constitution, part 3 section 8).

### 2.0 Report

2.1 In relation to the production of a governance statement, "proper practices" are defined as those set out in a revised framework and guidance issued by CIPFA and SOLACE[1] during 2016 ('the Framework') and applying from the 2016/17 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (the current version was approved by Audit Committee on 19 September 2012) and to prepare an AGS in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

2.2 At the time of writing, the Council had not adopted a new Local Code of Governance reflecting the contents of the revised Framework.

### 3.0 Proposal Details

**Review of compliance with the Code of Governance**

3.1 Pending the development and adoption of a refreshed Local Code of Corporate Governance, a review has been undertaken of the Council's position and performance against the elements included in the Framework.

[1] "Delivering Good Governance in Local Government" – CIPFA and SOLACE 2016

3.2 The Framework consists of a set of ninety-one elements within the following seven core principles, which underpin a council's system of governance:

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

**B. Ensuring openness and comprehensive stakeholder engagement;**

**C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;**

**D. Determining the interventions necessary to optimise the achievement of the intended outcomes;**

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

**F. Managing risks and performance through robust internal control and strong public financial management; and**

**G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

**Assurance**

3.3 A document compiled to detail the identified "sources" of assurance for each element of the Code has again been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as internal audit and external audit reports, to procedures such as one-to-one management meetings.

3.4 Individual "assurance statements" have been sought from managers at the level immediately below Chief Officer level, in relation to internal control and governance arrangements within their areas and this assurance has been built in to the overall evaluation.

3.5 The Internal Audit and Assurance Manager's (IAAM's) Annual Report and Assurance Statement for 2016/17 concluded that the Authority still has ongoing governance issue in relation to its information management arrangements and that this should be disclosed in the AGS. In terms of assurance from internal audit work over the past year, the IAAM concluded that internal audit work had not identified significant issues regarding the council's framework of governance, risk management and control, and it was his opinion that reasonable assurance can be provided for this particular period.

**Annual review of internal audit**

3.6 An annual review of internal audit, providing an update on the position regarding internal audit's compliance with the *Public Sector Internal Audit Standards (PSIAS)* concluded that the Audit Committee can take reasonable assurance that internal audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements. The review did not identify any issues meriting disclosure in the AGS.

**The Annual Governance Statement (AGS)**

3.8 Following the evaluation exercise and Management Team's review of the conclusions, the AGS is attached at Appendix A.

3.9 The timescale for the production of the statement coincides with that for the approval of the audited financial accounts (i.e. 30 September 2017) and the statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee).

## 4.0 Details of consultation

4.1 As part of the assurance gathering exercise, senior managers have provided an assurance statement for their areas of responsibility, with any matters raised being considered by Management Team and built in to the evaluation exercise.

## 5.0 Options and options analysis (including risk assessment)

5.1 As the production of an AGS is a legislative requirement, no alternative options are identified.

## 6.0 Conclusion

6.1 The AGS and the results of the review reflect the developments and issues impacting the Council's governance arrangements during the last twelve months. Addressing the significant issues identified in the statement will help ensure the Council maintains and improves its standards of governance in the future.

| | |
|---|---|
| **CONCLUSION OF IMPACT ASSESSMENT**<br>**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**<br><br>The report has no direct impact on the above issues. | |
| **FINANCIAL IMPLICATIONS**<br><br>There are no direct financial implications arising from this report. | |
| **SECTION 151 OFFICER'S COMMENTS**<br><br>The Monitoring Officer has been consulted and has no further comments. | |
| **LEGAL IMPLICATIONS**<br><br>There are no legal implications arising from this report. | |
| **MONITORING OFFICER'S COMMENTS**<br><br>The Monitoring Officer has been consulted and has no further comments. | |
| **BACKGROUND PAPERS** | **Contact Officer:** Joanne Billington<br>**Telephone:** 01524 582028<br>**E-mail:** jbillington@lancaster.gov.uk<br>**Ref:** |

# Annual Governance Statement 2016/17

## 1.0 INTRODUCTION

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

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

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

**Council, Cabinet and Leader**

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

**Management Team and Statutory Officers**

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

**Decision making**

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

**Scrutiny and Review**

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

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

2.1 The Council has approved and adopted:

- a Code of Corporate Governance;
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016; and
- a number of specific strategies and processes for strengthening corporate governance.

2.2 Set out below is how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2016/17. New or enhanced arrangements as part of the Council's continuous improvement in its governance have been highlighted in **bold**.

### PRINCIPLE A

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

- The Constitution sets out the responsibilities of staff and elected members by defining decision-making powers, providing clear terms of reference and describing roles and functions.
- The Council has a Code of Conduct for elected and co-opted Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviour to ensure integrity.
- **The Council has recently developed a new values and behaviours framework, which will be used as part of the appraisal process.**
- A register of gifts, hospitality and registering interests is maintained for both members and officers.
- The Council has set four priorities which are: to put community leadership and working with partners at the heart of all it does, promote and support the positive health and wellbeing of residents; maintain and build upon the district's reputation for being 'clean and green'; and take advantage of opportunities and demographic need to develop the local economy.
- Members and officers receive training in Code of Conduct and behaviour issues.
- The Standards Committee and Monitoring Officer keep Codes of Conduct up to date and investigate any suspected breaches.
- The Raising Concerns at Work policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour or poor performance and ensuring that any concerns raised are properly investigated.
- All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors.
- The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to elected Members.

- The Council complies with the Chartered Institute of Public Finance and Accountant (CIPFA) statement on the Role of the Chief Financial Officer in Local Government.
- **The Council has recently strengthened its decision making procedures through the introduction of Equity Impact Assessments.**

## PRINCIPLE B

### Ensuring openness and comprehensive stakeholder engagement

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

## PRINCIPLE C

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

- The Council's strategic vision for the district is set out in its Corporate Plan 2016-2020, and development of a refreshed corporate strategy is currently in progress. To ensure that it delivers this vision the Council develops various strategies to define specific outcomes for key service areas.
- Each Council service determines how it will deliver the outcomes relevant to its area of work in the context of the agreed budget for the year ahead and the overall Medium Term Financial Strategy (MTFS).
- To maintain a focus on delivering sustainable social and environmental benefits, the Council is currently developing an Economic Growth Strategy as well as a number of environmental strategies, including the Greener Action Plan and the Air Quality Strategy. Environmental impact assessments for major capital works and infrastructure development are mandatory.
- Budget proposals are developed by services and challenged by members.

- The Council works with ward councillors, parish and town councillors, community / friends of groups and other partner organisations to identify local issues and priorities.
- The development of the local plan specifically addresses the important and demographic challenges that could undermine the sustainability of the local economy in future years.

### PRINCIPLE D

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

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

### PRINCIPLE E

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

- **The Council's new Chief Executive took up her post on 1 July 2016.** The Council is developing its senior management capacity through the establishment of an Assistant Chief Executive post for 12 months and also a Chief Officer (Legal and Governance) post.
- Managerial communication and capability has been developed through the establishment of a corporate Leadership Team of senior service managers and a wider Leadership Group of line managers.
- **The Council's Performance Appraisal process aims to ensure that all employees have regular individual meetings with their manager and a personal training and development plan.**
- The Council has a new Online Learning Portal available to all employees and covering a range of key topics including mandatory training.
- **The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to optimise capacity by delivering services in the most effective and efficient way.**
- The Council is preparing for its re-accreditation of the Investors in People award. The inspection will be carried out in August 2017 with the results being delivered in October 2017.
- The Council is developing, ready for a summer launch a 'Celebrating success awards scheme' to recognise achievement, commitment and contribution of its employees.
- Work started in March 2017 to assess the council's critical and key positions within each service to assist with its succession planning and the challenge it

faces in delivering a number of major corporate regeneration and other projects concurrently.

## PRINCIPLE F

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

- The Council has recognised the need to develop its performance management arrangements and is in the process of implementing a new corporate framework.
- Alongside this, the Council is also reviewing its Risk Management Strategy covering the corporate approach to identifying and controlling risk. The monitoring of risk management effectiveness is a function of the Audit Committee.
- Financial performance is monitored monthly by managers and operational and financial performance are monitored and reported quarterly to both the Council's Cabinet and Budget and Performance Panel.
- The Council's Financial Regulations set out expected standards in, and responsibilities for, financial planning, management and reporting and in the control and use of resources.
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a bi-annually reviewed four-year Medium Term Financial Strategy to inform and support the council's key priorities and objectives.
- The Council's has an Anti-Fraud, Bribery and Corruption strategy and a dedicated counter-fraud team operating in collaboration with Preston City and Fylde Borough councils.
- The internal audit team provides regular reports on the effective management of risk and operation of internal controls, together with an annual assessment and opinion on the overall control environment.

## PRINCIPLE G

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

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

with resulting action plans are reported to the Audit Committee, to ensure that appropriate action is taken.

## 3.0 REVIEW OF EFFECTIVENESS

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

### Assurance from Internal and External Audit

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

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

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

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

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

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

## 4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES

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

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

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

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

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

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

4.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation through quarterly monitoring and as part of our next annual review.

## 5.0 MINOR GOVERNANCE ISSUES

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

## 6.0 REVIEWING AND REPORTING ARRANGMENTS

6.1 The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.

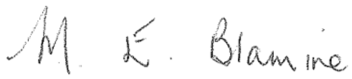
6.2 Each year, prior to the publication of the Annual Governance Statement (AGS), a governance workshop is held with key officers of the council who have the most appropriate knowledge, expertise and levels of seniority to consider the extent to which the organisation complies with the principles set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

## 7.0 CERTIFICATION

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

**Cllr Eileen Blamire**

Leader of Lancaster City Council



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

**Susan Parsonage**

Chief Executive of Lancaster City Council

**AUDIT COMMITTEE**

# Statement of Accounts 2016/17
# 13 September 2017

## Report of Chief Officer (Resources)

**PURPOSE OF REPORT**

This report seeks Member approval for the 2016/17 audited accounts, to allow the completion of financial reporting for last year.

**This report is public.**

**RECOMMENDATIONS**

1. **That the report for 2016/17 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 2017 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 2016/17 were produced by 30 June 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 misstatement in the accounts which required adjustment. The "Local Adjustment Factor" used to adjust the fair value of council dwelling to the Existing Use Value for Social Housing had not been updated from 35% (2015/16) to 40% (2016/17). This resulted in an increase in the revaluation gain arising from the valuation of council dwellings of £15.5M. The primary effect of this on the main financial statements is an increase to asset values and a corresponding increase in the revaluation reserve – but it did not have any impact on the £112K underspending at year end.

- There were a small number of 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.

- A formal objection to the accounts has been received by the External Auditor from an elector. Whilst it is not anticipated that this will cause a delay in providing the audit opinion, the closure certificate cannot be provided until the matter is resolved. The External Auditor will provide any further update at the Committee meeting, as appropriate.

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 2016/17. 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 The audited Accounts should be published by 30 September. 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)

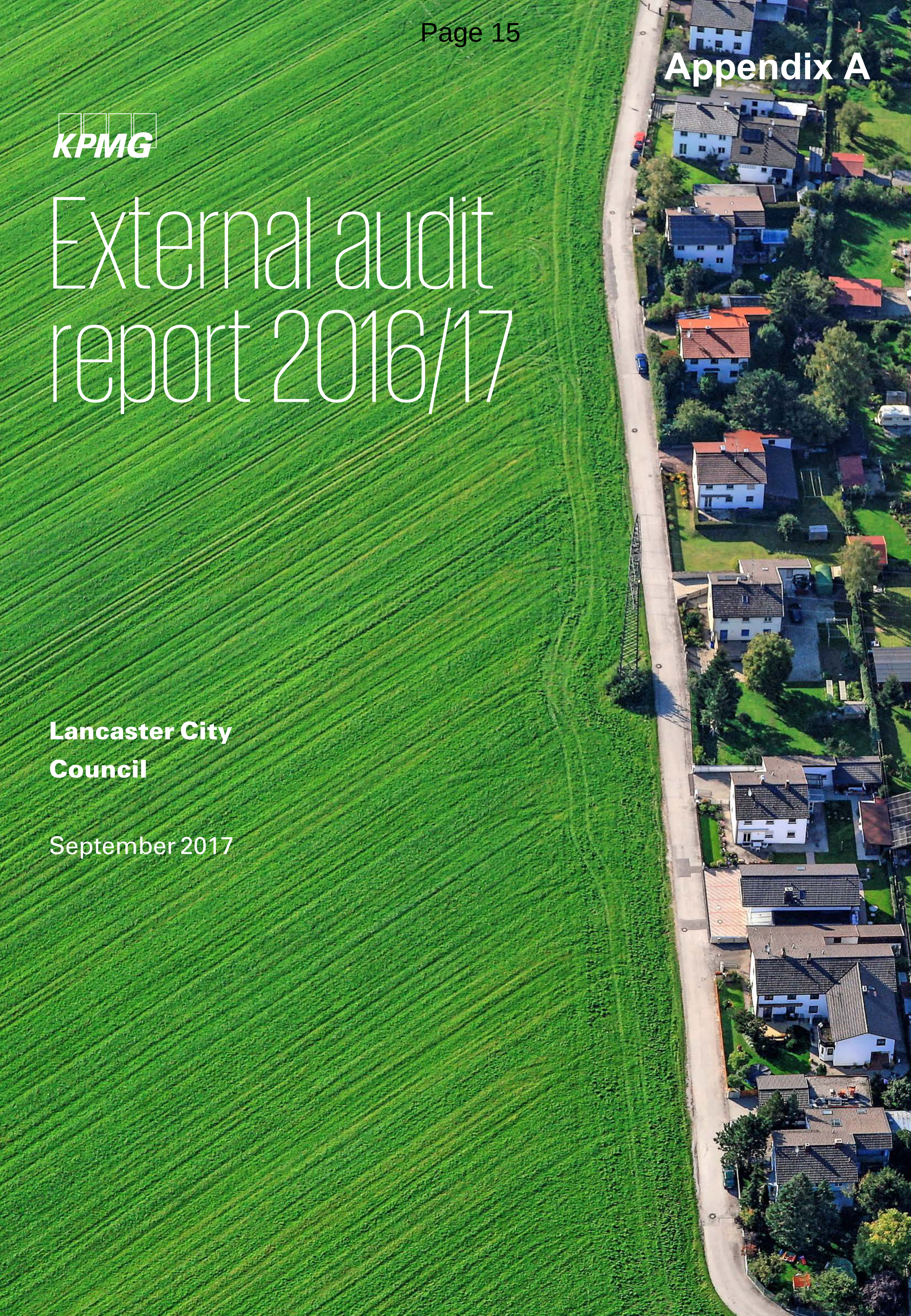
The Accounts approval process represents an opportunity for the City Council to consider the outcome of external audit, to ensure that its financial reporting is appropriate and take any action as needed. Given the results of the audit, no alternative options are put forward, but the Committee could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

| | |
|---|---|
| **CONCLUSION OF IMPACT ASSESSMENT**<br>**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**<br>No implications directly arising. | |
| **FINANCIAL IMPLICATIONS**<br>There are no changes to the financial outturn from that previously reported to Members. Once the outcome of the objection is known, any financial matters will be considered if/as appropriate. | |
| **SECTION 151 OFFICER'S COMMENTS**<br>This report forms part of the Chief Officer (Resources)' responsibilities, under her role as s151 Officer. | |
| **LEGAL IMPLICATIONS**<br>There are no other direct legal implications arising. Once the outcome of the objection is known, any legal matters will be considered if/as appropriate. | |
| **MONITORING OFFICER'S COMMENTS**<br>The Monitoring Officer has been consulted and has no further comments to add. | |
| **BACKGROUND PAPERS**<br>None. | **Contact Officer:** Nadine Muschamp<br>**Telephone: 01524 582117**<br>**E-mail:** nmuschamp@lancaster.gov.uk<br>**Ref:** |

Appendix A



KPMG

# External audit report 2016/17

**Lancaster City Council**

September 2017

# Summary for Audit Committee

**Financial statements**

This document summarises the key findings in relation to our 2016-17 external audit at Lancaster City Council ('the Authority').

This report focuses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 14.

At the time of preparing our draft report, we have the following outstanding areas of work, which we aim to have completed by the date of the Audit Committee on 13 July 2017:

- Confirmation that appropriate adjustments have been made to the net book value of council dwellings following the identified material misstatement. We have agreed this adjustment with the Council, but we need to check that the adjustment has been made fully, and all areas of the accounts affected by this issue have been updated correctly;
- Consideration of the Council's rationale for the appropriateness of the use of the Social Housing Local Adjustment Factor set out in the November 2016 DCLG guidance;
- Review of draft Annual Governance Statement for compliance with the CIPFA/SOLACE Good Governance guidance, and for consistency with our understanding of the Council, its risks and activities during 2016/17;
- Final checking that all presentational amendments suggested by KPMG and agreed verbally with officers have been made in the draft Statement of Accounts; and
- Final checking of the arithmetic accuracy and internal consistency of the Statement of Accounts.

**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 30 September.**

We have identified one audit adjustment with a total value of £15.5 million. See Appendix 3 for details.

Based on our work, we have raised four recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter by 30 September 2017.

**Use of resources**

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure 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.**

See further details on pages 15 - 19.

**Acknowledgements**

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

**We ask the Audit Committee to note this report.**

# Contents


2 Summary for Audit Committee

4 Section one: financial statements

15 Section two: value for money

**Appendices**

21 One: Key issues and recommendations

24 Two: Follow-up of prior year recommendations

26 Three: Audit differences

27 Four: Materiality and reporting of audit differences

28 Five: Declaration of independence and objectivity

29 Six: Fees



**The key contacts in relation to our audit are:**

**Tim Cutler**
*Partner*
KPMG LLP (UK)

+44 (0) 161 246 4774
tim.cutler@kpmg.co.uk

**Christopher Paisley**
*Audit Manager*
KPMG LLP (UK)

+44 (0)161 246 4934
christopher.paisley@kpmg.co.uk

**Forget Chasakara**
*Assistant Manager*
KPMG LLP (UK)

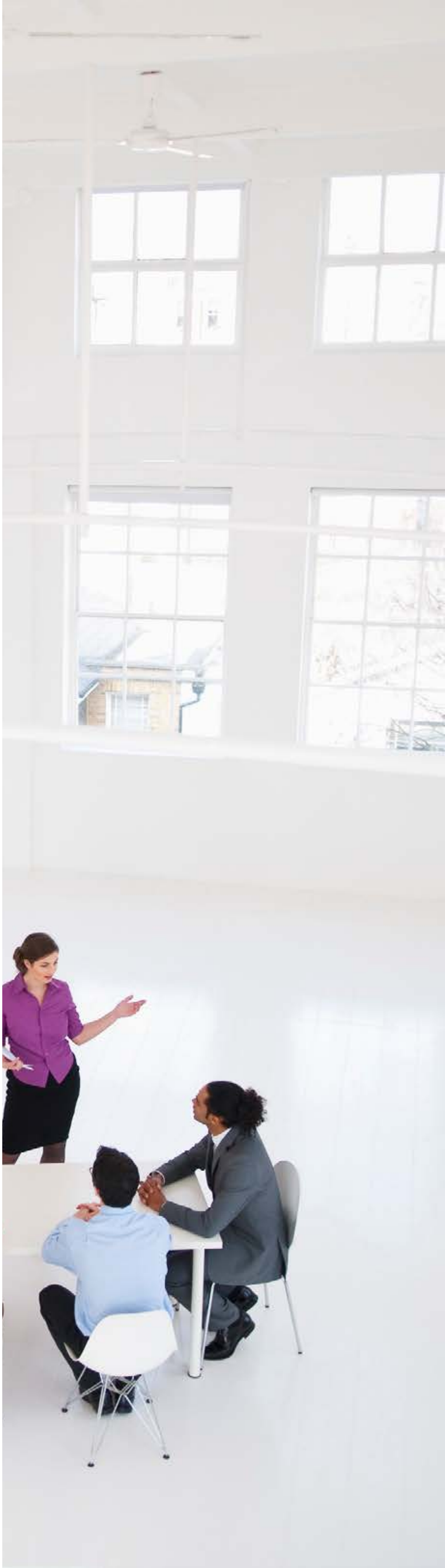
+44 (0)7917 780402
forget.chasakara@kpmg.co.uk

**Section one**

# Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017.

For the year ending 31 March 2017, the Authority has reported a surplus on provision of services of £3.4m. The impact on the General Fund has been an increase in the General Fund of £265,000.



# Significant audit risks

## Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

| Significant audit risks | Work performed |
|---|---|
| **1. Significant changes in the pension liability due to LGPS Triennial Valuation** | **Why is this a risk?**<br><br>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.<br><br>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council, who administer the Pension Fund.<br><br>**Our work to address this risk**<br><br>We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We found that there was no management review of actuarial assumptions. Management has subsequently confirmed that the assumptions used by the actuary are appropriate. We have also substantively agreed the total figures submitted to the actuary to the ledger and the Payroll system, with no issues to note.<br><br>KPMG actuaries have carried out an independent review of the assumptions made by Mercer, to ensure that these are within a reasonable range. We do not have any issues to report in respect of this, as all key actuarial assumptions were within the acceptable KPMG range.<br><br>We have engaged with the Pension Fund auditors, Grant Thornton, to gain assurance over the information provided to the actuaries by Lancashire County Council, the Administering Authority for the Pension Fund. We have received correspondence from Grant Thornton which confirms that no exceptions or control issues were identified through their work, which provides us with assurance regarding the components of data supplied by the Pension Fund. |
| **2. Valuation of Property, Plant and Equipment**<br><br>Assets impacted:<br>▪ Council dwellings; and<br>▪ Other land and buildings. | **Why is this a risk?**<br><br>*Council dwellings*<br><br>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions are not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.<br><br>*Other land and buildings*<br><br>The Authority undertakes a rolling revaluation of its other land and building assets. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current net book value; as a minimum, all assets are revalued at least every five years.<br><br>*Continued overleaf.* |

| Significant audit opinion risks | Work performed |
|---|---|
| **3. Valuation of Property, Plant and Equipment (continued)** | The valuation of these assets is impacted significantly by the assumptions adopted by the Authority's expert valuation specialist. Further, Authorities are required to consider annually the possibility of any impairment to its existing estate. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.<br><br>**Our work to address this risk**<br><br>*Council dwellings*<br><br>Our detailed testing incorporated:<br><br>— Assessing of the competence, capability, objectivity and independence of the Council's external valuer;<br>— Reviewing the terms of engagement of, and the instructions issued to, the valuer for consistency with the Council's accounting policies and the DCLG guidance;<br>— Considering the appropriateness of the use of the DCLG Social Housing Local Adjustment Factor of 40%, including reviewing the Authority's rationale for adoption of the North West rate;<br>— Reviewing the information provided to the valuer by the Council and agreeing this to the Council's asset records;<br>— Reviewing the reasonableness of the valuation assumptions used in the valuation model and the valuer's compliance with DCLG guidance; and<br>— Reviewing the accounting treatment of the revaluation within the Council's financial statements to ensure that any upwards revaluations or impairments have been properly classified and accounted for.<br><br>**We identified one misstatement as a result of our work in this area. The Council had not updated the 'Local Adjustment Factor' used to adjust the fair value of its council dwellings to the Existing Use Value for Social Housing. This was updated in the DCLG publication *Stock Valuation for Resource Accounting: Guidance for valuers – 2016.* The Council used an adjustment factor of 35%, rather than the updated factor for 2016/17 of 40%. This resulted in an increase in the revaluation gain arising from the valuation of council dwellings of £15.5 million. The primary effect of this on the main financial statements is an increase (debit) to Property, Plant and Equipment, and an increase (credit) to the revaluation reserve. Further details are provided in Appendix Three of this report.**<br><br>*Other land and buildings*<br><br>We have reviewed the valuation basis adopted by the Authority's expert valuer, and considered that this is appropriate. We have undertaken work to understand the basis upon which any impairments to land and buildings have been calculated. We have reviewed the associated assumptions, including discussion with the Authority's expert valuer, including with reference to national and local property value indices.<br><br>We have re-performed the calculations of the movements in value on an individual asset basis and confirmed that these have been reflected appropriately in the Statement of Accounts.<br><br>Lastly, we have assessed the independence and objectivity of the expert valuer, and the terms under which they were engaged by the Authority. |

# Considerations required by professional standards

**Fraud risk of 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 2016/17* 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.

**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.

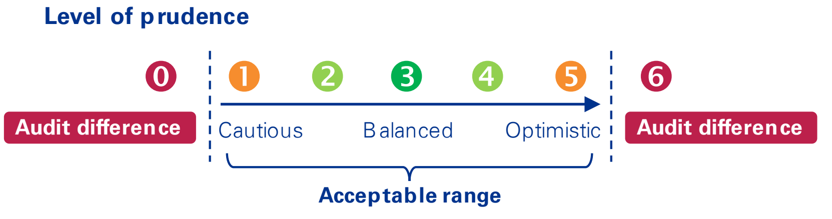
# Other areas of audit focus

## We identified two areas of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

| Other areas of audit focus | Our work to address the areas |
|---|---|
| **1. Disclosures associated with retrospective restatement of the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis and Movement in Reserves Statement.** | **Background**<br><br>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):<br><br>— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and<br><br>— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.<br><br>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.<br><br>**What we have done**<br><br>For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and found no issues to note. We have confirmed that the service reporting adopted within the CIES and EFA is consistent with the way that the Council's internal portfolio finance reporting. |
| **2. Pay and non-pay expenditure** | **Background**<br><br>Staff costs represent a significant proportion of the Authority's expenditure base. The disaggregated nature of pay expenditure transactions and the number of changes to Payroll data that take place during the year indicates that staff costs should be given specific audit focus.<br><br>Non-pay expenditure is an area of audit focus because it is highly material to the users of the Accounts, and contains areas of management judgement in respect of, for example, accrued expenditure.<br><br>**What we have done**<br><br>In respect of pay costs, we tested the controls around changes to Payroll data, which impact directly on staff costs recognised in the financial statements, to confirm they operated effectively during 2016/17. We conducted a disaggregated analytical procedure at the individual service level, establishing an expectation of staff costs based on our understanding of the Authority, staff numbers from the Payroll system, and information regarding pay uplifts and any other changes to staff costs during 2016/17. We do not have any issues to report in respect of this work.<br><br>For non-pay expenditure, we performed testing over controls in place around the approval of non-pay expenditure. We also performed substantive testing of non-pay expenditure transactions in 2016/17, as well as conducting a high-level analytical review of non-pay expenditure by category at the year-end. do not have any issues to report in respect of this work. |

# Judgements

## We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.




| Subjective areas | 2016/17 | 2015/16 | Commentary |
|---|---|---|---|
| **NNDR appeal provisions** | 2 | 2 | In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority uses Analyse LOCAL to review and assess its extant business rates appeals. Using their own data, Analyse LOCAL assesses each appeal and provides the Authority with this detailed data, so that the Authority can establish an appropriate provision for business rates appeals at each year-end.<br><br>The Authority's provision for NNDR appeals has reduced significantly during 2016/17, due to the settlement of two significant power station appeals that were provided for at 31 March 2016. In general, having reviewed the historic accuracy of the provisions made by the Authority using data provided by Analyse LOCAL, we consider that the provisions made have historically been more prudent than optimistic, while still remaining within our acceptable range of assumptions. |
| **PPE: HRA assets** | 0 | 3 | The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised its internal valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions.<br><br>We identified an audit difference, which is to be adjusted by management, regarding the use of an out-of-date Social Housing Local Adjustment Factor of 35%, whereas the latest DCLG guidance suggests that a value of 40% is more appropriate. The total value of the audit adjustment is £15.5 million. See Appendix Three for more details. |
| **PPE: Other Land and Buildings** | 3 | 3 | We have reviewed the assumptions by the Authority's valuation specialist, who is a RICS-qualified surveyor. We consider that the assumptions adopted are reasonable and balanced, in line with our findings in 2015/16. |
| **Defined benefit pension liability – valuation** | 4 | 4 | We have reviewed the assumptions adopted by the Pension Fund's actuary, Mercer. In particular, we have reviewed the key assumptions of discount rate, RPI/CPI inflation, salary increases and mortality. We have used KPMG's own actuarial specialists to review these assumptions and comment on their reasonableness. In general, the assumptions adopted by Mercer all fall within KPMG's acceptable range and can therefore be considered to be reasonable. The assumptions adopted on RPI/CPI inflation were slightly more optimistic than KPMG's central figure, with CPI at 2.3% against KPMG's assumption of 2.4%, however this was still within the acceptable range set out by KPMG's actuaries. |

# 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 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 13 September 2017.

### 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 4 for more information on materiality) level for this year's audit was set at £3.0 million. Audit differences below £150,000 are not considered significant.

Our audit identified one significant audit differences, which we set out in Appendix 3. It is our understanding that this will be adjusted in the final version of the financial statements. There are no material uncorrected audit differences.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund and HRA for the year end balance sheet as at 31 March 2017.

There is no net impact on the General Fund and HRA as a result of the following audit adjustments:

— Increase in the value of council dwellings assets by £15.5 million, with accompanying increase recognised in the revaluation reserve of £12.1 million, and a gain charged to the CIES of £3.4 million.

In addition, we identified a 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 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

**Movements on the General Fund and the HRA 2016/17**

| £'000 | Pre-audit | Post-audit |
|---|---|---|
| Surplus on the provision of services | 3,366 | 6,744 |
| Adjustments between accounting basis and funding basis under Regulations | (2,608) | (5,986) |
| Transfers to earmarked reserves | (247) | (247) |
| **Increase in General Fund and HRA** | **511** | **511** |

**Balance sheet as at 31 March 2017**

| £m | Pre-audit | Post-audit |
|---|---|---|
| Property, plant and equipment | 211,655 | 227,119 |
| Other long term assets | 39,854 | 39,854 |
| Current assets | 41,153 | 41,153 |
| Current liabilities | (25,530) | (25,530) |
| Long term liabilities | (132,769) | (132,769) |
| **Net worth** | **134,363** | **149,827** |
| General Fund (including earmarked General Fund reserves) | 11,235 | 14,613 |
| Other usable reserves | 12,749 | 12,749 |
| Unusable reserves | 110,379 | 122,465 |
| **Total reserves** | **134,363** | **149,827** |

### Annual governance statement

We are currently in the process of reviewing the Authority's 2016/17 Annual Governance Statement to confirm that:

— It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We will pass any comments in respect of its format and content to the Authority, and agree any amendments where significant.

### Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

.

# Accounts production and audit process

Our 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.

### Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate during 2016/17.

### Completeness of draft accounts

We received a complete set of draft accounts on 22 June 2017, prior to the statutory deadline of 30 June 2017.

### Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in May 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

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 have agreed a turnaround time of 2-3 working days for all audit queries. We are pleased to report that this was achieved by Officers, including those who are not part of the finance team.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2015/16. See Appendix 2 for details.

### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

— 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;

— Monthly reconciliations between the Academy system and VOA property schedules were signed as reviewed but not by the individual preparing the reconciliation;

— Our related parties testing identified seven current members who did not have an updated Declaration of Interests form for 2016/17.

— 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 DLCG in November 2016.

Further detail and associated recommendations can be found in Appendix 1.

# Completion

## We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 2017, 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 Financial Services Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have not requested any specific management representations, outside of the usual set of representations that we have requested in previous years.

### 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.).

### Elector challenge

We received a challenge to the Statement of Accounts for 2016/17 on 11 August 2017. We are in the process of considering whether this represents a valid objection, in response to which we need to conduct further investigations in line with the Local Audit and Accountability Act 2014. We are satisfied that the item of account to which this potential objection relates is not material. Whilst this should not have any impact on our audit opinion for 2016/17, should we choose to accept the objection this may delay the signing of the audit certificate if not resolved before 30 September 2017.

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 2016/17 financial statements.

**Section two**

# Value for money

Our 2016/17 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.

# VFM conclusion

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.'

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

**1 Identification of significant VFM risks (if any)**

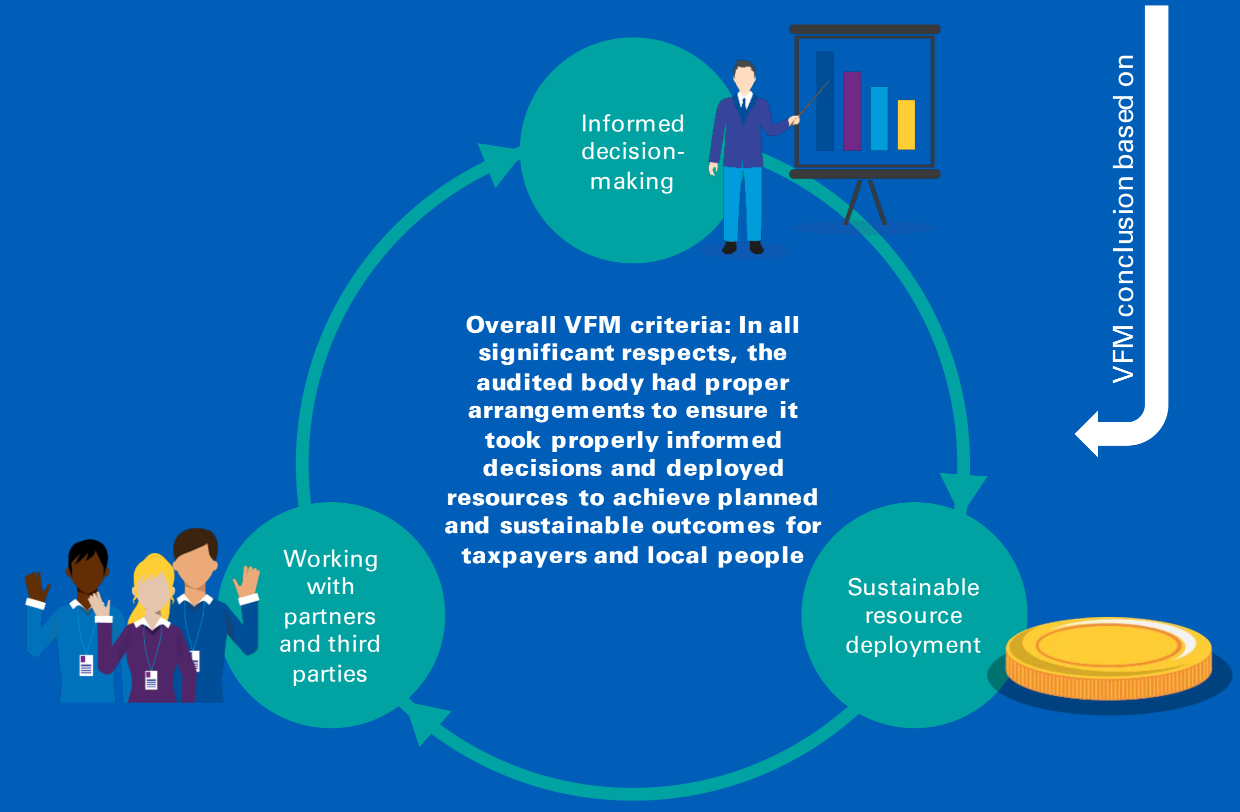
- VFM audit risk assessment
- Financial statements and other audit work

**2 Continually re-assess potential VFM risks**

- Assessment of work by other review agencies
- Specific local risk-based work

**3 VFM conclusion**

- **Conclude on arrangements to secure VFM**



## 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. We have concluded that this risk is not significant for our VFM conclusion, and therefore that additional local work is not required.

| VFM assessment summary | | | |
|---|---|---|---|
| **VFM area** | **Informed decision-making** | **Sustainable resource deployment** | **Working with partners and third parties** |
| **1. Financial resilience in the local and national economy** | ✓ | ✓ | ✓ |
| **Overall summary** | ✓ | ✓ | ✓ |

In consideration of the above, we have concluded that in 2016/17, 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.

# VFM risks

## We have identified one ongoing area of focus, which is not a significant VFM risk, and therefore was not communicated to you in our *2016/17 External Audit Plan*. We have not identified any significant risks to our VFM conclusion for 2016/17.

| Area of focus | Work performed |
|---|---|
| **1. Financial resilience in the local and national economy** | **Why is this a risk?**<br><br>There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.<br><br>**Summary of our work**<br><br>In January 2017, the Authority published a draft Medium Term Financial Strategy (MTFS) 2017/18 –2020/21 that sets out a balanced budget for 2017/18.<br><br>The Authority reported an overall marginal underspend position of £249k on its revised net expenditure budget for 2016/17. This enabled the Council to top up the General Fund balance by £265k during 2016/17, to £4.7m (excluding earmarked reserves).<br><br>The Authority's MTFS details a balanced budget for 2017/18 which does not require any specific savings plans, subject to the projected council tax rises which were approved by Council in March 2017. However, the MTFS details the increasing financial challenges faced each year, arising from reduced central government funding. This results in the need for increasing savings, some of which have yet to be identified, up to £3.6 million by 2020/21.<br><br>From 2018/19, the Authority has identified funding gaps; however, it is confident that the targets in its MTFS savings plan are sufficient to bridge the forecast gap in the MTFS. Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.<br><br>Our review of the budget position has concluded that the Council is well on track to achieve the 2017/18 budget and has already demonstrated that savings are achievable through its financial performance in 2016/17. The Council's track record of delivering balanced budgets and required savings targets therefore partially mitigates this risk.<br><br>While this area does not represent a significant risk for 2016/17, we will keep this under review on an ongoing basis. |

# Appendices

# Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements has identified a number of control findings. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

**2016/17 recommendations summary**

| Priority | Number raised from our year-end audit | Number accepted by management |
|---|---|---|
| **High** | **0** | **0** |
| **Medium** | **3** | **3** |
| **Low** | **1** | **1** |
| **Total** | **4** | **4** |

Medium priority

### 1. Non-pay expenditure controls

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.

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.

**Recommendation**

We recommend that:

- Wherever possible, an approved purchase order is in place for all non-pay expenditure; and
- Purchase invoices are matched to the associated purchase order within the system prior to payment.

**Management Response**

Accepted

**Owner**

Andrew Clarke, Financial Services Manager

**Deadline**

31 March 2018

Low priority

### 2. Evidence of preparation of monthly Academy system to VOA property schedule reconciliations

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.

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.

**Recommendation**

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.

**Management Response**

Accepted

**Owner**

Adrian Robinson, Head of Shared Service

**Deadline**

31 October 2017

Medium priority

### 3. Member declarations of interest

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.

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.

**Recommendation**

We recommend that all members complete an updated Declaration of Interest at least annually.

**Management Response**

Accepted

**Owner**

Deborah Chambers, Democratic Services Manager

**Deadline**

31 March 2018

Medium priority

**4. HRA properties: update to Social Housing Local Adjustment Factor**

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 DLCG 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.

This indicates that there is a risk around updates to valuation methodologies in accordance with latest national guidance.

**Recommendation**

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.

**Management Response**

Accepted

**Owner**

Gary Watson, Senior Property Officer / Andrew Clarke, Financial Services Manager

**Deadline**

31 March 2018

# Follow-up of prior year recommendations

**In the previous year, we raised three recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.**

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

**2015/16 recommendations status summary**

| Priority | Number raised | Number implemented / superseded | Number outstanding |
|---|---|---|---|
| **High** | 0 | 0 | **0** |
| **Medium** | 2 | 2 | **0** |
| **Low** | 1 | 1 | **0** |
| **Total** | **3** | **3** | **0** |

Low priority

### 1. Fixed Asset Module to Northgate Housing Management System reconciliation

From our testing we noted that the fixed asset module reconciliation to the housing management system is not formally documented. This is due to the historically low number of changes which occur during the year. There is a risk that if these systems are not formally reconciled on a periodic basis differences may not be identified on a timely basis and be more challenging to resolve at a later date.

**Recommendation**

We recommend that the Fixed Asset Module is reconciled to the Housing Management System on a monthly basis. All differences should be identified through this reconciliation process and appropriate action taken. The reconciliation should be formally documented and should include evidence of timely preparation and review.

**Management original response**

Reconciliations will be undertaken and documented on a monthly basis.

*Owner*

Peter Linsley, Support Service Manager – Council Housing

*Original deadline*

October 2016

**KPMG's August 2017 assessment**

Fully implemented

Our testing of controls in 2016/17 has identified that the reconciliation between the Fixed Asset Register and the Northgate Housing Management System is now being completed on a monthly basis.

Medium priority

## 2. General IT controls – user access

To gain assurance over the Authority's financial ledger, we have performed a range of general IT controls.

Our testing of user access rights identified that no periodic review is performed to ensure that staff have appropriate access rights to the general ledger. We also noted that for two individuals with access to the creditors module, authorisation limits or access rights had not been updated to reflect their revised job roles.

We understand that all staff have enquiry access rights to the general ledger and that the only restrictions relate to finance and journal entry input.

There is a risk that without regular review if a member of staff were to move from the finance team into another Council function their access rights may not be updated or amended. This could lead to unauthorised or inappropriate activity taking place.

### Recommendation

We recommend that system access rights are reviewed on a periodic basis for all system users and amendments made if required.

Evidence should be retained to demonstrate that this review has taken place on a regular and timely basis.

### Management original response

Reviews will be undertaken and documented every 6 months.

*Owner*

Andrew Clarke, Financial Services Manager

*Original deadline*

October 2016

### KPMG's August 2017 assessment

Fully implemented

Our IT general controls work conducted in April 2017, as well as our year-end work in connection with the Statement of Accounts, confirmed that six-monthly access rights review have taken place throughout 2016/17.

Medium priority

## 3. Declarations of interest

As part of our work on related parties we reviewed ten declaration of interest forms relating to officers. Of these, nine had not been updated during 2015/16 and three had not been updated since 2010.

This is due to the Authority's policy that officers are responsible for providing an update on any changes to circumstances.

There is a risk that if declaration of interest forms are not updated by the Authority on a periodic basis it does full record of interests held by its Members and key officers. In addition, there is a risk that accounting disclosures in respect of related parties are not complete and the Authority may trade with organisation that it may wish not to due to conflicts of interest.

### Recommendation

We recommend that all declaration of interest forms are updated by all key officers and members at least annually, and signed by the relevant individual to evidence that the document is complete and accurate record of their financial and other interests.

### Management original response

An annual review will be undertaken to ensure all forms are updated and signed.

*Owner*

Deborah Chambers, Democratic Services Manager

*Original deadline*

January 2017

### KPMG's August 2017 assessment

Fully implemented

Our related parties testing in 2016/17 identified that declarations of interest for key officers were completed and signed during 2016/17. Therefore we are satisfied that our 2015/16 recommendation has been implemented.

However, there is a further issue regarding the timeliness of the completion of declarations of interests for members – see new recommendation made in Appendix 1.

# 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 been made to the 2016/17 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 difference identified by our audit of Lancaster City Council's financial statements for the year ended 31 March 2017. It is our understanding that this will be adjusted and that the revised financial statements will be provided for KPMG review in advance of the Audit Committee on 13 September 2017.

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

| No. | Income and expenditure statement | Movement in reserves statement | Assets | Reserves | Basis of audit difference |
|---|---|---|---|---|---|
| 1 | Cr Revaluation gains charged to I&E £3,716 | Dr Additional contribution to Financing Capital beyond depreciation £338 | Dr Property, Plant and Equipment £15,802 | Cr Capital Adjustment Account £3,686 | 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 DLCG 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. |
| | Dr Depreciation charge £338 | Cr Revaluation gains charged to I&E £3,716<br>Cr Revaluation gains/losses charged to Revaluation Reserve £12,086 | Cr Accumulated depreciation £338 | Cr Revaluation Reserve £11,778 | |
| | Cr Revaluation Gains charged to Revaluation Reserve £12,086 | Dr Reversal of Major Repairs Allowance (depreciation) £338<br>Cr Capital expenditure funded by depreciation £338 | | | |
| | **Cr 15,464** | **Cr 15,464** | **Dr 15,464** | **Cr 15,464** | **Total impact of adjustments** |

### Unadjusted audit differences

We are also required to report to those charged with governance the effect of any material unadjusted audit differences identified during the year.

Our year-end financial statements audit identified that a disposal of properties at Chatsworth Gardens with a net book value of £2.7m were disposed of in January 2016, in the 2015/16 financial year, but the effect of this transaction has been included as an impairment in the draft financial statements for 2016/17, in the current year. Because of the non-material nature of this adjustment (£2.77m), a Prior Period Adjustment has not been made to the Statement of Accounts. Prior Period Adjustments are to be made only in the case of material misstatements in the prior period.

The Council has first impaired the asset to nil value (since the disposal took place for nil proceeds), and then derecognised the asset with nil gain or loss on disposal. In doing so, the Council has made reference to the CIPFA Code of Practice. KPMG's view is that the Code provides for revaluation on transfer to Surplus Assets at fair value, determined at 'highest and best use'. Since nil value is unlikely to be the 'highest and best use', the fair value is likely to be greater than nil, the effect of which would be to recognise a lower loss on impairment and some amount of loss on disposal. However, determine this fair value would be a costly and time-consuming exercise. Given that the maximum possible adjustment is not material, and would not impact on net assets or the next charge to the General Fund, we are satisfied with the Council's decision to retain the presentation of a full £2.7m impairment loss, without adjustment.

# 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 2016/17, presented to you in June 2017.

Materiality for the Authority's accounts was set at £3.0 million which equates to around 1.9 percent 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £150,000 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.

# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### 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 Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Auditor declaration

In relation to the audit of the financial statements of Lancaster City Council for the financial year ending 31 March 2017, 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 completed one piece of non-audit work during 2016/17, in relation to certification of the Council's Pooling of Housing Capital Receipts return for 2015/16. See overleaf for further details.

**Appendix 6**

# Fees

## Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

| Summary of non-audit work | | |
|---|---|---|
| **Description of non-audit service** | **Estimated fee** | **Potential threat to auditor independence and associated safeguards in place** |
| Certification of the Council's Pooling of Housing Capital Receipts return | £3,000 | The work completed during 2016/17 was in respect of the Council's return for 2015/16. We are due to complete this work for 2016/17 in October – November 2017. The planned fee is £3,000 plus VAT, which is consistent with the fee for the certification of this return for 2015/16.<br>Although this return does not form part of the Public Sector Audit Appointments certification regime, it is a requirement of the Department for Communities and Local Government.<br>Due to the low level of fee associated with this work, we have not identified any potential threats to our auditor independence arising from delivery of this certification work. |
| **Total estimated fees as a percentage of the external audit fees** | **5%** | |

## Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £58,388 plus VAT *(£58,388 in 2015/16)*. Our work on the certification of Housing Benefits (BEN01) is planned for August – October 2017. The planned scale fee for this is £7,740 plus VAT *(£9,573 in 2015/16)*.

| PSAA fee table | | |
|---|---|---|
| **Component of audit** | **2016/17** *(planned fee)* £ | **2015/16** *(actual fee)* £ |
| **Accounts opinion and use of resources work** | | |
| PSAA scale fee set in 2014/15 | 58,388 | 58,388 |
| **Housing benefits (BEN01) certification work** | | |
| PSAA scale fee set in 2014/15 – planned for August – October 2017 | 7,740 | 9,573 |
| **Total fee for the Authority set by the PSAA** | **66,128** | **67,961** |

*All fees are quoted exclusive of VAT.*

Appendix B

LANCASTER CITY COUNCIL

*Promoting City, Coast & Countryside*

# Annual Reporting and Statement of Accounts

## For the year ended 31 March 2017

**Contents** **Page No.**

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

**Narrative Report** ........ 4

**Statement of Accounts**

Statement of Responsibilities ........ 19

Movement in Reserves Statement ........ 20

Comprehensive Income and Expenditure Statement ........ 21

Balance Sheet. ........ 22

Cash Flow Statement ........ 23

Notes to the Accounts ........ 24

Housing Revenue Account and Notes ........ 68

Collection Fund and Notes ........ 72

Bequests, Endowments and Trust Funds ........ 75

Glossary ........ 77

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

This booklet includes the following documents produced by the Council in relation to financial year 2016/17:

1. A narrative statement, covering financial performance and the use of resources (economy, efficiency and effectiveness).
2. The audited statement of accounts.
3. The annual governance statement, produced following annual review of the Council's arrangements.

Signed by:

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

Date:

# Narrative Report

## 1 Introduction

This Narrative Report provides headline and other supporting information about the City Council's performance in 2016/17, in both financial and operational/service delivery terms, to give an overview of the Authority's economy, efficiency and effectiveness in its use of resources during the last year. The topics covered include the following:

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

This is followed by an explanation of the Financial Statements.

## 2 An Introduction to Lancaster City Council

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

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

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

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

## 3 Financial Performance

### 3.1 Economic Climate

The financial performance of the Council is set against a background of continuing significant financial challenges, due to reductions in funding from Central Government along with cost pressures within services and continued volatility in respect of business rates income. This position is likely to continue until at least 2020/21, in particular in respect of government funding, which will see Revenue Support Grant dropping from £2.652M in 2016/17 to nil by 2020/21. In addition, there is still uncertainty surrounding the proposed move to 100% business rates retention, and how the outcome of the Government's Fair Funding review will impact on the Council after 2020.

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

### 3.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing. The General Fund Revenue Budget for 2016/17 (including parish precepts) was originally approved by Council on 02 March 2016 at £16.803M *(£17.583M in 2015/16)*. It assumed that Balances would be just over £4.1M at 31 March 2017, though these were increased by a further £331K following the 2015/16 outturn.

Between 2015/16 and 2016/17 the General Fund budget reduced by £794K or 5%, primarily as a result of Government funding reductions. Despite this challenging economic climate the financial standing of the Council remains robust, demonstrating sound financial management arrangements and these are strengthening further.

The table below summarises the General Fund revenue income and expenditure for 2016/17. It shows the actual variances for each service area.

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

The table show three significant variances which are explained below:

*Regeneration & Planning* *£2.763M*
There are two main variances, firstly a downward revaluation of properties (£3.4M) associated with the Morecambe Area Action Plan scheme in line with the disposal and transfer of properties to the regeneration property developer taking forward the Chatsworth Gardens scheme. As revaluations are not carried out until the year end it is not possible to estimate for them and therefore variances will inevitably arise. The second item relates to grant income of £702K received from Central Government in respect of Community Housing which was subsequently transferring into a reserve for use in 2017/18. Again, when the budget was set this could not have been foreseen.

*Corporate Accounts* *£8.898M*
This variance is comprised of a number of items. The first is the net increase in Pension Fund liabilities of £13.267M which must be recognised in the accounts, but is a notional charge and is reversed out to an Unusable Reserve (see below). The second is the reverse entry of -£3.4M in respect of the revaluations referred to in the section above – again these are a notional charge within the accounts and are reversed out to the Revaluation Reserve in the Balance Sheet.

*Contributions from Unusable Reserves* *(£13.267M)*
This represents the contra to the increase in net Pension Fund liabilities referred to above, which is transferred into an unusable reserve as it cannot impact on Council Tax payers.

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

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

As a result of the outturn, General Fund unallocated Balances stand at £4.725M as at 31 March 2017, which is well in excess of the minimum level of £1.5M. The use of Balances is an important element in addressing the Council's financial challenges and establishing a sustainable budget.

### 3.3 Housing Revenue Account (HRA)

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

The net underspending on the HRA for 2016/17 was £112K *(£348K in 2015/16)*, which has been transferred into HRA unallocated Balances. The main areas where variances have occurred are shown below:

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

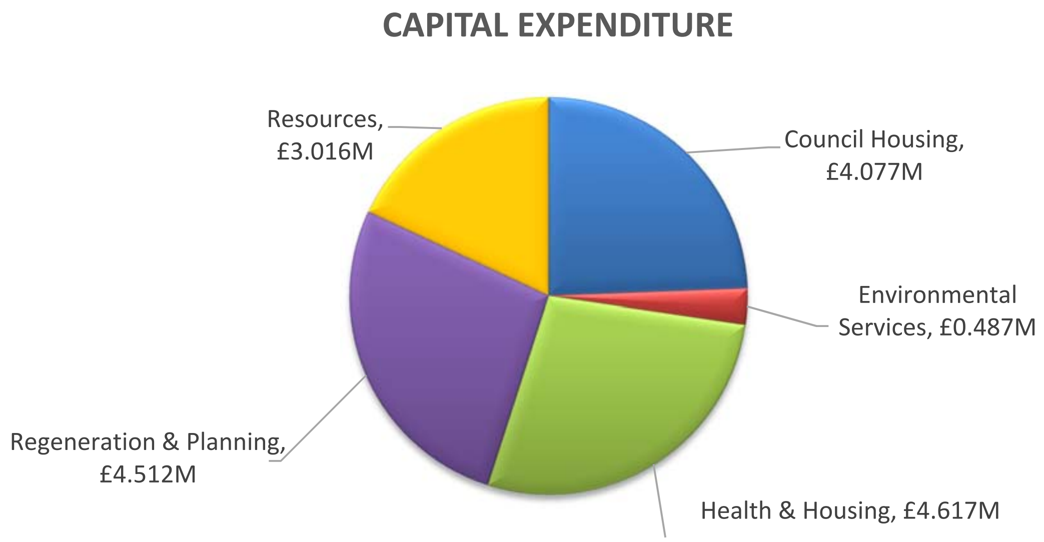
As at 31 March 2017 the HRA's unallocated Balances amount to £1.937M, which is £1.437M above the recently updated £500K minimum recommended level. In March 2017 that recommended level increased from £350K to £500K, in view of the increasingly challenging financial/regulatory environment within which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

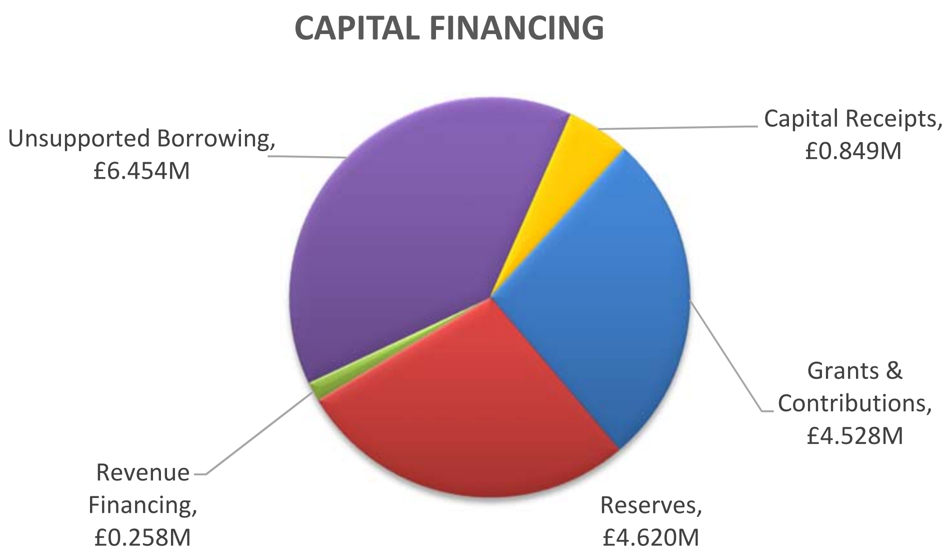
It should also be noted that a net revaluation increase in Council dwellings of £18.8M (£3.9M in 2015-16) was posted to the revaluation reserve primarily as a result of the stock valuation discount factor being increased by the Department for Communities and Local Government (DCLG) from 35% to 40%.

## 4 Capital Position

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

**Summary of Capital Expenditure and its Financing**



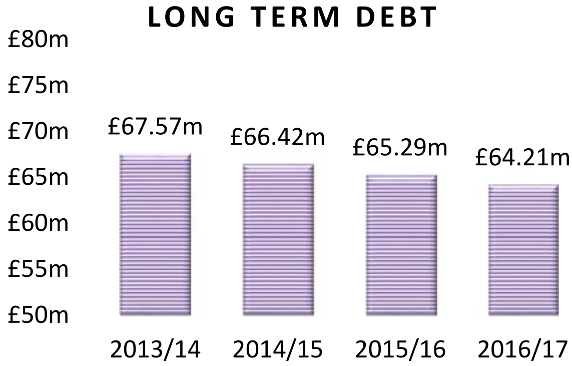




The Council's revised Capital Programme for 2016/17 was £18.810M *(£12.526M in 2015/16)*, and net slippage of £1.924M *(£231K in 2015/16)* has been rolled forward into 2017/18 to reflect programming delays on some schemes. The approved capital programme for 2017/18 is £17.258M, which will rise to £19.182M after slippage from 2016/17. The main schemes for 2017/18 include £2.4M of vehicle replacements, £2.5M for Disabled Facilities Grants, £2.9M for Sea & River Defenses, £2.7M on Corporate

Property Works and £4.1M on Council Housing schemes.

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

In 2016/17 the net cost of financing long term debt (i.e. interest charges) was £3.047M, and the value of long term debt owed as at 31 March 2017 amounted to £64.208M *(£65.25M in 2015/16)*, of which all relates to PWLB long term borrowing. A further £1.080M is included within short term liabilities as it is due for repayment over the next 12 months. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of around £252M as at 31 March 2017.



## 5 Non-Financial Performance

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

### Priority: Community Leadership

**What we did in 2016 -2017**

We faced up to the challenges presented by the current economic climate by placing an increased emphasis on the things that matter most to people of the district and by rationalising and developing service delivery and use of resources. As a community leader we worked collaboratively with other public services, businesses and organisations and local community groups to deliver efficient services and have pride in, and make a positive impact on our communities and the wider district.

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

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

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

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

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

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

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

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

# Priority: Health and Wellbeing

## What we did in 2016 - 2017

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

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

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

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

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

# Priority: Clean and Green

## What we did in 2016 -2017

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

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

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

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

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

# Priority: Sustainable Economic Growth

## What we did in 2016 - 2017

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

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

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

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

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

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

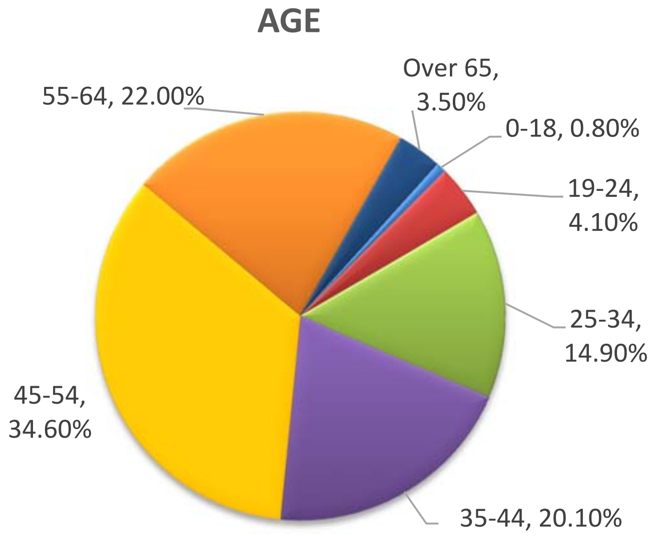
## Outcome: Lancaster and Morecambe Bay will be recognised as important visitor destinations

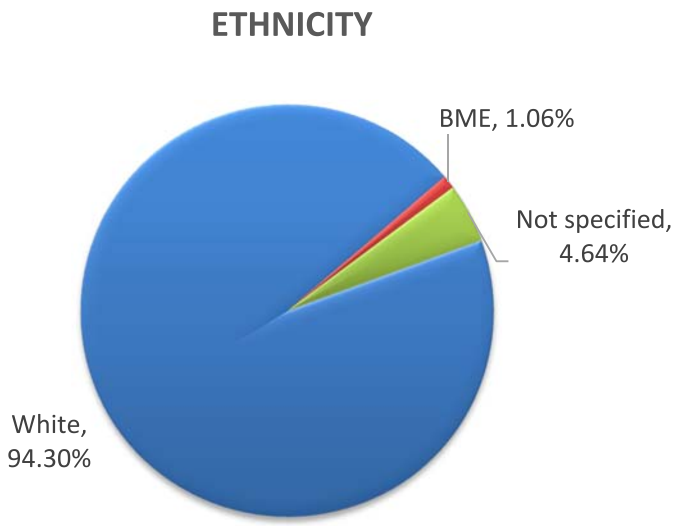
- ✓ **secured funding to give a new lease of life to Morecambe's Bay Arena as an Art Park creating a venue for festivals, arts and leisure and culture**

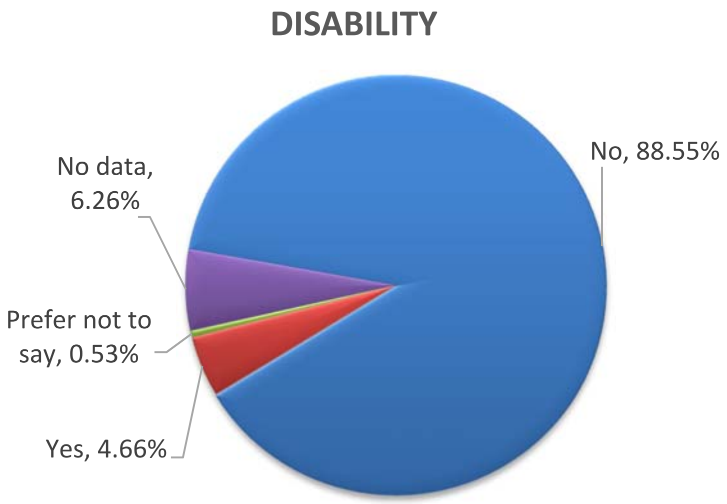
- ✓ **invested in major local events including the very popular Vintage by the Sea and Light up Lancaster that each attract thousands of visitors to the district and provide a significant boost to the local economy**
- ✓ **commissioned a report on the future provision of a new and reinvigorated museums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

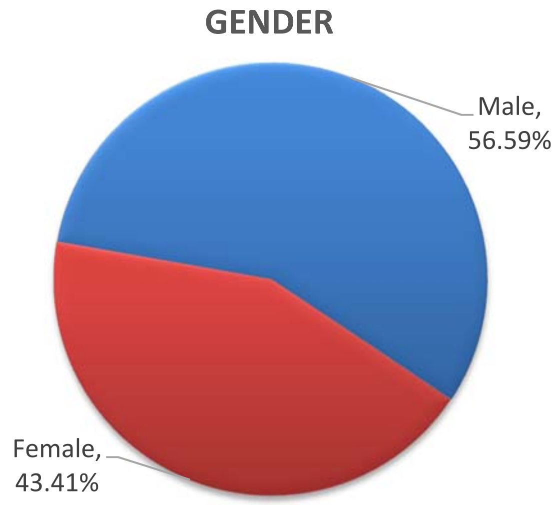
## 6 People

At the end of 2016/17 Lancaster City Council employed 751 staff *(755 in 2015/16)* in a mixture of full time and part time roles. The Council collects information on its workforce in respect of age, disability, ethnicity and gender profiles, summaries of which are shown in the following diagrams. Development of the Council's workforce strategy continues, with a particular focus on the recognised need to review pay and grading:



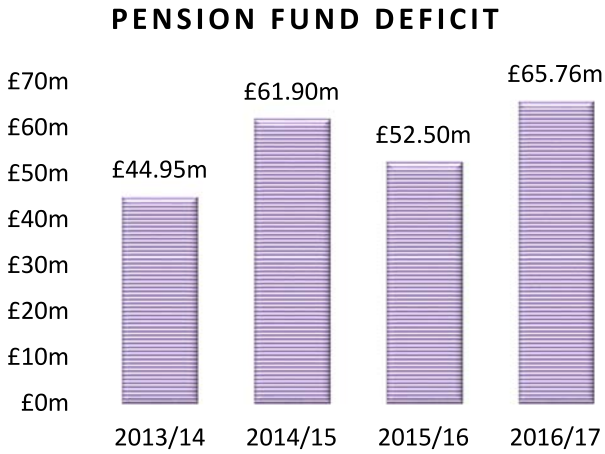



## 7 Pension Liabilities

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

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




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

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

## 8 Local Taxation

**Collection Fund**
The Collection Fund accounts for all the Council Tax and Business Rates income for the district with the City Council acting as billing authority. Income is collected by the City Council (Council Tax £65M and Business Rates £78M) and redistributed to the City Council's General Fund, Central Government, Lancashire County Council, Lancashire Combined Fire Authority and the Police and Crime Commissioner for Lancashire.

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

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

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

In addition, in 2016/17 the City Council also benefited from £918K *(£662K for 2105/16)* of rating income from renewable energy schemes within the district. Effectively such income currently falls outside of the main rate retention scheme, and so the Council retains full benefit from it.

## 9 Treasury Management

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

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

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

## 10 Changes in Accounting Policies

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

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit capital plans: Employee Contributions).
- *Annual Improvements to IFRSs 2010-2012 Cycle*
    - IFRS 8: Operating Segments;
    - IFRS 13: Fair Value Measurement;
    - IAS 16: Property, Plant and Equipment;
    - IAS 24: Related Party Disclosures; and
    - IAS 38: Intangible Assets.
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations).
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation).
- Annual Improvements to IFRSs 2012-2014 Cycle
    - These are not expected to apply to local authorities
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure capital initiative).
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

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

## 11 Corporate Risk

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

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

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

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

## 12 Conclusion

Although the Council’s General Fund budget and associated Government funding reduced again in 2016/17, it managed those reductions well, and has again strengthened its financial standing as at 31 March 2017. Balances are therefore again higher than forecast, and the Council has other substantial earmarked reserves to help respond to the ongoing financial challenges expected over the coming years, in delivering against its corporate priorities. These challenges include the extent of future Government funding reductions.

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

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

# Summary of Financial Statements

## THE CORE FINANCIAL STATEMENTS

### Movement in Reserves Statement

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

### Comprehensive Income and Expenditure Statement

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

### Balance Sheet

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

### Cash Flow Statement

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

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

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

## THE SUPPLEMENTARY FINANCIAL STATEMENTS

### Housing Revenue Account Income and Expenditure Account

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

### Collection Fund

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

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

### Group Accounts

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

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

**Bequests, Endowments and Trust Funds**

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

# 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 Kingdo*m ("the Code").

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

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

The Chief Officer (Resources) has also:

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

### 3 Chief Officer (Resources)' Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the authority as at 31 March 2017 and the income and expenditure for the year then ended.

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

Date:

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

Date:

### 4 Audit Committee Chairman's Certificate

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was considered and approved by Audit Committee on 13 September 2017.

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.

| 2016/17 | General Fund Balance £000 | General Fund Earmarked Reserves £000 | HRA Balance £000 | HRA Earmarked Reserves £000 | Major Repairs Reserve £000 | Usable Capital Receipts £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Total Unusable Reserves £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31/03/2016** | **4,460** | **6,405** | **1,691** | **10,567** | **0** | **0** | **103** | **23,226** | **111,673** | **134,899** |
| **Movements in 2016/17** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 2,505 | 0 | 4,239 | 0 | 0 | 0 | 0 | 6,744 | 8,184 | 14,928 |
| Adjustments between accounting & funding basis under regulations | (2,135) | 0 | (3,851) | 0 | 0 | 0 | 0 | (5,986) | 5,986 | 0 |
| Net Increase/(Decrease) before transfers to earmarked reserves | 370 | 0 | 388 | 0 | 0 | 0 | 0 | 758 | 14,170 | 14,928 |
| Transfers (to)/from earmarked reserves | (105) | 105 | (142) | 142 | 0 | 0 | 0 | 0 | 0 | 0 |
| **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** | **125,843** | **149,827** |

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

# Comprehensive Income and Expenditure Statement

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

The CIES has two sections:

- Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.

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

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

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

The net expenditure of £14.928M in year corresponds to the movement between years in net worth on the Balance Sheet.

# Balance Sheet

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

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

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

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

The net movement between years is £14.928M and corresponds to the balance on the Comprehensive Income and Expenditure Statement.

# Cash Flow Statement

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

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

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

# Notes to the Accounts

The notes to the accounts have three significant roles:

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

A list of the notes provided is as follows:

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

## 1 ACCOUNTING POLICIES

### 1.1 General

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at 31 March 2017. The accounts of the Council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards.

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

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

### 1.2 Accruals of Income and Expenditure

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

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

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

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

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

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

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

### 1.3 Acquisitions and Discontinued Operations

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

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

### 1.4 Cash and Cash Equivalents

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

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

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

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

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

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

**1.6 Charges to Revenue for Non-Current Assets**

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

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

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

**1.7 Council Tax and Non-Domestic Rates**

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

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

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

**1.8 Employee Benefits**

**Benefits Payable during Employment**
Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, as employees can carry this forward into the next financial

year. The accrual is made at the salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

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

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

**The Local Government Pension Scheme**

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

- The liabilities of the Lancashire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.5%.

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

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

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

  - **current service cost** – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - **interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
  - **contributions paid to the Lancashire County Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

### 1.9 Events After the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

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

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

### 1.10 Financial

**Instruments Financial**

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

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

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

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

**Financial Assets**
Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in the active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

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

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

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

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

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

- instruments with quoted market prices – the market prices.

- other instruments with fixed and determinable payments – discounted cash flow analysis.

- equity shares with no quoted market prices – independent appraisal of company valuations.

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

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

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

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

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

**1.11 Foreign Currency Translation**

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

**1.12 Government Grants and Contributions**

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

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

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

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

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

**1.13 Business Improvement Districts**

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

**1.14 Heritage Assets**

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

**1.15 Intangible Assets**

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

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

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

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

### 1.16 Inventories and Long term Contracts

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

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

### 1.17 Investment Property

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

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

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

### 1.18 Leases

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

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

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

***The Council as Lessee***

**Finance Leases**
Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the

lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

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

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

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

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

***The Council as Lessor***

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

Lease rentals receivable are apportioned between:

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

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

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

**Operating Leases**
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid on the

commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**1.19 Overheads and Support Services**

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

**1.20 Property, Plant and Equipment**

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

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

**Measurement**
Assets are initially measured at cost, comprising:

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost which is used as an estimate of current value.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation is calculated on the following basis:

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

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

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

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

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

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

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

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

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

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

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

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

## 1.21 Provisions, Contingent Liabilities and Contingent Assets

**Provisions**

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

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

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

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

**Contingent Liabilities**

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

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

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

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

### 1.22 Reserves

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

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

### 1.23 Revenue Expenditure Funded from Capital under Statute

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

### 1.24 Value Added Tax (VAT)

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

### 1.25 Fair Value Measurement

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

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

- Level 2 – inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

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

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

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

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

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

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

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

**Business Rates**
Since the introduction of the Business Rates Retention Scheme from 01 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2016/17 and earlier financial years in proportion to their share. Therefore, a provision has been recognised, based on the best estimate of the amount that businesses have been overcharged up to 31 March 2017. The provision has significantly reduced during 2016/17 following settlement of two significant appeals. The remaining estimate of appeals have been calculated using data provided by an external software provider who utilises the Valuation Office Agency (VOA) ratings list of appeals and its own extensive property list and historic rating information.

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

## 5 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Chief Officer (Resources) on 30 June 2017. Events taking place after this date are not reflected in the financial statements or notes.

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

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

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

## 6 THE EXPENDITURE AND FUNDING ANALAYSIS

| 2015/16 | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | | Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | *Continuing Operations:* | | | |
| (18) | (18) | 0 | Management Team | (1) | (1) | 0 |
| 3,693 | (1,579) | 5,272 | Environmental Services | 3,410 | (1,465) | 4,875 |
| 1,734 | (28) | 1,762 | Governance | 1,656 | (3) | 1,659 |
| 3,737 | (776) | 4,513 | Health & Housing | 3,818 | (797) | 4,615 |
| (7,916) | (8,490) | 574 | Housing Revenue Account | (7,176) | (977) | (6,199) |
| 3,100 | (3,593) | 6,693 | Regeneration & Planning | 3,227 | (8,687) | 11,914 |
| 402 | (419) | 821 | Resources | 295 | (647) | 942 |
| 2,577 | (41) | 2,618 | Central Services | 2,256 | (68) | 2,324 |
| **7,309** | **(14,944)** | **22,253** | **Net Cost of Services** | **7,485** | **(12,645)** | **20,130** |
| (7,513) | 6,394 | (13,907) | Other Income and Expenditure | (8,243) | 18,631 | (26,874) |
| **(204)** | **(8,550)** | **8,346** | **(Surplus) or Deficit** | **(758)** | **5,986** | **(6,744)** |
| 22,919 | | | Opening General Fund & HRA Balances & Reserves | 23,123 | | |
| 204 | | | Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year | 758 | | |
| **23,123** | | | **Closing General Fund and HRA Balance & Reserves at 31/3/2017** | **23,881** | | |

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

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

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

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

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

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

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

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

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

## 7 EXPENDITURE AND INCOME ANALYSED BY NATURE

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

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

## 8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

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

| NOTE 8 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION | 2015/16 Comparative Figures | | | | | | 2016/17 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Usable Reserves | | | | | | Usable Reserves | | | | | |
| | General Fund Balance £000 | Housing Revenue Account £000 | Capital Receipts Reserve £000 | Major Repairs Reserve £000 | Earmarked Reserves £000 | Capital Grants Unapplied £000 | General Fund Balance £000 | Housing Revenue Account £000 | Capital Receipts Reserve £000 | Major Repairs Reserve £000 | Earmarked Reserves £000 | Capital Grants Unapplied £000 |
| **Adjustments to the Revenue Resources:** | | | | | | | | | | | | |
| **Amounts by which income and expenditure included in the Comprehensive income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.** | | | | | | | | | | | | |
| Pensions costs (transferred to (or from) the Pensions Reserve) | (2,186) | (332) | | | | | (1,705) | (270) | | | | |
| Financial instruments (transferred to the Financial instruments Adjustments Account) | 0 | 0 | | | | | 0 | 0 | | | | |
| Council tax and NDR (transfers to or from Collection Fund) | 327 | | | | | | 5,514 | | | | | |
| Holiday pay (transferred to the Accumulated Absences Reserve) | 42 | 27 | | | | | (8) | (6) | | | | |
| Reversal of entries included in the Surplus or Deficit on the provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | (7,050) | (8,808) | | | | | (3,434) | (1,710) | | | | |
| **Total Adjustments to Revenue Resources** | **(8,867)** | **(9,113)** | **0** | **0** | **0** | **0** | **367** | **(1,986)** | **0** | **0** | **0** | **0** |
| **Adjustments between Revenue and Capital Resources** | | | | | | | | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve | 1,396 | 606 | (1,261) | | | | 31 | 1,215 | (1,246) | | | |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | | (14) | 14 | | | | | (25) | 25 | | | |
| Payments to the government housing receipts pool funded by a transfer from the Capital Receipts Reserve | (388) | | 388 | | | | (745) | | 745 | | | |
| Posting of HRA resources from revenue to the Major Repairs Reserve | | 4,181 | | (4,181) | | | | 3,450 | | (3,450) | | |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 1,569 | 1,041 | | | | | 1,208 | 1,041 | | | | |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 666 | 373 | | | | | 1,273 | 156 | | | | |
| **Total Adjustments between Revenue and Capital Resources** | **3,243** | **6,187** | **(859)** | **(4,181)** | **0** | **0** | **1,767** | **5,837** | **(476)** | **(3,450)** | **0** | **0** |
| **Adjustments to Capital Resources** | | | | | | | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | | 861 | | | | | | 849 | | | |
| Use of the Major Repairs Reserve to finance capital expenditure | | | | 4,181 | | | | | | 3,450 | | |
| Application of capital grants to finance capital expenditure | | | | | | 4 | | | | | | 0 |
| Cash payments in relation to deferred capital receipts | | | (2) | | | | | | (372) | | | |
| **Total Adjustments to Capital Resources** | **0** | **0** | **859** | **4,181** | **0** | **4** | **0** | **0** | **477** | **3,450** | **0** | **0** |
| **Total Adjustments** | **(5,624)** | **(2,926)** | **0** | **0** | **0** | **4** | **2,134** | **3,851** | **1** | **0** | **0** | **0** |

## 9 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2016/17.

| | Balance at 31 March 2015 | Transfers Out | Transfers In | Balance at 31 March 2016 | Transfers Out | Transfers In | Balance at 31 March 2017 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **General Fund:** | | | | | | | |
| Corporate Property Reserve | 342 | (14) | 0 | 328 | (14) | 104 | 418 |
| Open Spaces Commuted Sums | 129 | (24) | 0 | 105 | (23) | 0 | 82 |
| Other Commuted Sums | 1,120 | (190) | 176 | 1,106 | (670) | 128 | 564 |
| Restructuring - Budget Support | 603 | 0 | 0 | 603 | (386) | 333 | 550 |
| Renewals | 708 | (500) | 605 | 813 | (358) | 402 | 857 |
| Capital Support | 299 | (8) | 236 | 527 | (249) | 174 | 452 |
| Invest to Save Reserve | 1,501 | (32) | 0 | 1,469 | 0 | 351 | 1,820 |
| Business Rates Retention Reserve | 381 | 0 | 0 | 381 | 0 | 0 | 381 |
| Welfare Reforms Reserve | 308 | (19) | 107 | 396 | (190) | 60 | 266 |
| MAAP Implementation Reserve | 224 | (109) | 0 | 115 | (86) | 0 | 29 |
| Highways Reserve | 279 | (60) | 0 | 219 | (219) | 0 | 0 |
| Other Reserves £100K and under | 266 | (72) | 149 | 343 | (127) | 138 | 354 |
| **Total** | **6,160** | **(1,028)** | **1,273** | **6,405** | **(2,322)** | **1,690** | **5,773** |
| | | | | | | | |
| **HRA:** | | | | | | | |
| Hsg Mgt System Replacement | 591 | 0 | 0 | 591 | (46) | 57 | 602 |
| Flats Planned Maintenance | 923 | (232) | 0 | 691 | (156) | 133 | 668 |
| Fixed Lifeline Equipment | 16 | (20) | 4 | 0 | 0 | 0 | 0 |
| Sheltered Housing Reserves | 870 | (266) | 208 | 812 | (16) | 168 | 964 |
| Business Support Reserve | 8,613 | (176) | 0 | 8,437 | 0 | 0 | 8,437 |
| Other Reserves £100K and under | 80 | (47) | 3 | 36 | 0 | 3 | 39 |
| **Total** | **11,093** | **(741)** | **215** | **10,567** | **(218)** | **361** | **10,710** |

## 10 OTHER OPERATING EXPENDITURE

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

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

## 12 TAXATION AND NON SPECIFIC GRANT INCOME

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

## 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** |
|---|---|---|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | | | | |
| **Balance as at 1 April 2016** | **160,269** | **91,063** | **15,667** | **41,795** | **8,315** | **257** | **11,585** | **328,951** |
| additions | 4,077 | 3,686 | 2,354 | 0 | 4 | 0 | 3,503 | **13,624** |
| 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)** |
| 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** |
| **Balance as at 31 March 2017** | **184,141** | **95,234** | **17,955** | **43,322** | **8,533** | **(4,779)** | **12,463** | **356,869** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| **Balance as at 1 April 2016** | **(57,749)** | **(37,349)** | **(10,387)** | **(17,309)** | **(14)** | **(115)** | **0** | **(122,923)** |
| 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** |
| **Balance as at 31 March 2017** | **(60,432)** | **(38,768)** | **(11,619)** | **(18,671)** | **(19)** | **(241)** | **0** | **(129,750)** |
| **Net Book Value** | | | | | | | | |
| **at 31 March 2016** | **102,520** | **53,714** | **5,280** | **24,486** | **8,301** | **142** | **11,585** | **206,028** |
| **at 31 March 2017** | **123,709** | **56,466** | **6,336** | **24,651** | **8,514** | **(5,020)** | **12,463** | **227,119** |

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

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

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

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

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

The significant assumptions applied in estimating the fair values are:

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

| | Council Dwellings | Other Land and Buildings | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Adjustments to fair value by year: | Increase / (Decrease) | | |
| 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** |
| 31 March 2013 | 1,133 | (2) | **1,131** |
| **Net valuation over 5 year cycle** | **28,099** | **19,386** | **47,485** |

## 14 HERITAGE ASSETS

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

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

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

**Museums' Collections**
The Council owns over 3,500 items which are either on display or stored at the Maritime, Cottage and City museums in Lancaster. The museums themselves are managed through a partnership arrangement with

Lancashire County Council. Some of the more valuable items include paintings of Sir Richard Owen dating back to the early 1800's, in addition to a Roman cavalry tombstone circa 80 AD which was discovered in an archaeological dig at Aldcliffe Road in 2005. The museum collections account for 90% of the value represented on the balance sheet.

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

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

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

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

The records in relation to both the museum catalogues and town hall collections are in development; there is not currently a full listing of all heritage assets and their current values available. As such, the insurance valuations have been used as a proxy for the value of the collections. Note that there was no valuation uplift for 2016/17.

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

## 15 INVESTMENT PROPERTIES

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

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

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

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

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

**Fair Value Hierarchy**

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

| 2016/17 | Quoted prices in active markets for identical assets (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Fair Value as at 31 March 2017 |
|---|---|---|---|---|
| *Recurring fair value measurements using:* | £000 | £000 | £000 | £000 |
| Office | 0 | 0 | 3,177 | 3,177 |
| Retail | 0 | 0 | 2,873 | 2,873 |
| Agriculture & Allotments | 0 | 5,089 | 247 | 5,336 |
| Commercial Land | 0 | 6,984 | 3,020 | 10,004 |
| Commercial Buildings | 0 | 32 | 1,999 | 2,031 |
| Mixed Commercial | 0 | 0 | 7,779 | 7,779 |
| **Total** | **0** | **12,105** | **19,095** | **31,200** |

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

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

Significant Observable Inputs – Level 2

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

Significant Unobservable Inputs – Level 3

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

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

**Highest and best use of Investment Properties**

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

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

**Valuation Techniques**

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

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

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

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

## 16 INTANGIBLE ASSETS

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

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

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

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

## 17 FINANCIAL INSTRUMENTS

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

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

### Income, Expenses, Gains and Losses

| | 2015/16 | | | | | 2016/17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Liabilities measured at amortised cost £000 | Financial Assets:Loans and receivables £000 | Financial Assets:Available for sale £000 | Assets and Liabilities at Fair Value through Profit and Loss £000 | Total £000 | Financial Liabilities measured at amortised cost £000 | Financial Assets:Loans and receivables £000 | Financial Assets:Available for sale £000 | Assets and Liabilities at Fair Value through Profit and Loss £000 | Total £000 |
| Interest payable | 3,085 | 0 | 0 | 0 | 3,085 | 3,047 | 0 | 0 | 0 | 3,047 |
| Losses on derecognition | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reductions in fair value | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total expense in Surplus or Deficit on the Provision of Services** | **3,085** | **0** | **0** | **0** | **3,085** | **3,047** | **0** | **0** | **0** | **3,047** |
| Interest income | 0 | (214) | 0 | 0 | (214) | 0 | (189) | 0 | 0 | (189) |
| Interest income accrued on impaired financial assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increases in fair value | 0 | (4) | 0 | 0 | (4) | 0 | 0 | 0 | 0 | 0 |
| Gains and derecognition | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **(218)** | **0** | **0** | **(218)** | **0** | **(189)** | **0** | **0** | **(189)** |
| Gains on revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Losses on revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net (gain)/loss for the year** | **3,085** | **(218)** | **0** | **0** | **2,867** | **3,047** | **(189)** | **0** | **0** | **2,858** |

**Fair Values of Assets and Liabilities**

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

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

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

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

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

## 18 INVENTORIES

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

## 19 SHORT TERM DEBTORS

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

## 20 CASH AND CASH EQUIVALENTS

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

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

## 21 ASSETS HELD FOR SALE

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

## 22 SHORT TERM CREDITORS

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

## 23 PROVISIONS

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

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

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

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

## 24 USABLE RESERVES

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

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

## 25 UNUSABLE RESERVES

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

**Revaluation Reserve**

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

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

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

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

**Capital Adjustment Account**

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

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

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| **Balance as at 1 April** | **124,187** | **118,163** |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| - Charges for depreciation and impairment of non current assets | (6,566) | (6,905) |
| - Revaluation losses on Property, Plant and Equipment | (5,882) | (4,817) |
| - Amortisation of Intangible Assets | (41) | (93) |
| - Revenue Expenditure funded from Capital under statute. | (2,680) | (1,921) |
| - HRA self financing payment. | 1,041 | 1,041 |
| - Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (1,724) | (775) |
| Sub total | 108,335 | 104,693 |
| Adjusting amounts written out of the Revaluation Reserve | 1,137 | 1,724 |
| Net written out amount of the cost of non current assets consumed in the year. | 109,472 | 106,417 |
| Capital financing applied in the year: | | |
| - Use of Capital Receipts Reserve | 861 | 849 |
| - Use of the Major Repairs Reserve | 4,181 | 3,450 |
| - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets) | 1,895 | 4,526 |
| - Application of grants to capital financing from the Capital Grants Unapplied Account. | 4 | 1 |
| - Statutory provision for the financing of capital investment charged against General Fund and HRA balances | 1,569 | 1,208 |
| - Capital expenditure charged against the General Fund and HRA balances | 1,039 | 1,429 |
| Sub total | 119,021 | 117,880 |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement | (858) | 4,840 |
| **Balance as at 31 March** | **118,163** | **122,720** |

**Financial Instruments Adjustment Account (FIAA)**

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

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

**Pensions Reserve**

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

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

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

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| **Balance as at 1 April** | 801 | 1,128 |
| Amount by which council tax and business rates income credited to Comprehensive Income and Expenditure statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements | 327 | (5,084) |
| **Balance as at 31 March** | **1,128** | **(3,956)** |

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

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| **Balance as at 1 April** | **(218)** | **(149)** |
| Settlement or cancellation of accrual made at the end of the preceding year | 218 | 149 |
| Amounts accrued at the end of the current year | (149) | (163) |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements | **69** | **(14)** |
| **Balance as at 31 March** | **(149)** | **(163)** |

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

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

| | 2015/16<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Interest received | (192) | (218) |
| Interest paid | 3,070 | 3,053 |

## 27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

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

## 28 CASH FLOW STATEMENT – FINANCING ACTIVITIES

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

## 29 ACQUIRED AND DISCONTINUED OPERATIONS

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

## 30 TRADING OPERATIONS

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

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

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

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

## 31 AGENCY SERVICES

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

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

## 32 MEMBERS ALLOWANCES

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

| | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| Basic Allowances | 199 | 199 |
| Special Responsibility Allowances | 81 | 81 |
| Expenses | 3 | 3 |
| **Total** | **283** | **283** |

## 33 OFFICERS REMUNERATION

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

| | *Salary, Fees and allowances* | *Expenses & Benefits in Kind* | *Redundancy Payments* | ***Total Remuneration (excluding pension contributions)*** | *Employer Pension contribution* | ***Total Remuneration (including pension contributions)*** |
|---|---|---|---|---|---|---|
| **2016/17** | £000 | £000 | £000 | £000 | £000 | £000 |
| Chief Executive (Previous to 30/06/16) | 27 | 0 | 0 | **27** | 3 | **30** |
| Chief Executive (New from 01/07/16) | 81 | 0 | 0 | **81** | 11 | **92** |
| Chief Officer (Environmental) | 66 | 0 | 0 | **66** | 9 | **75** |
| Chief Officer (Resources) | 66 | 0 | 0 | **66** | 9 | **75** |
| Chief Officer (Governance) | 0 | 0 | 0 | **0** | 0 | **0** |
| Chief Officer (Health & Housing) | 66 | 0 | 0 | **66** | 9 | **75** |
| Chief Officer (Regeneration & Planning) | 66 | 0 | 0 | **66** | 9 | **75** |
| **2015/16** | | | | | | |
| Chief Executive | 107 | 2 | 0 | **109** | 14 | **123** |
| Chief Officer (Environmental) | 66 | 0 | 0 | **66** | 8 | **74** |
| Chief Officer (Resources) | 66 | 0 | 0 | **66** | 8 | **74** |
| Chief Officer (Governance) | 60 | 0 | 0 | **60** | 8 | **68** |
| Chief Officer (Health & Housing) | 66 | 0 | 0 | **66** | 8 | **74** |
| Chief Officer (Regeneration & Planning) | 66 | 0 | 0 | **66** | 8 | **74** |

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

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

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

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 £ | 2016/17 £ |
| £0 - £20,000 | 0 | 0 | 5 | 26 | **5** | **26** | 62,550 | 172,309 |
| £20,001 - £40,000 | 0 | 0 | 2 | 2 | **2** | **2** | 57,076 | 41,102 |
| £40,001 - £60,000 | 0 | 0 | 0 | 1 | **0** | **1** | 0 | 40,677 |
| £60,001 - £80,000 | 0 | 0 | 0 | 1 | **0** | **1** | 0 | 63,578 |
| £80,001 - £100,000 | 0 | 0 | 0 | 0 | **0** | **0** | 0 | 0 |
| £100,001 - £150,000 | 0 | 0 | 0 | 0 | **0** | **0** | 0 | 0 |
| **Total** | **0** | **0** | **7** | **30** | **7** | **30** | **119,626** | **317,666** |

## 34 EXTERNAL AUDIT COSTS

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

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

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

## 35 GRANT INCOME

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

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

| Credited to Services | 2015/16 £000 | 2016/17 £000 |
|---|---|---|
| DCLG Disabled Facilities Grant | 557 | 997 |
| Morecambe THI2 Heritage Lottery Grant | 0 | 229 |
| Discretionary Housing Payments | 115 | 127 |
| Supporting People | 173 | 222 |
| Active Lives: Other Grants | 113 | 145 |
| Parliamentary/European/Police/Individual Elections | 202 | 355 |
| Arnside & Silverdale AONB Grants | 133 | 136 |
| Benefits DWP grant | 107 | 234 |
| Storm Relief | 151 | 358 |
| Affordable Warmth | 64 | 0 |
| Standard Rent Allowances: Government Grants | 31,272 | 27,957 |
| DCLG Community Housing | 0 | 737 |
| Rent Rebates - Council Housing: Government Grants | 9,250 | 8,591 |
| NNDR Administration: Government Grants | 227 | 225 |
| Other Grants Under £50K | 358 | 330 |
| **Total** | **42,722** | **40,643** |

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:

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

## 36 RELATED PARTIES

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

**Central Government**
Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 7 on expenditure and income analysed by nature. Grant receipts outstanding at 31 March 2017 are contained within debtors Note 19.

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

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

**Members of the Families and Households of Members and Officers**
There are no material transactions to disclose in respect of members of the families and households of Members and Officers.

**Entities Controlled or Significantly Influenced by the Authority**
The Council nominates four of its City Councillors as trustees of the Dukes Playhouse Ltd. There is no ultimate controlling party, however. Payment of revenue grant support totaling £152.5K was made to the company in 2016/17 for its core activities, i.e. to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community. This included the provision of grant in lieu of rent free Council accommodation to the value of £12.5K. A further revenue grant of £1K was made during 2016/17 towards the 2016 Light Up Lancaster (LUL) Programme. The Council's Lancaster and Morecambe Visitor Information Centre's also sold a small number of tickets on behalf of the Dukes during the year for some of its productions including LUL and retained 10% commission on any sales. The Youth Arts Centre occupies a former church, which is also owned by the Council. The company maintains the building and pays an annual rent of £8K to the Council in respect of this.

## 37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

## 38 LEASES

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

| | 31 March 2016 £000 | 31 March 2017 £000 |
|---|---|---|
| Finance lease liability re-assessment | (113) | (88) |
| Vehicles, Plant, Furniture & Equipment | 239 | 126 |
| **Total** | **126** | **38** |

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

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

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

**Operating Leases**

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

| | Minimum lease payments | |
|---|---|---|
| | 31 March 2016 £000 | 31 March 2017 £000 |
| Not later than 1 year | 457 | 545 |
| Later than 1 year and not later than 5 years | 1,100 | 1,215 |
| Later than 5 years | 1,526 | 1,483 |
| **Minimum lease payments** | **3,083** | **3,243** |

## 39 IMPAIRMENT LOSSES

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

## 40 TERMINATION BENEFITS

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

## 41 DEFINED BENEFIT PENSION SCHEMES

**Participation in Pension Schemes**

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

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

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

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

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

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

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

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

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

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

**Local Government Pension Scheme assets comprised**

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

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

**Impact on the Defined Benefit Obligation in the Scheme**

| | | +0.1% p.a. discount rate | +0.1% p.a. inflation | +0.1% p.a. pay growth | +1 year life expectancy |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Liabilities | 222,430 | 218,768 | 226,153 | 223,137 | 226,882 |
| Assets | (156,667) | (156,667) | (156,667) | (156,667) | (156,667) |
| Deficit/(Surplus) | 65,763 | 62,101 | 69,486 | 66,470 | 70,215 |
| Projected Service Cost for next year | 4,733 | 4,601 | 4,871 | 4,733 | 4,831 |
| Projected Net Interest Cost for next year | 1,602 | 1,571 | 1,699 | 1,623 | 1,717 |

**Impact on the Council's Cash Flows**

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

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

The Council anticipated paying £3.197M expected contributions to the scheme in 2016/17 (£3.179M in 2015/16).

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

## 42 CONTINGENT LIABILITIES

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

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

Furthermore the Council has accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve the set outcomes, in particular concerning 'Business Space' created. The Council transferred Phase 1 land to its development partner (Luneside East Limited, formerly CTP Securities Limited) on 02 April 2012 and the developer is working to bring forward a beneficial scheme subject to planning and statutory consents. It is uncertain as at 31 March 2017 whether all outputs will be achieved, however, and whether any subsequent clawback will fall upon the Council. No provision has been made for any such clawback liabilities arising.

**NNDR Appeals** – The Council has made provision for NNDR appeals based on its best estimate of the actual liability as at 31 March 2017. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts. Appeals have been made by NHS Trusts across the country to be recognised as charities and therefore not be liable for business rates. As this is a major national issue it has been taken up by the Local Government Association on behalf of Councils and at this early stage as the legality of such a claim is complex, no provision has been made.

## 43 CONTINGENT ASSETS

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

## 44 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by Council in the annual treasury management strategy.

The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

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

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

As per the 2016/17 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the Council are as detailed in the following table:

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

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

The Council's maximum exposure to credit risk in relation to its investments of £30.250M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but not impossible, for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits, but for the £30.250M, there was no evidence at 31 March 2017 that this was likely to materialise.

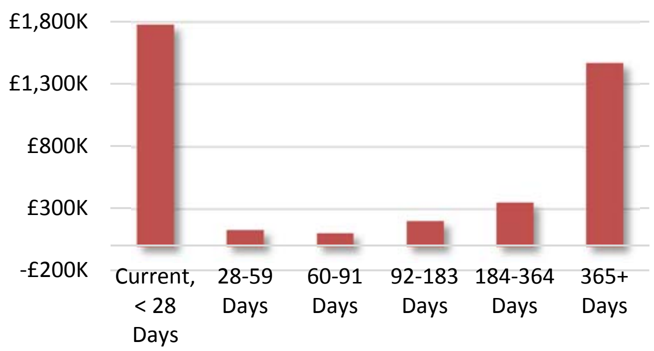
The following analysis (excluding Icelandic investments) summarises the Council's potential maximum exposure to credit risk on other financial assets, based on past experience of default and non-collectability, adjusted to reflect current market conditions.

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

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

With regard to other financial instruments, such as sundry debtors, the Council does not generally allow credit for customers, such that £2.260M of the £4.037M sundry debt balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

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




**Liquidity Risk**

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

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

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

| | 31/03/16 | 31/03/17 |
|---|---|---|
| | £000 | £000 |
| Less than 1 Year | 1,041 | 1,041 |
| 1-2 Years | 1,041 | 1,041 |
| 3-5 Years | 3,124 | 3,124 |
| 6-10 Years | 5,207 | 5,207 |
| 11-20 Years | 10,414 | 10,414 |
| 21-30 Years | 6,248 | 5,207 |
| More than 30 Years | 39,215 | 39,215 |
| **Total** | **66,290** | **65,249** |

**Market Risk**

*Interest Rate Risk*
The Council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods. No new long or short term loans were taken out during 2016/17.

The Council's investments held within instant access Call accounts are affected by movements in interest rates. The prevailing bank rate at the balance sheet date was 0.5%, meaning that returns have remained at very low levels during the year. Had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.37%, an increase of 1% on interest rates during 2016/17 would have had the following marginal effect:

| | **Actual**<br>£000 | **+1%**<br>£000 |
|---|---|---|
| **New or variable investments:** | | |
| Call accounts | 173 | 472 |
| **Total** | **173** | **472** |

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

## THE HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

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

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

## MOVEMENT ON THE HRA STATEMENT

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

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

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

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

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

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

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

Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the third of which has now updated all values to 01 April 2015. This has resulted in a net increase in asset values of £24.678M in the year, which forms part of the net movement in asset values shown above in the recent full revaluation. Non-dwelling assets were also revalued as at 01 April 2015.

The vacant possession value of dwellings held on 01 April 2016 was £300.546M. The difference between this and the EUV-SH valuation of £125.857M (i.e. the update figure after the valuation exercise effective as of 01 April 2016 but before depreciation, disposals etc.) represents the economic cost to the Government of providing Council Housing at less than open market rents.

## 2 MOVEMENT ON THE MAJOR REPAIRS RESERVE

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

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

## 3 CAPITAL EXPENDITURE

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

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

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

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

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

## 4 DEPRECIATION

Total depreciation charges for the year were as follows:

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

## 5 IMPAIRMENT CHARGES

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

## 6 INTANGIBLE ASSETS

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

## 7 CONTRIBUTIONS TO/FROM PENSIONS RESERVE

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

## 8 RENT ARREARS

Total arrears of rent at 31 March 2017 amounted to £808K (£695K for 2015/16). An amount of £522K (£516K for 2015/16) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The provision gives cover of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

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

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

## 10 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There are no exceptional or extraordinary items, and no prior year adjustments.

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

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

# Collection Fund

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

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

## NOTES TO THE COLLECTION FUND

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

### 1 COUNCIL TAX

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

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2016/17 the numbers are as follows:-

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

### 2 BUSINESS RATES

The Council collects National Non-Domestic Rates (NNDR) for its area based on rateable values set by the Valuation Office Agency (VOA), multiplied by a uniform business rate set by Central Government. For most businesses, this was set at 49.7p per £ for 2016/17 (49.3p for 2015/16). For local businesses with a rateable value of less than £15,000, a discount of 1.3p was allowed giving a rate of 48.4p per £. The total rateable value for the district at 31 March 2017 was £153,979,216 (£153,645,813 for 2015/16).

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

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates, allowing for any top up amount to ensure that all authorities receive their baseline income. Tariffs payable to Government are used to finance such top ups to those authorities who do not achieve their targeted baseline funding. The tariff payable by the Council during 2016/17 was £20.216M (£19.763M in 2015/16).

In addition to tariffs, a 'safety net' is calculated at 92.5% of the baseline amount, which ensures that authorities are protected to this level of Business Rate income. For the Council, the safety net figure for 2016/17 is £4.856M (£4.816M for 2015/16). The comparison of business rate income to the safety net uses the total income collected from business rate payers and adjusts for losses in collection, losses on appeal, transitional protection payments, the cost of collection and Small Business Rate Relief.

In addition to the local management of business rates, authorities are expected to finance appeals in respect of rateable values, as determined by the VOA. As such, authorities are required to make a provision for business rate appeals outstanding as at 31 March 2017. Appeals are charged and provided for in proportion to the precepting shares. The total provision as at 31 March 2017 has been estimated at £5.176M (£34.954M in 2015/16), the Council's share of which is £2.070M (as shown in Note 23).

## 3 MAJOR PRECEPTORS

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

| | Council Tax | | Business Rates | | Total |
|---|---|---|---|---|---|
| | Precept | Surplus Allocation | Precept | Deficit Recovery | |
| | £000 | £000 | £000 | £000 | £000 |
| Lancashire County Council | 46,642 | 363 | 5,416 | (1,290) | 51,131 |
| Lancashire Police Authority | 6,440 | 51 | 0 | 0 | 6,491 |
| Lancashire Fire Authority | 2,600 | 21 | 602 | (143) | 3,080 |
| Lancaster City Council | 8,841 | 60 | 24,074 | (5,733) | 27,242 |
| | **64,523** | **495** | **30,092** | **(7,166)** | **87,944** |

# Bequests, Endowments and Trust Funds

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

At 31 March 2017 the Council was responsible for 12 of these Trust Funds, the balances of which are shown in the tables below:

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

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

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

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

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

This list is not intended to be comprehensive.

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

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

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

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

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

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

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

**Tangible Fixed Assets**

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

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

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

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

Contact: Nadine Muschamp
Telephone: (01524) 582117
Fax: (01524) 582160
E-mail: nmuschamp@lancaster.gov.uk
Website: www.lancaster.gov.uk
Our Ref: NM/LW

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Resources

**Nadine Muschamp**
**Chief Officer (Resources)**
Town Hall
Dalton Square
LANCASTER LA1 1PJ

DX63531 Lancaster

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

13 September 2017

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 2017, 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 2017 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 2016/17.

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 2017 and of the Authority's expenditure and income for the year then ended;

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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.

**Information provided**

5. 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.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

   i) 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.

   ii) The Authority has disclosed to you all information in relation to:

   a) Instances of fraud or suspected fraud that the Authority is aware of and that affect the Authority and involve:
      - 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.

8. 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.

9. 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.

10. There are no:

    (a) Other liabilities that are required to be recognised and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, including liabilities or contingent liabilities arising from illegal or possible illegal acts; or
    (b) Other environmental matters that may have an impact on the financial statements."

11. 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 2016/17.

12. 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.

13. 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 amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 13 September 2017.

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.

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 2015/16.

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).

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.

# AUDIT COMMITTEE

## 13 September 2017

## Internal Audit Monitoring

## Report of Interim Internal Audit and Assurance Manager

**PURPOSE OF REPORT**

To advise Members of the latest monitoring position regarding the 2017/18 Internal Audit Plan and seek approval for proposed variations to the plan.

**This report is public**

**RECOMMENDATIONS**

**(1) That the latest monitoring position is noted.**

**(2) That the proposed revisions to the audit plan, as set out in 1.3 are approved.**

**1.0 Audit Plan monitoring to 15 August 2017**

1.1 The 2017/18 Internal Audit Plan was approved by the Audit Committee at its meeting on 28 June 2017. This report is based on the monitoring position up to 15 August 2017 and a monitoring report as at that date is detailed below. A further table at 1.3 shows the minor amendments made to the audit plan since its original approval.

1.2 **<u>Summary of monitoring position at 15 August 2017</u>**

| | Report Status | | | | |
|---|---|---|---|---|---|
| **Category of Audit** | **Final Issued** | **Assurance Level** | **Fieldwork** | **Draft Issued** | **Comments** |
| **2016/17 Audit Plan work** | | | | | |
| HB subsidy claim – overpayments | ✓ | Substantial | | | |
| 1% Rent reductions | ✓ | Substantial | | | |
| Equality Act | | | | ✓ | |
| **Financial systems** | | | | | |
| Budgetary control | | | | | Q3 |
| Income management | | | | | Q3 |
| Main Accounting | | | | | Q3 |
| **Core management** | | | | | |
| Procurement | | | | | Q4 |

| | Report Status | | | | |
|---|---|---|---|---|---|
| **Category of Audit** | **Final Issued** | **Assurance Level** | **Fieldwork** | **Draft Issued** | **Comments** |
| **Core management cont.** | | | | | |
| Asset management | | | ✓ | | |
| Business planning | | | | | Q4 |
| Contract management | | | ✓ | | |
| Financial planning and MTFS | | | | | Q3 |
| Performance management | | | ✓ | | |
| Recovery of legal fees and court costs | | | ✓ | | |
| Compliance to scheme of delegation | | | ✓ | | |
| Salt Ayre leisure | | | ✓ | | |
| Council house voids | | | | | Q3 |
| Local plan | | | | | Q4 |
| Voluntary faith community sector | | | | | Q4 |
| Learning and development | | | ✓ | | |
| Green waste collection | | | | | Q3 |
| **Revenue shared service financial systems** | | | | | |
| NNDR – Strategic | | | | | See 1.3 |
| Council Tax | | | | | |
| Unified benefit | | | | | |
| Housing benefit | | | | | |
| **Other areas of work** | | | | | |
| Canal corridor north project | | | | | On-going |
| Annual governance review and statement | | | | | Completed |
| Risk management and assurance framework | | | | | On-going |
| PSIAS review – moderation and preparation for Assessment | | | | | On-going |
| National Fraud initiative exercise 2016/17 | | | | | On-going |
| Counter fraud work | | | | | On-going |

1.3 Following approval of the audit plan in June 2017, discussions have taken place with the Revenue Manager and it has been agreed that the revenue shared service financial system audits would be as follows;

| | Report Status | | | | |
|---|---|---|---|---|---|
| **Category of Audit** | **Final Issued** | **Assurance Level** | **Fieldwork** | **Draft Report** | **Comments** |
| **Revenue Shared Service Financial Systems** | | | | | |
| NNDR – Strategic (rate avoidance) | | | ✓ | | |
| NNDR – Transactional | | | ✓ | | |
| E-Claims | | | | | Q3 |

**2.0 Investigations / other activity**

2.1 Following an internal investigation at the White Lund Nursery by the Organisational Development Manager, Internal Audit were asked to give assurance on the key controls in place around policies and procedures, access and security and cash and banking. Overall, a 'limited' assurance level was given and eight recommendations were made in total. A follow-up review has been scheduled for December 2017 when it is expected that all recommendations will have already been implemented.
The final report has been issued to key personnel, however due to the confidential nature of a number of findings; the report will not be published on the intranet.

**3.0 Details of Consultation**

3.1 Management Team continues to be consulted in developing the plan.

**4.0 Options and Options Analysis (including risk assessment)**

4.1 Regarding the Internal Audit Plan minor changes, the options available to the Committee are either to approve the proposed changes or to propose an alternative course of action.

**5.0 Conclusion**

5.1 Minor changes have been made to the 2017/18 audit plan in respect of internal audit work under the revenue shared service arrangement. There have been no changes made to the number of allocated days, which currently stands at 42 days.

5.2 The programme of audits for the rest of the year continues to be implemented in consultation with senior management.

**CONCLUSION OF IMPACT ASSESSMENT**
**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

Not applicable

**FINANCIAL IMPLICATIONS**

None directly arising from this report

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments

**LEGAL IMPLICATIONS**

None directly arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments

| | |
|---|---|
| **BACKGROUND PAPERS**<br>Internal Audit Plan 2017/18 | **Contact Officer:** Joanne Billington<br>**Telephone:** 01524 582028<br>**E-mail:** jbillington@lancaster.gov.uk<br>**Ref:** |

**AUDIT COMMITTEE**

# Counter Fraud – Annual Report 2016/17

## 13 September 2017

## Report of the Corporate Fraud Manager

| PURPOSE OF REPORT |
|---|
| To inform the Committee of the extent and outcome of counter fraud work during the 2016/17 financial year. |
| **This report is public** |

**RECOMMENDATIONS**

**1. That the report be noted.**

**1.0 Introduction**

**1.1** Local Authorities have a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. In addition, there is a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error.

**1.2** As responsibility for Housing Benefit fraud investigation transferred to the Department for Work and Pensions on 1 June 2015, the Council made a decision to form a Corporate Fraud Team, shared between Preston, Lancaster and Fylde Councils.

**1.3** This report details performance and counter fraud activity undertaken by the Corporate Fraud Team during 2016/17.

**2.0 Report**

**2.1** Early in 2015, a funding bid was made to the Department for Communities and Local Government (DCLG) to set up a shared Corporate Enquiry Team, between Lancaster City Council, Preston City Council and Fylde Borough Council. The bid was successful and £125,750 was awarded towards the cost.

**2.2** At the same time, the Corporate Enquiry Team was established and consists of five staff, including a Manager, two Investigators and two Administrative Officers. The team are employed by Preston City Council as part of a shared service arrangement. Resources are shared between the three authorities, giving Lancaster full time equivalent staff of Manager (0.4 fte), Investigator (0.8 fte) and Administrative Officer (0.8 fte).

**2.3** The objectives of the Corporate Enquiry Team are to:-

- Protect public funds
- Undertake fraud prevention measures
- Detect and stop fraud
- Increase fraud awareness
- Implement sanctions in accordance with Council prosecution policies
- Ensure that investigations comply with the regulatory environment
- Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing
- Encourage a strong culture of good performance in relation to cost
- Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision
- Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority

**2.4** The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions (DWP), HM Revenues & Customs (HMRC), Police and Home Office when appropriate. Currently no joint working arrangements are in place with the DWP due to their national policies. However, this may change in the next twelve months as some pilot exercises are underway to explore the possibility of this being re-introduced.

**2.5** The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP. This is work which would otherwise have been allocated to the Benefit Assessment team.

**2.6** The team has an excellent working relationship with Lancashire Police and continues to participate in Operation Genga, a Home Office led multi-agency operation to help tackle serious and organised crime. This demonstrates our commitment to tackle fraud on a larger scale and other related crimes in partnership with external agencies.

**2.7** The Corporate Enquiry Team are active members of NAFN (National Anti Fraud Network). NAFN's key services include:

- Acquiring data legally, efficiently and effectively from a wide range of information providers;
- Acting as the hub for the collection, collation and circulation of intelligence alerts;

- Providing best practice examples of process, forms and procedures.

**2.8** The team are also members of the Institute for Revenues, Rating and Valuation (IRRV) and Local Authorities Investigation Officers Group (LAIOG) in order to share best practice and receive information on up and coming initiatives. They work closely with all Lancashire Authorities, meeting regularly to discuss common problems and best practice.

**3.0 Performance**

Performance data for Lancaster is detailed as below:

| | Year | Target | Achieved |
|---|---|---|---|
| Overpayments | 2016/17 | N/A | £199,198.28 |

**3.1** In addition to the overpayments identified the team recovered two Council Housing properties from tenants who were not using them as their principal homes. The team now conducts checks on right to buy applications for Council Housing properties and one right to buy with a discount value of £77,900 was recently withdrawn as a result of this work.

**4.0 Surveillance**

**4.1** Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance has been undertaken in 2016/17. However, both training and authorisations are up to date and action will be taken if deemed necessary.

**5.0 Business Plan**

**5.1** The CET business plan for 2017/18 is attached for information as ***AppendixA.***

**6.0 Details of Consultation**

**6.1** No specific consultation has been undertaken in compiling this report.

**5.0 Options and Options Analysis (including risk assessment)**

**5.1** None – the report is for noting.

**6.0 Conclusion**

**6.1** The report provides an overview of the work of the Corporate Enquiry Team during financial year 2016/17. The attached business plan provides a platform for the ongoing effectiveness and improvement of the Council's counter fraud work.

| |
|---|
| **CONCLUSION OF IMPACT ASSESSMENT**<br>**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**<br><br>This report has no direct impact on these areas. |
| **FINANCIAL IMPLICATIONS**<br><br>There are no direct financial implications arising from this report. However, the Corporate Enquiry Team has generated savings for the Council from their Corporate Fraud Shared Service work, and delivers value for money in this new area. |
| **SECTION 151 OFFICER'S COMMENTS**<br><br>The Section 151 Officer has been consulted and has no further comments. |
| **LEGAL IMPLICATIONS**<br><br>None arising from this report |
| **MONITORING OFFICER'S COMMENTS**<br><br>The Monitoring Officer has been consulted and has no further comments. |

| | |
|---|---|
| **BACKGROUND PAPERS** | **Contact Officer:** Andrew Taylor<br>**Telephone:** 01772 906013<br>**E-mail:** a.taylor@preston.gov.uk<br>**Ref:** |

**Appendix A**

# BUSINESS PLAN
# 2017/18

# CORPORATE ENQUIRY TEAM
# SHARED SERVICE

# LANCASTER CITY COUNCIL, PRESTON CITY COUNCIL & FYLDE BOROUGH COUNCIL

## (This Plan will be refreshed annually)

# INDEX


| | Page |
|---|---|
| **Vision Statement** | **2** |
| **Statement of Purpose** | **2** |
| **Service Overview** | **2** |
| **Customers & Stakeholders** | **3** |
| **Contribution to Council Priorities** | **3** |
| **Key Service Objectives** | **4** |
| **Other Major Responsibilities** | **5** |
| **Key Projects** | **6** |
| **Financial appraisal** | **7** |
| **Equality Impact Assessments** | **8** |
| **Performance** | **8** |
| **Risk Analysis** | **8** |
| **Future Development** | **9** |
| **Three year Horizon** | **10** |


**VISION STATEMENT:**

***To use available resources to enforce a zero tolerance approach to fraud against the Councils and their partner organisations.***

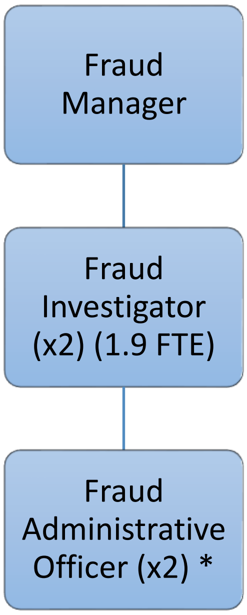
## STATEMENT OF PURPOSE:

The Corporate Enquiry Team will:

- Prevent, detect and deter fraud against the respective Council and its partners;
- Investigate appropriate allegations of fraud to a criminal prosecution standard;
- Work with the Police and other agencies to protect the public purse;
- Act as single point of contact for data enquiries from the Police, the Department for Work and Pensions and other law enforcement agencies.

### SERVICE OVERVIEW:

The shared Corporate Enquiry Team was created on 1 June 2015 and operates over three sites on behalf of Fylde, Lancaster and Preston Councils. In practice, it currently sits as part of the Customer Services Directorate within Preston City Council and the structure of the team is as follows:




* One post of the two Admin officer posts covers DWP liaison for both Lancaster & Preston and is therefore funded from the Revenues/Benefits Shared Service budget.

The early years of this partnership arrangement has seen a period of development and enhancement in the field of corporate anti-fraud activity. The Corporate Enquiry Team has focussed its attention on anti-fraud and error across the three authorities and work involves involve promotion of anti-fraud and error, training, education as well as prevention, detection and investigative work. During 2016/17 both investigators undertook the Chartered Institute of Public Finance and Accountancy (CIPFA) accredited counter fraud specialist course and are now fully qualified accredited counter fraud investigators.

Local authorities have a duty to safeguard public funds and to ensure that any public money is used appropriately and it is no co-incidence that all three Councils have a zero tolerance approach to fraud and error.

Fraud is often an opportunistic crime, committed by those who perceive the likelihood of being caught and punished as minimal. The Corporate Enquiry Team will use all legal powers available to work with our partners to reduce both the risk of fraud and the losses caused by it. This will be done by taking firm action against offenders and publicising positive outcomes to create a deterrent effect.

This Business Plan has been produced to document the work of the Corporate Enquiry team and outline the responsibilities and key objectives for the team in coming years. It provides financial and performance information and provides a risk analysis of possible events that may adversely affect the service in the future.

**CUSTOMERS & STAKEHOLDERS:**

We continue to develop excellent working relationships with our customers and stakeholders, which include:

- All residents of the three districts;
- The business community;
- Benefit/Council Tax Reduction Scheme customers;
- Elected representatives.
- Other Council services;
- Department for Work and Pensions;
- Pensions Service;
- Jobcentre Plus;
- Valuation Office Agency;
- Rent Service;
- Registered Social Landlords;
- Private Landlords/Agents;
- HM Revenues and Customs;
- UK Border Agency;
- National Fraud Authority;
- HM Courts and Tribunals Service;
- The Home Office;
- The National Crime Agency
- Advice Agencies – CAB & Welfare Rights Service;
- Department for Communities & Local Government;
- Enforcement Agents;
- Solicitors;
- Other local authorities;
- Police.

**CONTRIBUTION TO COUNCIL PRIORITIES:**

This Business Plan is shaped by corporate priorities and we continue to contribute towards these priorities in our day to day work; by achieving our key service objectives. Our processes alongside new systems will support the revised ways of partnership working and help ensure that Council priorities can be achieved.

Local Authorities have a duty to protect the public purse. The Government's austerity programme has led to a substantial reduction in funding and this means that we must strive to do more for less. It is vital that we ensure our limited funds are directed towards the provision of essential services and that we minimise our losses to fraud.

The Corporate Enquiry Team will proactively work with all services within each council to offer a counter fraud and error service and to identify and investigate any fraudulent activity.

**KEY SERVICE OBJECTIVES:**

In preparing the objectives for this plan, the Shared Service management team has reviewed all of the known influences on the service. These include customer needs, staff needs/issues, the overall environment, performance issues and the various changes associated with improving service provision.

**Key Service Objectives for the Shared Service for 2017/18 are:**

- To create and promote a robust "anti-fraud" culture across the three authorities, highlighting the Council's zero tolerance of fraud, bribery and corruption.
- To review supporting policies and procedures to strengthen governance and improve resilience to fraud and corruption.

- To embrace partnership working to enable excellent service delivery, whilst achieving financial savings to the partner authority.

- To ensure that investigations comply with the regulatory environment such as Criminal Procedures and Investigations Act 1996 (CPIA), Police and Criminal Evidence Act 1984 (PACE), Regulation of investigatory Powers Act 2000 (RIPA), Human Rights Act 1998 (HRA), Data Protection Act 1998 (DPA) and Freedom of Information Act 2000 (FOI).

- To work with social housing providers to recover properties from fraudsters enabling those identified as being most in need of social housing to be re-housed.

- To encourage a strong culture of good performance in relation to cost and develop relevant performance measures;

- To promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision;

**OTHER MAJOR RESPONSIBILITIES:**

**Local Council Tax Support (LCTS) Scheme Fraud**

The LCTS Scheme replaced Council Tax Benefit and as such, responsibility for investigating related fraud lies with the Council. The DWP Single Fraud Investigation Service has no powers to investigate these issues. It should be noted that the DWP have indicated in circular F1 2017 that they are considering introducing joint working with local authorities for DWP social security and LA non-social security benefit fraud cases. There are no time scales included in the circular, but there is a possibility that this may roll out during 2017/18.

- Investigate allegations of fraud against the LCTS systems administered across the three partner Councils;

- Undertake pro-active exercises in areas considered of being at a high risk of fraud;

- To consider appropriate sanction action against fraudsters, in line with all three Council's LCTS scheme sanction policies;

- To use the authorised officer powers contained within the Council Tax Reduction Scheme (Detection of Fraud and Enforcement) (England) Regulations 2013 in a fair, consistent and legal manner;

- To minimise financial losses as a result of fraud.

**Business Rates/Council Tax Fraud**

To deal with an area of fraud where Council's may lose significant revenue through abuse of the discount and exemption rules and to:

- Investigate allegations of fraud across Business Rates and Council Tax systems administered by the three partnering Councils;

- Participate in National Fraud Initiative Data matching to identify irregularities;

- Work with Business Rates, Council Tax teams and visiting officers to help identify and deal with high risk areas of fraud.

**Housing Tenancy Fraud**

Lancaster City Council has retained its housing stock, which may be at risk of frauds such as subletting, key swapping, non-residency and right to buy fraud.

New criminal offences were introduced by the Prevention of Social Housing Fraud Act 2013. This includes powers for local authorities to require information and the use of unlawful profit orders. Only local authorities have the powers to prosecute these offences, which include all social housing, not just properties owned by the authority.

The Corporate Enquiry Team will work with the Housing team at Lancaster and other Registered Social Landlords to detect and punish tenancy fraud. This will create a deterrent and help to recover properties that are being misused, to be utilised to house those deemed to be most in need of the resource. This should help reduce temporary accommodation costs which are estimated to be around £18,000 per year for a homeless family. The Team will:

- Work closely with Lancaster City Council's Housing team, to encourage staff and residents to report fraud and allow us to deal with it effectively.

- Encourage partnership working with our Registered Social Landlords to ensure that the properties they manage are not subject to fraud. This will free properties for some of our residents who are in genuine need.

**Staff/Employee Fraud**

The Team will assist Audit, Human Resources (HR) and other services deal with investigations of employee fraud. These may include:

- Bribery and Corruption
- Abuse of financial systems, including payroll
- Abuse of personal data for criminal reasons
- Abuse of working time/flexi scheme arrangements
- False expenses claims
- Abuse of the absence and sickness procedure
- Recruitment fraud

**KEY PROJECTS**

Specific projects for 2017/18 include:

- The introduction of member approved corporate fraud sanctions policies for all three Councils that enable an approach to the punishment of fraud that is legal, fair and consistent and enforces a zero tolerance policy.
- Publicising the new team in order to raise awareness of fraud and our response to it. This will include use of social media to raise awareness and encourage referrals from members of the public.
- Continue to participate in Operation GENGA, a multi agency project to help tackle serious and organised crime.
- Participate in the National Fraud Initiative data matching exercises.

## FINANCIAL APPRAISAL

The 2017/18 proposed budget for the Corporate Enquiry Team Shared Service is £149k. This is an £11k increase over the original budget of £138k due to several factors:

- A reduced contribution from the Counter Fraud DCLG Funding Reserve: The initial setup costs of the shared service were higher than anticipated for both training requirements and ICT software costs. This has resulted in the reserve being used earlier than expected leading to a lower level of subsidy in the remaining years. Impact £3k in 2017/18.

- ICT Software costs: The Intec software used by the team has a licence cost of £7k a year, up from an estimated £4k. The difference is due to the original assumption that the Intec licences would still partly be required by the Revenues and Benefits Shared Service, however this will now not be the case. £3k impact in 2017/18.

- Employee costs: The majority of the increase is due to a change in National Insurance contributions. The remainder is due to salary and pension changes.

During 2015/16 the operating cost of the Corporate Enquiry Team Shared Service was met by a Counter Fraud funding grant. From 2016/17 onwards it has been agreed that the operating cost is met from partner resources on a monthly basis, based on the annual budget. Contributions from partner Councils were originally split:

- Preston City Council: 40%.
- Lancaster City Council: 40%
- Fylde Borough Council: 20%

At this stage the contribution set from Fylde is limited to £27k, subject to standard increases for salary and pensions.

In addition to Preston City Council's contribution of 40%, the Council also absorbs the overheads relating to the Corporate Enquiry Team Shared Service team e.g. HR, Finance, and ICT.

The Shared Service has no capital expenditure.

## EQUALITY IMPACT ASSESSMENT

The outputs / outcomes detailed within this Business Plan could affect service users, employees. How different groups are impacted by the function will depend on those referrals identified as sufficiently high risk to require investigation. However, processes are in place to ensure those affected are treated equitably. e.g. interpreter facilities for those whose first language is not English.

The outcomes of our fraud work can affect some individuals, for example employees who are dismissed following a disciplinary hearing. However, where a disciplinary is held, the outcome lies with the individual manager concerned, as each case will be considered on its own merits.

## PERFORMANCE

Performance management is an important component of the shared service arrangement and is a key measure in terms of:

- Developing a sustainable operation;
- Maintaining positive and pro-active partnerships;
- Develop new partnerships where it is beneficial for our residents

Senior managers work with peers and stakeholders in each Council and with external bodies, to measure and maintain performance levels.

The team will seek to find levels of fraud at least the equivalent of the cost of the service. However, it should also be noted that we expect “soft” benefits to accrue.

From 1st April 2017 the team has introduced an additional methodology to identify counter fraud performance. When a claim for an allowance, discount, reduction or exemption ends or reduces as a result of an intervention by the Corporate Enquiry Team the value of the intervention is not just the amount of any overpayment that has occurred. It is recognised that there is also a “future” saving made by preventing further incorrect payments being made. In these cases the weekly amount of reduced entitlement to an allowance, discount, reduction or exemption that is applied following fraud intervention should be multiplied by 52. It is reasonable to believe that the award would have continued unchanged for an average of a full year had no intervention taken place. This was agreed as an appropriate performance measure by the Lancashire and Greater Manchester Fraud Investigators Group. These will be reported as a separate figure from overpayments.

For social housing fraud the team will use the nationally accepted figure of £18,000 for every property recovered. This figure is based on estimated temporary accommodation costs. Again, this will be reported separately from actual overpayments.

In addition to this targets have been set to identify actual overpayments during 2017/18:

Preston £100,000
Lancaster £100,000
Fylde £35,000

No target for “future” savings has been set for 2017/18 but this will be considered for 2018/19.

**RISK ANALYSIS**

Risks are possible events that may happen at some time in the future that may adversely affect the direction of the Corporate Enquiry team in the delivery of any desired benefits.

Risk management aims to keep the shared service programmes exposure to risk at an acceptable level. The Corporate Fraud Manager maintains a risk log on Preston City Council’s corporate risk register.

**FUTURE DEVELOPMENT**

• **Corporate Fraud Awareness**

To work with Audit teams to identify areas of high fraud risk at all three Councils and to help staff recognise and refer potential discrepancies. The team will also assist services in developing systems that reduce the risk of fraud.

• **New areas of investigation**

Other than the areas dealt with to date, it is recognised that Local Authorities risk fraud in the following areas:

- Grants
- Insurance
- Procurement
- Mandate

- **Joint work with DWP**

In some cases there is an investigation that involves national benefits, such as Universal Credit, that can only be investigated by the Department for Work and Pensions. Circular F1 2017 suggests that joint working between the Department and local authorities is to be reintroduced. Potential areas for joint working include Council Tax Support and Housing Tenancy Fraud, this will create a significant impact on the workload of the Corporate Enquiry team.

- **Tenancy Fraud Amnesty for Lancaster CC Housing Stock**

The Corporate Enquiry Team will develop a proposal to undertake a tenancy fraud amnesty on Lancaster City Council's housing stock. This would allow anyone sub-letting a council house, or not using it as their main residence to surrender the tenancy without fear of facing prosecution for offences under the Prevention of Social Housing Fraud Act 2013, unless they were already under investigation. The benefits of this will be twofold as it will raise awareness of the issue of tenancy fraud in the district and may lead to the recovery of properties to alleviate pressure on the housing waiting list. Should this prove successful future amnesties may be considered in partnership with social housing organisations across the three authorities.

**THREE YEAR HORIZON**

- To maintain cost effective partnership working between the three partner Councils;
- To publicise positive results and sanction action taken against fraudsters, creating a deterrent against those seeking to defraud the Council and its partners;
- To participate in joint working with the Department for Work and Pensions where our investigations correlate.
- To ensure that staffing structures and resources are fit for purpose in our ever changing environment, shifting resources to areas of greatest need to achieve optimum results.
- To ensure compliance with the Government's proposed counter fraud standards

**AUDIT COMMITTEE**

# 13 September 2017

# Local Government Ombudsman's Annual Review Letter 2016/17

## Report of Interim Internal Audit and Assurance Manager

| PURPOSE OF REPORT |
|---|
| To enable the Committee to consider the Local Government Ombudsman's Annual Review Letter for the year ending 31 March 2017. |
| **This report is public** |

**RECOMMENDATIONS**

**(1) That the report is noted.**

**1.0 Introduction**

1.1 Members of the public can request the Local Government Ombudsman (LGO) for an independent review if they are not satisfied with a local authority's handling of, or conclusions from a complaint. If the LGO finds the local authority is at fault, he recommends actions for the local authority to remedy the fault.

1.2 The LGO sends an Annual Review letter to each local authority setting out statistics about complaints that have been referred to him about that authority during the financial year. The LGO also publishes an Annual Review of complaints statistics for all local authorities.

**2.0 2016/17 Annual Review Letter**

2.1 The LGO's Annual Review Letter for 2016/17 is appended to this report for Members' information. The LGO received 15 complaints and enquiries against the Council in 2016/17, compared to 12 received in 2015/16. There were also 17 decisions made compared to 17 in 2015/16. It should be noted that not every decision relates to a complaint made within the 12-month period; some of the complaints registered within this period may not have been finalised and decisions made within this period may have been registered in the previous year.

2.2 A comparison with the other Lancashire district councils suggests that these levels are more in line with the norm and provide a reasonable benchmark to evaluate the Council's future performance in relation to complaints.

2.3 The Ombudsman has chosen not to include a 'compliance rate' this year; instead, from April 2016 the Ombudsman's will seek evidence that recommendations have been completed from Council's.

2.4 Members will note that 3 of the Ombudsman's decisions relate to complaints which were investigated in detail, 2 of which were upheld. This compares to 3 detailed investigations in 2015/16, 2 of which were upheld. A list of all the complaints with a summary of decisions is published on the LGO website at: http://www.lgo.org.uk/decisions/

2.5 The 2 complaints against the Council which were upheld by the LGO were:

a) A complaint concerning the Council not enforcing conditions of a caravan site license resulting in the complainant's home suffering from sewage back up and flooding for the last three years. The Council accepted that it was at fault for not acting soon enough to identify and implement a permanent solution to problems at the site. The Ombudsman therefore concluded that the Council should apologise and pay £450 in recognition of the distress caused. The Council is also required to identify other people affected on the site and look to pay a similar remedy.

b) A complaint concerning the Council allowing an event to take place on a park in 2015 which breached the terms of a 2005 licence. The Ombudsman found that although the Council had put in place a noise management plan and had offered to engage with the complainant and other residents about the event, the Council could have better explained its position in correspondence with the complainant. The Ombudsman therefore requested the Council apologise.

**3.0 2016/17 Annual Review of Local Government Complaints**

3.1 The Ombudsman's overall Annual Review of local government complaints is available online at http://www.lgo.org.uk/information-centre/reports/annual-review-reports/local-government-complaint-reviews

**4.0 Conclusion**

4.1 Both upheld complaints have now been closed by the LGO following implementation of their recommended actions.

4.2 The report is for noting.

| | |
|---|---|
| **CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**<br>None directly arising from this report | |
| **FINANCIAL IMPLICATIONS**<br>None directly arising from this report | |
| **SECTION 151 OFFICER'S COMMENTS**<br>The Section 151 Officer has been consulted and has no further comments | |
| **LEGAL IMPLICATIONS**<br>None directly arising from this report | |
| **MONITORING OFFICER'S COMMENTS**<br>The Section 151 Officer has been consulted and has no further comments | |
| **BACKGROUND PAPERS**<br>Ombudsman's Annual Review Letter 2016/17 | **Contact Officer:** Joanne Billington<br>**Telephone:** 01524 582028<br>**E-mail:** jbillington@lancaster.gov.uk<br>**Ref:** |

Local Government & Social Care OMBUDSMAN

20 July 2017

*By email*

Susan Parsonage
Chief Executive
Lancaster City Council

Dear Susan Parsonage,

**Annual Review letter 2017**

I write to you with our annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman (LGO) about your authority for the year ended 31 March 2017. The enclosed tables present the number of complaints and enquiries received about your authority and the decisions we made during the period. I hope this information will prove helpful in assessing your authority's performance in handling complaints.

The reporting year saw the retirement of Dr Jane Martin after completing her seven year tenure as Local Government Ombudsman. I was delighted to be appointed to the role of Ombudsman in January and look forward to working with you and colleagues across the local government sector in my new role.

You may notice the inclusion of the '*Social Care Ombudsman'* in our name and logo. You will be aware that since 2010 we have operated with jurisdiction over all registered adult social care providers, able to investigate complaints about care funded and arranged privately. The change is in response to frequent feedback from care providers who tell us that our current name is a real barrier to recognition within the social care sector. We hope this change will help to give this part of our jurisdiction the profile it deserves.

**Complaint statistics**

Last year, we provided for the first time statistics on how the complaints we upheld against your authority were remedied. This year's letter, again, includes a breakdown of upheld complaints to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us.

We have chosen not to include a 'compliance rate' this year; this indicated a council's compliance with our recommendations to remedy a fault. From April 2016, we established a new mechanism for ensuring the recommendations we make to councils are implemented, where they are agreed to. This has meant the recommendations we make are more specific, and will often include a time-frame for completion. We will then follow up with a council and seek evidence that recommendations have been implemented. As a result of this new process, we plan to report a more sophisticated suite of information about compliance and service improvement in the future.

This is likely to be just one of several changes we will make to our annual letters and the way we present our data to you in the future. We surveyed councils earlier in the year to find out, amongst other things, how they use the data in annual letters and what data is the most useful; thank you to those officers who responded. The feedback will inform new work to provide you, your officers and elected members, and members of the public, with more meaningful data that allows for more effective scrutiny and easier comparison with other councils. We will keep in touch with you as this work progresses.

I want to emphasise that the statistics in this letter comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

**The statutory duty to report Ombudsman findings and recommendations**

As you will no doubt be aware, there is duty under section 5(2) of the Local Government and Housing Act 1989 for your Monitoring Officer to prepare a formal report to the council where it appears that the authority, or any part of it, has acted or is likely to act in such a manner as to constitute maladministration or service failure, and where the LGO has conducted an investigation in relation to the matter.

This requirement applies to all Ombudsman complaint decisions, not just those that result in a public report. It is therefore a significant statutory duty that is triggered in most authorities every year following findings of fault by my office. I have received several enquiries from authorities to ask how I expect this duty to be discharged. I thought it would therefore be useful for me to take this opportunity to comment on this responsibility.

I am conscious that authorities have adopted different approaches to respond proportionately to the issues raised in different Ombudsman investigations in a way that best reflects their own local circumstances. I am comfortable with, and supportive of, a flexible approach to how this duty is discharged. I do not seek to impose a proscriptive approach, as long as the Parliamentary intent is fulfilled in some meaningful way and the authority’s performance in relation to Ombudsman investigations is properly communicated to elected members.

As a general guide I would suggest:

- Where my office has made findings of maladministration/fault in regard to routine mistakes and service failures, and the authority has agreed to remedy the complaint by implementing the recommendations made following an investigation, I feel that the duty is satisfactorily discharged if the Monitoring Officer makes a periodic report to the council summarising the findings on all upheld complaints over a specific period. In a small authority this may be adequately addressed through an annual report on complaints to members, for example.
- Where an investigation has wider implications for council policy or exposes a more significant finding of maladministration, perhaps because of the scale of the fault or injustice, or the number of people affected, I would expect the Monitoring Officer to consider whether the implications of that investigation should be individually reported to members.
- In the unlikely event that an authority is minded not to comply with my recommendations following a finding of maladministration, I would always expect the Monitoring Officer to report this to members under section five of the Act. This is an exceptional and unusual course of action for any authority to take and should be considered at the highest tier of the authority.

The duties set out above in relation to the Local Government and Housing Act 1989 are in addition to, not instead of, the pre-existing duties placed on all authorities in relation to Ombudsman reports under The Local Government Act 1974. Under those provisions, whenever my office issues a formal, public report to your authority you are obliged to lay that report before the council for consideration and respond within three months setting out the action that you have taken, or propose to take, in response to the report.

I know that most local authorities are familiar with these arrangements, but I happy to discuss this further with you or your Monitoring Officer if there is any doubt about how to discharge these duties in future.

**Manual for Councils**

We greatly value our relationships with council Complaints Officers, our single contact points at each authority. To support them in their roles, we have published a Manual for Councils, setting out in detail what we do and how we investigate the complaints we receive. When we surveyed Complaints Officers, we were pleased to hear that 73% reported they have found the manual useful.

The manual is a practical resource and reference point for all council staff, not just those working directly with us, and I encourage you to share it widely within your organisation. The manual can be found on our website www.lgo.org.uk/link-officers

**Complaint handling training**

Our training programme is one of the ways we use the outcomes of complaints to promote wider service improvements and learning. We delivered an ambitious programme of 75 courses during the year, training over 800 council staff and more 400 care provider staff. Post-course surveys showed a 92% increase in delegates' confidence in dealing with complaints. To find out more visit www.lgo.org.uk/training

Yours sincerely

Michael King
Local Government and Social Care Ombudsman for England
Chair, Commission for Local Administration in England

**Local Authority Report:** Lancaster City Council
**For the Period Ending:** 31/03/2017

For further information on how to interpret our statistics, please visit our website:
http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics

## Complaints and enquiries received

| Adult Care Services | Benefits and Tax | Corporate and Other Services | Education and Children's Services | Environment Services | Highways and Transport | Housing | Planning and Development | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| 0 | 5 | 0 | 1 | 1 | 1 | 2 | 5 | 0 | 15 |

## Decisions made

| | | | | Detailed Investigations | | | |
|---|---|---|---|---|---|---|---|
| Incomplete or Invalid | Advice Given | Referred back for Local Resolution | Closed After Initial Enquiries | Not Upheld | Upheld | Uphold Rate | Total |
| 1 | 1 | 7 | 5 | 1 | 2 | 67% | 17 |

**Notes**

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

| Complaints Remedied | |
|---|---|
| by LGO | Satisfactorily by Authority before LGO Involvement |
| 2 | 0 |