

LANCASTER  
CITY COUNCIL

*Promoting City, Coast & Countryside*

# Statement of Accounts

## For the year ended 31 March 2021








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# **Introduction to the 2020/21 Statement of Accounts**

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

The Council approved the 2020/21 budget in February 2020, and then within a month the Covid-19 emergency began. This pandemic has had and continues to have a major impact on people's health and livelihoods, and the public sector and community organisations in the District have stepped up to provide support for people. The Council has supported vulnerable people and businesses in our district, whilst maintaining our vital frontline services as much as possible.

All essential Council Services have been maintained, such as bin collections. Our housing teams and partners have worked to ensure that everyone in the district has a roof over their head. The public realm team and many friends' groups have continued to make our green spaces welcoming and dealt with the enormous amounts of rubbish being generated. All compliance and statutory activities have been maintained. An innovative staff reassignment system was rapidly put in place to assign capacity to critical pandemic activities.

The Council has taken rapid action to distribute grants to local businesses, whilst trying to ensure that the number of fraudulent claims would be low. Its performance has been assessed as being in the top quartile of local authorities, and the assessment of fraudulent claims is very low. Officers were developing and administering Covid grant schemes, often in addition to their normal activities. The distribution of business grants became increasingly complicated, as the schemes differed from one another, being dependent on which level of tier or lockdown was being considered and the time period that the scheme covered. During the year, over 12,000 grant transactions to local businesses were processed with a value of over £50 million. The majority of successful applicants received their grants within 3 working days.

Council Tax Hardship payments were distributed to Council Tax Support recipients during the year. Over £1 million was distributed to 4,400 recipients. Self-Isolation payments were distributed to those suffering financial hardship as a result of an instruction to self-isolate. There was an increase in numbers taking up Housing Benefit, but claims were processed within existing performance targets, ensuring that vulnerable customers received assistance in a timely manner.

Positive outcomes have been seen from the Council's strategy in responding to the Covid-19 emergency. Communities have played a vital role and community engagement has been an integral part of the response to the crisis. We continue to work with a strong network of partner organisations, such as foodbanks and food groups, to understand the needs of our residents and to support them. The community hub and volunteer line continue, as they have done since the beginning of the pandemic, to be a central point for residents needing help and those with help to give to be connected. There is genuine engagement with communities, partnerships have been built to deliver beneficial outcomes, practical support has been given to businesses and there has been real transformation in the way the Council works. These all contribute to a sound foundation on which to develop the high level strategic plan to provide for the immediate needs of our communities as we recover from the effects of the pandemic and to fully deliver the Council's agreed strategic priorities in the longer term – to 2030.

As a result of the pandemic, the accounting and reporting practices associated with pandemic work have needed to be put in place quickly, and this has required significant capacity. The finance team worked mainly from home and still managed to deliver the closure of the 2019/20 accounts within the statutory guidelines, and provided government returns in allotted timeframes regarding business grants, additional covid expenditure and loss of sales, fees and charges.

The 2020/21 budget, set before the pandemic, presented a highly ambitious programme of revenue and capital growth. The purpose of this was to support and stabilise services which had been reduced beyond their viable capacity levels in the Council Priority areas, to align service priorities with the Council's ambitions around Community Wealth, the Climate Emergency and Community Engagement, and to significantly increase the Council's engagement in Capital Projects in order to achieve these. Many of these changes were long term in their nature, and while significant planning progress has been made, the pandemic has also caused the deferral of many of the Capital Projects. A few projects have been brought forward that support the Council's Carbon zero+ strategy, such as, the Solar farm, air sourced heat pumps and various retrofit improvements at the Salt Ayre Leisure Centre.

In February 2021, we set a balanced budget for 2021/22. This showed relatively low levels of revenue growth, and a Capital Programme position which reflected both the deferral of projects, and the need to realign those with Council priorities and a changing investment landscape. A small range of savings were identified, and growth proposals were limited to those which are vital to the successful operation of the council in continuing to secure income and fees, support efficient and effective service delivery and reporting, offering statutory services at viable levels, and progressing the capital programme. It has been difficult to forecast budgets going forward because Central Government is constantly changing funding regimes and formulae and introducing a wide range of single initiative funding opportunities. Also, the pandemic and Brexit have fundamentally altered the Council's priorities for use of its resources and its income from council tax, business rates, fees and charges.

Our main focus now is on delivering the Council's agreed strategic priorities for the period up to 2030. The priorities are to take action to meet the challenges of the climate emergency and to build a sustainable and just local economy that benefits people and organisations. This requires an approach to decision-making that takes account of people's social and economic needs whilst also ensuring environmental sustainability. The developing plan very much recognises that engagement with our communities and businesses is key to successful delivery of the Council's priorities.

We predict a structural deficit from 2022/23 onwards. This will have to be addressed by outcomes-based budgeting which aligns our strategic priorities with available financial and officer resources, and by developing opportunities to diversify our funding and income generation streams. The Council is focussed on a short, middle and long term approach aiming to do the following three things:

- Bring forward initiatives and activities that deliver social, economic and environmental benefits for Lancaster City Council's community
- Ensure we have a secure, short, middle and long-term strategy for funding valuable and valued council services and amenities for that community
- Reflect an appropriate balance of risk and opportunity, given the national pressures on local finances and our community, to ensure we have a diversified income, investment and funding approach which is fit for a context of fluctuating, diminishing central government funding allocations.

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

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

# Narrative Report of the Chief Financial Officer

## Introduction

The purpose of the narrative report is to give the reader an understanding of the most significant matters reported in the accounting statements, as well as a review of the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Having considered the impact of the COVID-19 pandemic and in consultation with key stakeholders, the Ministry of Housing, Communities and Local Government (MHCLG) introduced the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which have amended the Accounts and Audit Regulations 2015. The draft Accounts must now be submitted for audit by 31 July 2021 rather than 31 May 2021 and the timeline for the conclusion of the audit is now 30 September 2021 rather than 31 July 2021.

The Statement of Accounts was published on the Council's website and submitted to the External Auditor on 30 July 2021 ahead of the revised statutory deadline.

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

The narrative report is structured as follows:

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

## An Introduction to Lancaster District

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

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

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

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

### Characteristics of the Lancaster district economy

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

Lancaster University is an internationally renowned centre for study and research, awarded 'International University of the Year 2020 in the Times. With over 16,000 students and around 2,500 staff, it comprises a significant economic asset for the region. The District also hosts a very large campus of the University of Cumbria.

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

### Economy

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

### Digital

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

### Health Innovation

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



## Visitor Economy

Visitor numbers are steadily growing year-on-year, currently at more than 7.5 million visitors per annum, creating an economic impact of £477M within the local economy. The wider region is located between two Areas of Outstanding Natural Beauty, contains the sweep of Morecambe Bay, the coastline and offers ease of access to two National Parks. Beyond built heritage, this area has been recognised by Arts Council England as having one of the most significant clusters of culture in the North West after Manchester and Liverpool. This strongly supports the visitor economy but is also an important contributor to quality of life for those that live and work in the area.

## **COVID-19 Pandemic**

Since the virus first struck the District in March 2020, the Council along with its partners has provided a remarkable response. A response that has mobilised the resources, skills and good will of many across the district to ensure all, especially the most vulnerable, stay safe, well and protected. The Council formed a Pandemic Response Team; establishing a reallocations team to reassign officers from their usual roles to the essential positions needed to respond to the outbreak. Council meetings switched immediately online and ensured democracy was maintained throughout. Examples include:

- The Council's Home Improvement Agency quickly established a hospital discharge service supporting the NHS to discharge patients to ensure residents are returned to safe home environments. Wide-ranging same day works were undertaken, including furniture relocation, property cleansing, rail installations and heating repairs, enabling 61 patients to be discharged. Each patient received a follow up call to check for any further needs to support their independence.
- During the first lockdown, 136 officers from across all services made welfare calls and visits to vulnerable residents. In just over eight weeks 29,779 residents were contacted via telephone or a welfare visit to their home and supported in accessing food, medication and essentials.
- The Council partnered with a local food bank to ensure that thousands of food parcels were delivered to those residents most in need. On launch day 59 food boxes were delivered, peaking at 550+ weekly deliveries. The support included additional staff, finances, and council buildings repurposed. Community hub mobile events were launched, where council services joined with key partners (e.g. Citizens' Advice, Fire and Rescue). The events brought services direct to customers across the District. 113 vital contacts were made who would otherwise not have engaged with the council. Each event delivered excellent outcomes, including positive financial impacts to individuals after receiving advice and support.
- We have awarded over £50 million in grants to the local business community (more than our entire budget). 22,000 emails and call backs led to guidance, support and assistance to almost 4,000 business owners, accessing funds via 10 different grants schemes. The new team was assembled from across the council using our reallocations process. We are in the top third for all grants paid with some of the best low fraud indicators of any authority.
- We implemented local contact tracing (test and trace) in less than three weeks in September, timed for students returning at two Lancaster-based universities, using customer services staff as contact tracers to keep our infection rates low.

The Covid-19 pandemic exacerbated the financial challenges of declining Central Government resources together with demand for services. The impact on the Council has been felt specifically within 3 main areas:

- The Council has incurred additional expenditure in its response to the pandemic
- The impact on the local economy has led to significant falls in income from sales, fees and charges.
- Saving proposals have been delayed or are considered no longer deliverable

In the financial year 2020-21 Government provided extra support for the additional costs and income losses resulting from the impact of the pandemic totalling £6.596M. The Council maintained a log of all spending commitments and income losses to ensure accountability and reported the financial impact on a monthly basis to the Ministry of Housing, Communities and Local Government (MHCLG).

### COVID-19 Government Grants and Support for the Local Economy

The Council received a range of grants from Central Government in 2020/21 to support the overall response to the COVID-19 pandemic. The financial impact of these grants is included within the outturn and Statement of Accounts. The grants were administered by the Council in line with the guidance received from Central Government.

In usual circumstances, the Council received an allocation and the grant in advance which assisted with cash flow. It then had to be determined whether the Council were administering the grant acting as either an agent or as principal.

In acting as agent the following conditions applied:

- It was acting as an intermediary between the recipient and the Government Department;
- It did not have “control” of the grant conditions and there was no flexibility in determining the level of grant payable.

In acting as principal, it was able to use its own discretion when allocating the amount of grant payable.

In March 2020, the first major grants available to businesses were the Small Business Grant Fund (SBGF) and Retail, Leisure and Hospitality Grant Fund (RLHGF). The grant details were issued in late March 2020 and the Council received £35.932M. As the grants sums payable were £10K or £25K for each eligible business with eligibility criteria specified by Government, the Council acted as an agent in administering these grants. With regard to the SBGF applications, the Council took the decision to award an advance payment of £2.5K to successfully reviewed applicants prior to the 31<sup>st</sup> March 2020 with the remaining balance being automatically paid in the first few days of April 2020.

The Discretionary Grant Fund was also introduced, within a maximum sum of £1.684M. As the Council determined eligibility for these grants it therefore acted as a principal for this source of funding.

By the time these grant schemes ended in October 2020, a total £30.820M had been paid in SBGF and RLHGF to 2,683 businesses and the full allocation of £1.684M in discretionary grants to 424 businesses. The balance was returned to Central Government. The table below sets out the summary grant information.

	Final grant allocation	The Council acting as Agent	The Council acting as Principal	Expenditure as at 31 March 2021	Unspent Grant as at 31 March 2021
Grants	£000	£000	£000	£000	£000
Small Business Grants/Retail, Leisure and Hospitality Grant Fund	30,820	30,820	-	30,820	-
Local Authority Discretionary Fund Grant	1,684	-	1,684	1,684	-
	<b>32,504</b>	<b>30,820</b>	<b>1,684</b>	<b>32,504</b>	-

For the months covering September 2020 to March 2021, the Government introduced a range of grants under the general heading of Local Restrictions Support Grant (LRSG). In total the Council were allocated and received £27.240M in grant funding. Each separate scheme of LRSG had its own eligibility criteria. All except one scheme of grant funding (the Christmas Support Payments for Wet Led Public Houses) remained open for final payments beyond 31 March 2021.

The table below summarises the LRSG allocation and expenditure in 2020/21.

	Total grant allocation	The Council acting as Agent	The Council acting as Principal	Expenditure as at 31 March 2021	Unspent Grant as at 31 March 2021
Grants	£000	£000	£000	£000	£000
Closed Tier 3 17th October 2020 (19 days)	89	77	-	77	12
Closed Addendum 5th November 2020 (28 days)	2,860	1,906	-	1,906	954
Closed Tier 3 3rd December 2020 (28 days)	420	868	-	868	(448)
Closed Tier 4 31st December 2020 (5 days)	1,045	338	-	338	707
Closed Addendum 5th January 2021 (42 days)	4,290	2,848	-	2,848	1,442
Closed Business Lockdown One-Off Payment	8,577	5,695	-	5,695	2,882
Closed Addendum 16th February 2021 (44 days)	4,494	2,941	-	2,941	1,553
Christmas Support Payment (Wet Led Pubs)	90	88	-	88	2
Open/Additional Restrictions Grant	5,375	-	2,679	2,679	2,696
	<b>27,240</b>	<b>14,761</b>	<b>2,679</b>	<b>17,440</b>	<b>9,800</b>

Once all rounds of LRSB are finally closed there will be a reconciliation and remaining funds will be repaid to Central Government.

From 1 April 2021, the Council began administering a new round of business support grants known as Restart Grants and it will continue to administer this grant regime until the closing date for final payments on 31 July 2021.

As outlined in the table below, the COVID-19 pandemic led the Government to introduce further specific grant regimes for the Council to administer. Each of these grants had its own terms, conditions and eligibility criteria and some had detailed reporting requirements.

	Total grant allocation	The Council acting as Principal	Expenditure as at 31 March 2021	Unspent Grant as at 31 March 2021
Grants	£000	£000	£000	£000
Contain Outbreak Management Fund	1,606	-	-	1,606
Council Tax Hardship Fund	1,425	1,011	1,011	414
COVID Winter Grant Scheme	14	-	-	14
Local Authority Compliance and Enforcement Grant	77	50	50	27
Local Authority Emergency Assistance Grant	179	179	179	-
Reopening the High Street Safely Grant	70	70	70	-
Support for Clinically Extremely Vulnerable Individuals	422	-	-	422
Test and Trace Support Payments	422	208	208	214
	<b>4,215</b>	<b>1,518</b>	<b>1,518</b>	<b>2,697</b>

All remaining unspent funds as at 31<sup>st</sup> March 2021 are included in the Councils balance sheet within Short Term Creditors and the funds are available to be utilised within 2021/22.

In addition to the business grant funding and COVID specific grants, the Council also received non-ringfenced general grants to support its COVID response. These were:

- General grant allocation of £2.399M alongside unspent monies of £0.081M from 2019/20 totalling £2.480M. The Council applied £1.975M of these allocations to expenditure in 2020/21 and have carried forward the remaining £0.505M in reserves to support the ongoing requirement within 2021/22;
- Compensation for the loss of Sales, Fees and Charges income of £4.197M;
- Local Tax Income Guarantee grant of £0.291M;
- New Burdens funding of £0.533M to support the introduction of business grants payment arrangements, the management of Council Tax and Business rate reliefs and the administration of the Test and Trace Support Payments scheme.

Where appropriate, these grants have been used to contribute to the net financial position of the Council.

Throughout the tough year, the Government and local businesses have relied upon an expeditious, yet robust, application process. The Council have generally met this through the hard work, dedication and diligence of its staff, with particular recognition going to the Revenues and quickly formed Business Grants teams.

### Lancaster City Council Priorities and Performance












The Council's agreed priorities are for-













- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Health and Happy Communities
- A Cooperative, Kind and Responsible Council

Three key themes are:

- Climate Change
- Community Wealth Building
- Community Engagement

Below is a summary categorising our achievements and activities in relation to each of the new priorities, plus three cross-cutting themes:

A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
<ul style="list-style-type: none"> <li>• Our Climate People's Jury announced its recommendations for our district</li> </ul>  <ul style="list-style-type: none"> <li>• Completed the first phase of the Caton Road Flood Risk Management scheme</li> </ul>  <ul style="list-style-type: none"> <li>• Implemented our Grassland</li> </ul>	<ul style="list-style-type: none"> <li>• Launched the Responsible Business Network with local stakeholders</li> </ul>  <ul style="list-style-type: none"> <li>• Continued to progress our Heritage Action Zone project to build on Lancaster's heritage assets</li> </ul>  <ul style="list-style-type: none"> <li>• Engaged with our residents on the Canal Quarter regeneration project</li> </ul> 	<ul style="list-style-type: none"> <li>• Adopted our Local Plan to 2031</li> </ul>  <ul style="list-style-type: none"> <li>• Agreed a new Homes Strategy for the district</li> </ul>  <ul style="list-style-type: none"> <li>• Awarded funding to enable the South Lancaster Growth Catalyst &amp; Bailrigg Garden Village</li> </ul>  <ul style="list-style-type: none"> <li>• Took ownership of Mellishaw Traveller Site to support local residents</li> </ul>	<ul style="list-style-type: none"> <li>• Submitted our proposals for the Bay local government reform</li> </ul>  <ul style="list-style-type: none"> <li>• Took our Customer Services mobile alongside partners via our Community Hub</li> </ul>  <ul style="list-style-type: none"> <li>• Hosted a series of Community Conversations to listen to views across our district</li> </ul> 

<p>Management Strategy to increase biodiversity</p>  <ul style="list-style-type: none"> <li>Awarded £6.8m to decarbonise Salt Ayre Leisure Centre</li> </ul>  <ul style="list-style-type: none"> <li>Awarded £175k Green Homes Grant to support adaptation of homes</li> </ul>  <ul style="list-style-type: none"> <li>Achieved an unprecedented 5 Green Flag awards for our parks</li> </ul> 	<ul style="list-style-type: none"> <li>Established a Digital Innovation group across the district</li> </ul>  <ul style="list-style-type: none"> <li>Developed proposals for High Capacity Fibre installation</li> </ul> 	 <ul style="list-style-type: none"> <li>Implemented an innovative Street Aid donation programme to support rough sleepers</li> </ul>  <ul style="list-style-type: none"> <li>Continued to develop large-scale plans to improve social housing at Mainway</li> </ul>  <ul style="list-style-type: none"> <li>Carried out 225 Disabled Facilities Grants and improved 118 hazardous properties</li> </ul> 	<ul style="list-style-type: none"> <li>Achieved the Investors in People Health &amp; Wellbeing Award</li> </ul>  <ul style="list-style-type: none"> <li>Signed up to the Local Digital Declaration</li> </ul> 
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## **Financial Performance**

### General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, except for council housing. On 26 February 2020 Council approved a General Fund Revenue Budget for 2020/21 of £17.903M (£15.937M 2019/20). However, in order to reflect best estimates of the impact of COVID-19 on the Council this was revised 16 December 2020 to £23.148M. The net underspend on the General Fund was £0.695M allowing for all budgeted contributions to/ from reserves, which has been transferred to the General Fund unallocated reserve.

The table below provides details of the General Fund revenue income and expenditure for 2020/21 and shows variances for each service area. The format includes the removal of various accounting entries such as internal recharging, notional items such as pension adjustments and capital charges and the removal of various COVID grants initially charged to Service.

	2020/21			Remove Covid-19 Related Variances	Remove Reserve Funded Variances	Variance from Revised Budget	Note
	Original Budget	Revised Budget	Actual				
Expenditure:	£000	£000	£000	£000	£000	£000	
Central Services	1,108	1,131	1,156	2	(3)	(26)	
Communities & Environment	8,068	9,548	13,387	4,287	(627)	(179)	1
Economic Growth & Regeneration	5,373	7,615	5,836	262	(1,514)	527	2
Corporate Services	7,867	8,823	8,404	1,188	(1,429)	178	3
Other Corporate Income & Expenditure Items	(4,513)	(3,969)	(6,330)	(5,739)	3,573	195	4
Contribution to General Fund Balance			695			(695)	
<b>NET REVENUE EXPENDITURE</b>	<b>17,903</b>	<b>23,148</b>	<b>23,148</b>	<b>-</b>	<b>-</b>	<b>-</b>	

### Note 1 Communities & Environment

#### Car Parking Income (£84K shortfall)

The extended lockdown period since the revised budget position was set has naturally seen a shortfall in income, this is offset by a proportion of compensation received from the government as detailed in appendix note 4.

#### Licensing Income (£63K shortfall)

Largely due to suspending the payment of licences and closures due to the pandemic. Again, this shortfall in income is offset by a proportion of compensation received from the government as detailed in appendix note 4.

### Note 2 Corporate Services

#### Bad Debt Provision (£192K increase)

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

### Note 3 Economic Growth & Regeneration

#### Employee Costs (£262K underspend)

Salary savings in the year were achieved largely due to vacancies held which have historically been difficult to recruit to. Also, due to the pandemic, there was a reduced need for casual staff largely at venues which were closed during the year. This figure is offset by any additional agency/consultancy costs incurred with the exception of PTT consultancy as detailed below.

#### Property Transaction Team Consultancy (£118K underspend)

A budget of £175K was included in the revised budget to assist towards due diligence work required on PTT investments. The Council's position regarding external investments has since changed and the requirement for due diligence work has diminished.

#### Supplies & Services (£89K underspend)

The closure of venues and festivals has led to a significantly reduced demand for marketing and supplies and services in general.

#### Property R&M and use of Municipal Buildings (£150K underspend)

The Council has had to react to the pandemic and this has resulted in varying use and usage levels of its buildings. Lancaster Town Hall has been utilised by the NHS for its vaccine programme and the Court Service have occupied the Ashton Hall. This has led to additional income of £74K within 2020/21. There has been a net saving of £76K attributable to R&M.

### Note 4 Other Corporate Income & Expenditure

#### New Burdens Grants (£503K credit)

The Council have benefitted from new burdens grants received from governments to help tackle the pandemic which weren't included in estimates throughout the year. This is largely due to amounts not being known and uncertainty relating to whether or not the grants were subject to ringfencing and could be used to offset the overall net cost of services.

### Sales, Fees & Charges Compensation (£280K credit)

As part of the pandemic the government introduced a scheme which allowed Councils to reclaim a portion of their in-year income losses relating to sales, fees and charges. At the time the revised budget was set, income targets were reassessed. However due to the extended lockdown periods endured during the winter months, further losses were realised. These losses have been included as appropriate within the relevant service areas and whilst not always detailed in full within the above sections, collectively they amount to approximately £400K.

### Business Rates Retention Reserve (£558K provision)

We have already adopted a prudent approach to forecasting the level of retained business rates for 2021/22. A certain level of volatility, however, remains and the City Council's share of the Collection Fund deficit is sensitive to differences that arise in year between the estimated and actual level of net rates payable. To mitigate against this risk an amount of £558K has been transferred to the Business Rates Retention Reserve to boost resilience against movements on the fund deficit. (This represents the impact of a potential 2% reduction in net rates payable between the amount estimated at 31 January 2021 and that at 31 March 2022).

### Balances and Reserves

Balances are a fundamental component in protecting the Council's financial standing, as well as being an important element in helping to address the council's financial challenges and establishing a sustainable budget, through their appropriate use. At 31 March 2021, and as a result of outturn, the General Fund's unallocated reserve balance stands at £7.808M which is £4.308M above the current £3.5M minimum recommended level. However, the Council has budgeted for a call on reserves of £2.267M to balance its 2021/22 budget as it looks to deliver on its strategic priorities and stated outcomes.

### Housing Revenue Account

At the end of the financial year, the Council owns 3,660 homes generating rental income of over £13.6M. The Local Government & Housing Act 1989 requires that this income and associated expenditure is held in a ring-fenced account, the Housing Revenue Account (HRA). Full details of the HRA are included within these accounts.

The net overspend on the HRA was £0.048M resulting in a net surplus for 2020/21 of £0.428M (£0.623M 2019/20), which has been transferred into the HRA unallocated reserve.

	<b>£000</b>
Repairs & Maintenance costs	354
Net pension adjustment re IAS19	233
Reduced use of Reserves	(218)
Net increase in Capital funded from Revenue	(388)
Other minor variances	(29)
	<u>(48)</u>

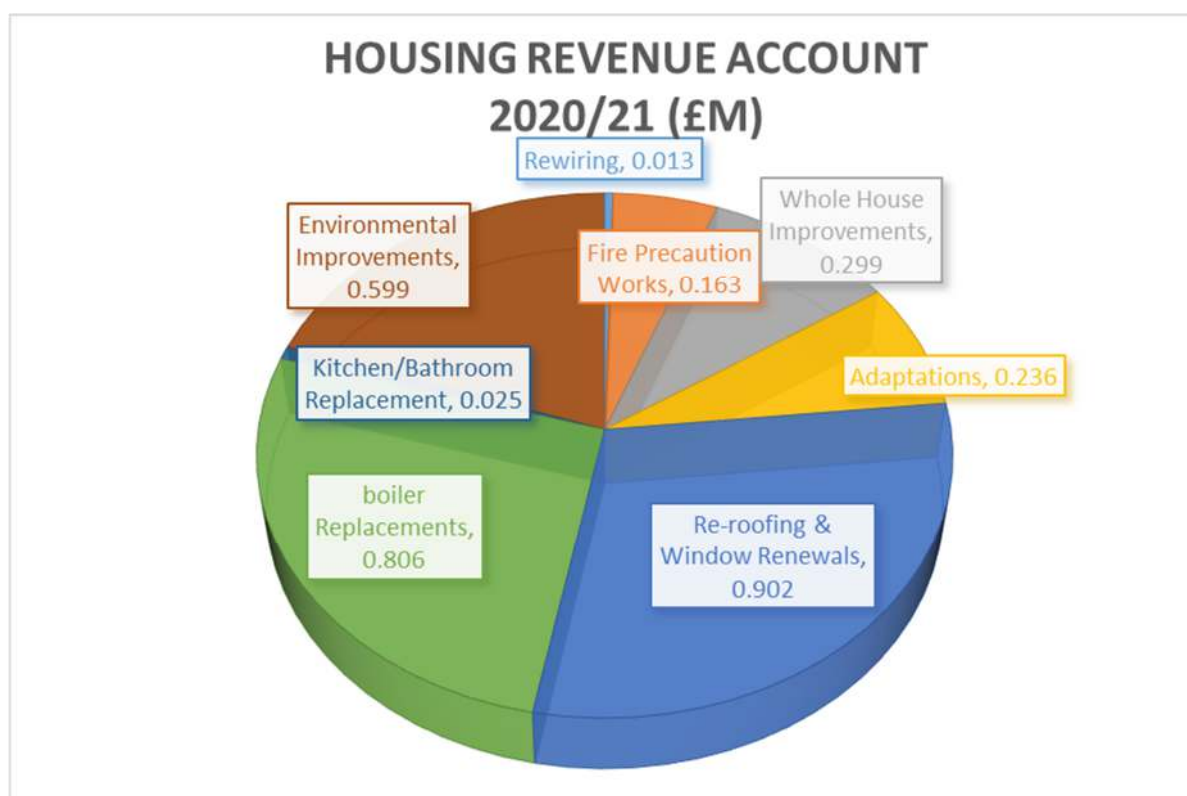
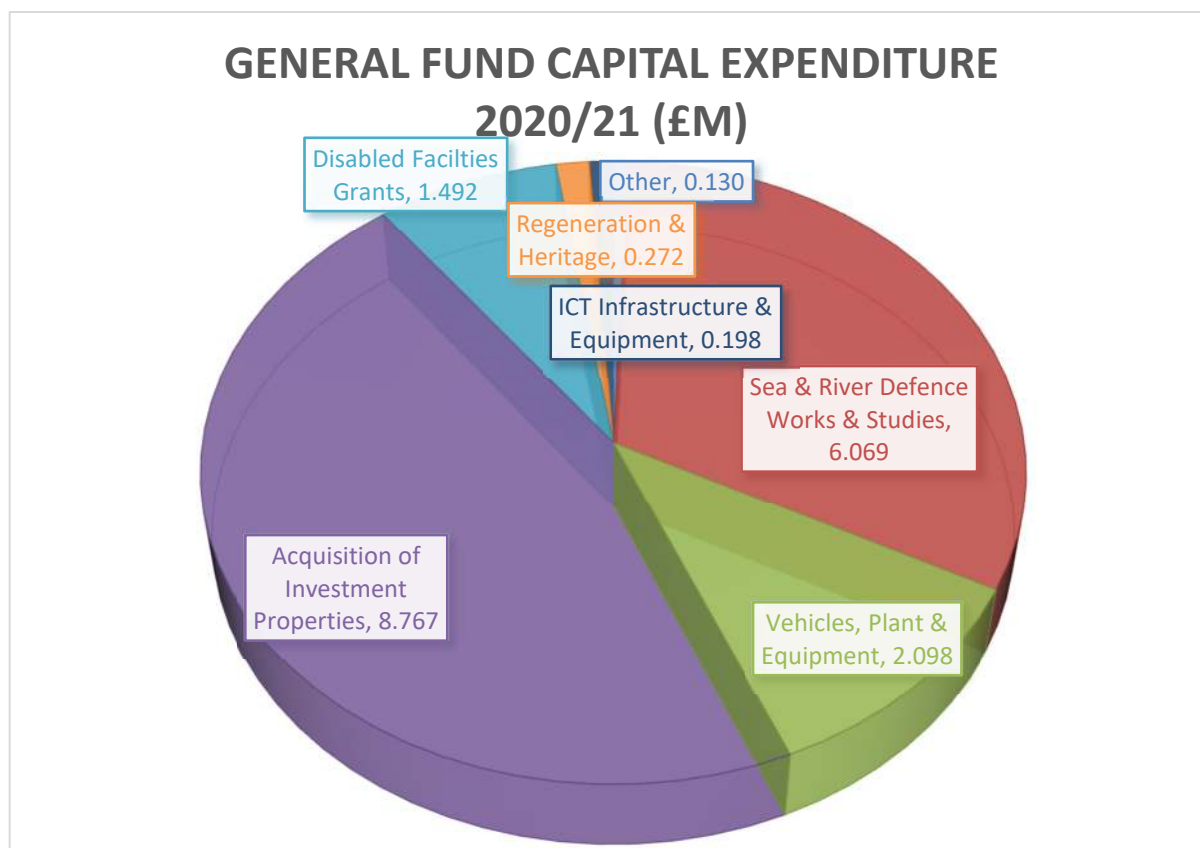
As at 31 March 2021 the HRA's unallocated reserve balance stands at £3.286M (£2.858M 2019/20) which is £2.786M above the £0.500M minimum recommended level. Expenditure within the HRA is supported by a 30 year business plan and the Council is planning significant investment over a number of years to improve its social housing stock.

### Capital Investment

In 2020/21 the Council spent £22.068M in total on capital schemes (£11.259M 2019/20). Total spend on the General Fund was £19.026M against a budget £20.078M, with the HRA spending being £3.042M against a budget of £3.543M.

Prior to the publication of the changes to PWLB future lending terms in November 2020 the Council acquired an investment property for £8.878M. Following this announcement, the purchase of investment properties ceased.

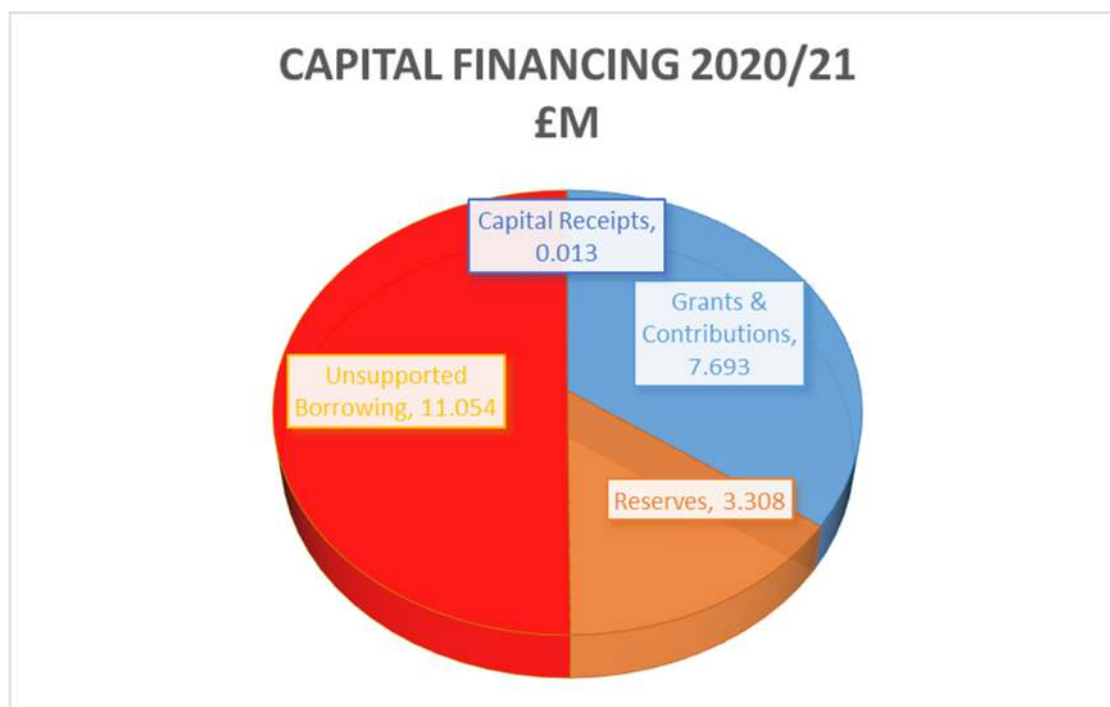
The charts below summarises expenditure:



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



The chart below summarises how this capital investment was financed:



### **Treasury Management**

The Council's treasury operations are conducted in accordance with its annual Treasury Management Strategy, which was approved by Council 26 February 2020. This document identifies the investment and borrowing policies of the Council specifying various criteria for investment counterparties, maximum duration and the amount of investments together with the framework for any future borrowing.

### **Investments**

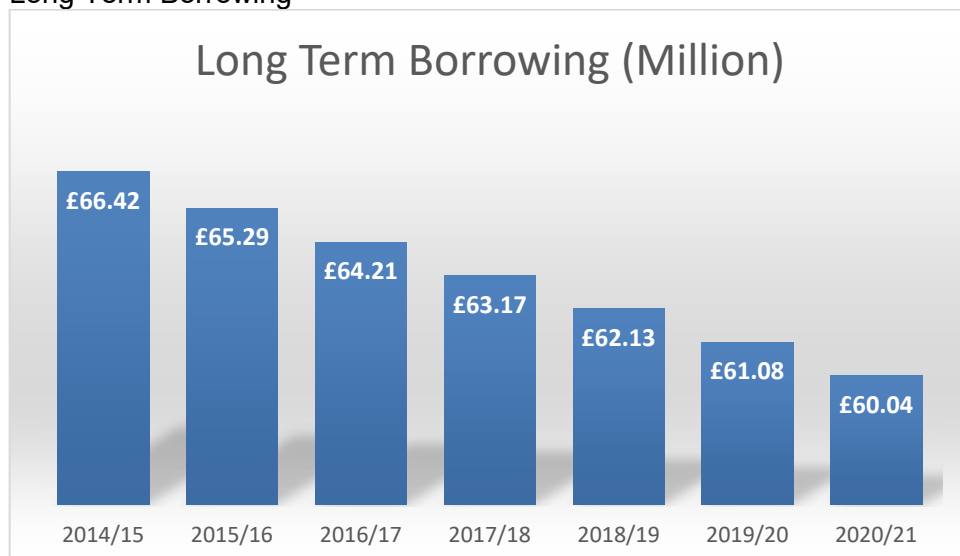
In 2020/21 the Council retained its comparatively low risk appetite towards investments. The average daily amount invested increased slightly to £38.541M (£36.829M 2019/20) with short term investments on 31 March 2021 (all held in the balance sheet as cash and cash equivalents) totalling £22.0M (£40.1M 2019/20). The overall return on investments was £0.061M at an average interest rate of 0.12% (£0.273M and 0.74% 2019/20).

### **Borrowing**

The Council did not undertake any short-term borrowing in 2020/21.

Total long-term debt at 31 March 2021 amounted to £60.04M (£61.08M 2019/20) all of which relates to PWLB borrowing. A further £1.04M is included within short term liabilities as payment falls due within 12 months. Table 4 below provides historic analysis of the levels of long-term borrowing.

## Long Term Borrowing

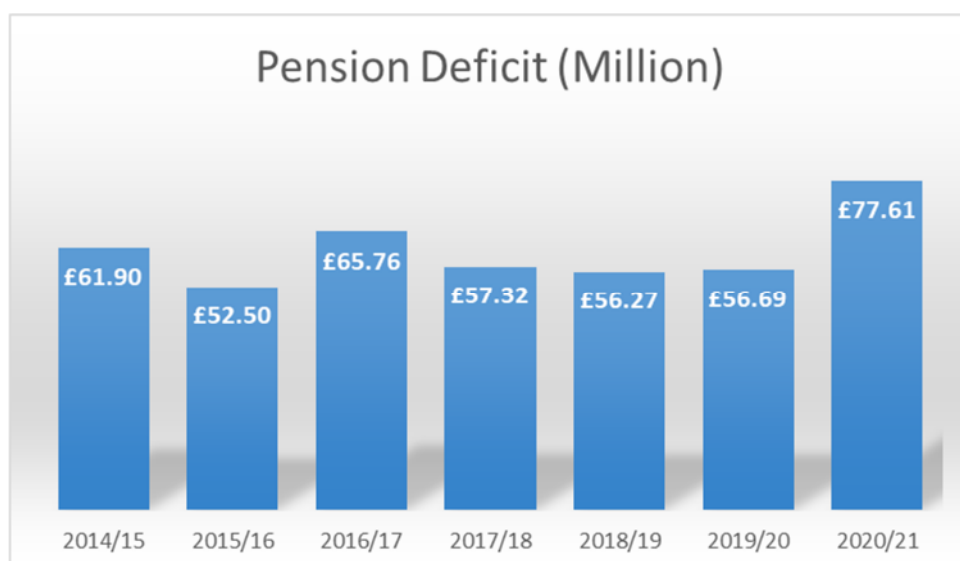


In determining its Council Tax charges Councils must make a specific provision for the financing of capital expenditure known as Minimum Revenue Provision (MRP). The outstanding amount for which MRP has to be made is known as the Capital Financing Requirement (CFR). At 31 March 2021 the Councils CFR was £94.95M (£86.70M 2019/20) an increase of £8.25M. The amount of MRP charged in 2020/21 totalled £2.801M (£2.640M 2019/20).

## **Pension Fund Liability**

In accordance with accounting practice, the Council must show the present surplus or deficit position for its share of the Pension Fund. The Local Government Pension Scheme administered by Lancashire County Council underwent a full valuation as at March 2019 with interim information provided annually in the intervening years. The Council's deficit position share of the Pension Fund has increased by £20.917M to £77.611M (£56.694M 2019/20). The predominately movement relating to actuarial losses in year.

## Pension Deficit



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

The deficit figure is very much an estimate and will not become due immediately, or all at once. They relate to the actuary's estimated pensions payable to current scheme members on their normal retirement dates. The position represents a snapshot as at the end of the financial year, based on prevailing market and other economic conditions and assumptions. As such, it may fluctuate considerably from one year to the next.

In April 2020, the Council prepaid an amount of £8.459M to Lancashire County Council Pension Fund. The prepayment covers estimated employee contributions for the period 2020/21 – 2022/23 and will generate an estimated saving of £0.491M over the period based on an estimated pensionable payroll £17.95M.

In line with the Council's accounting policies, in 2020/21 the amounts relating to 2021/22 and 2022/23 were offset against the pension liability on the balance sheet. These amounts were then reflected in the pension reserve in the years to which they related. For further details see Note 41 Defined Benefit Pension Schemes.

## **Local Taxation**

### **Collection Fund**

The Collection Fund accounts for all the Council Tax and Business Rates income for the district with the Council acting as billing authority. Income is collected by the Council (Council Tax £78.991M and Business Rates £48.408M) and redistributed to the Council's General Fund, Central Government, Lancashire County Council, Lancashire Combined Fire Authority and the Police and Crime Commissioner for Lancashire.

### **Council Tax**

Council Tax is the largest single revenue stream used to support the Council's revenue budget. In 2020/21 Council Tax was increased by £5 the maximum amount allowable by the Government to £231.95 for a Band D equivalent property.

On 31 March 2021 there was an in-year deficit of £0.789M (Surplus £0.022M 2019/20) in relation to Council Tax. This represents the actual tax base being lower than estimated. As the Council funds approximately 13% of any deficit this would mean a potential debit of £0.103M against the 2021/22 revenue budget.

### **Business Rates**

The Council also benefited from £3.026M (£4.730M for 2019/20) of rating income from renewable energy schemes within the district. Such income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it.

The Council has provided £2.086M to cover outstanding appeals arising from challenges to the 2010 and 2017 valuation lists. The provision is calculated using both analysis of historical data and external professional advice.

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

### **Collection Rates**

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

Table 6: Collection Rates

	2016/17	2017/18	2018/19	2019/20	2020/21
Council Tax	96.40%	96.10%	96.40%	95.90%	94.60%
Business Rates	99.00%	98.70%	98.40%	98.90%	97.20%

## **Strategic Risk Register**

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

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

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

## **Political Structure in 2020/21**

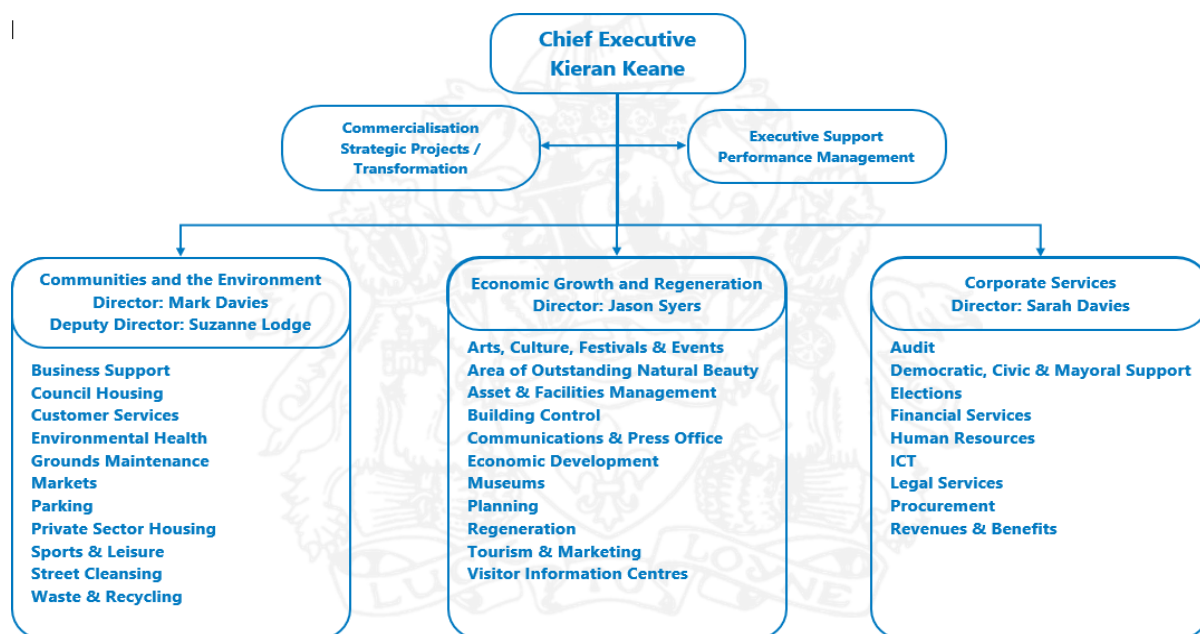
The Council is made up of 60 councillors for 27 wards. The political make-up of the Council as at 31<sup>st</sup> March 2021 was:

Labour Party	14 Councillors
Conservative Party	12 Councillors
The Green Party	10 Councillors
Morecambe Bay Independents	9 Councillors
Independent Group	6 Councillors
Eco-Socialist Independents	5 Councillors
Liberal Democrats	2 Councillors
Non-Aligned Independent	1 Councillor
Vacant Seat	1

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

## **Chief Officer Structure**

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



### **Strategic and Transformational Initiatives**

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

#### **Climate Emergency**

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

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

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

#### **Morehomes for the Bay**

In May 2021, the Council formed two Local Authority Trading Companies, one for investment, and one for Development. These companies provide new ways of working with our communities to deliver important projects for them.

#### **Eden North**

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

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

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

### Canal Quarter

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

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

### Heysham Gateway

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

### **Medium Term Financial Strategy and Sustainability**

There still remains a huge amount of uncertainty around the lasting impact of pandemic on the UK's economy and therefore the Council's medium to long-term financial position.

The Council has revised its Budget and its Medium-Term Financial Strategy (MTFS) this year in recognition of the impact of the pandemic and the Council's strategic objectives.

Given the absence of a long-term financial settlement by Central Government, the continuing impact of COVID-19 on sales, fees and charges, financial sustainability remains a significant risk facing the Council.

The 2021/22 revenue budget approved at Full Council 24 February 2021 required a contribution of £2.267M from the Council's reserves in order to balance the budget. Based on current assumptions the year-on-year cumulative structural deficit is forecast to exceed £11M by 2024/25. COVID-19 has meant that the Council has had to focus on its ways of working and the changing environment and will now look at the structural position of its base budget, its services and delivery models as it seeks to eliminate the deficit and realign its resources to delivering its stated outcomes and respond to the needs of its residents and businesses.

### **Accounting Policy Changes**

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

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

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

The accounting policies have been reviewed for ongoing compliance with IFRS and amended as required.

Approved by the Council's Audit Committee 24 March 2021.

There have been no significant changes in accounting policies for the 2020/21 accounts.

## **Explanation of Accounting Statements**

### **Movement in Reserves Statement**

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

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

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

### **Balance Sheet**

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

### **Cash Flow Statement**

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

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

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

## **The Supplementary Financial Statements**

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

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

### **Collection Fund**

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

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

#### Group Accounts

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

It should be noted that Lancaster City Council has no material interest in any companies and as such, there are no Group Accounts included in the Statement.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASTER CITY COUNCIL

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

In our opinion the financial statements of Lancaster City Council ('the Authority'):

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We have audited the financial statements which comprise:

- the Movement in Reserves Statement;
- the Comprehensive Income and Expenditure Statement;
- the Balance Sheet;
- the Cash Flow Statement;
- the related notes 1 to 44;
- the Housing Revenue Account Income and Expenditure Statement;
- the Movement on the Housing Revenue Account Statement;
- the Notes to the Housing Revenue Account 1 to 11;
- the Collection Fund; and
- the Notes to the Collection Fund 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice, the Local Audit and Accountability Act 2014 and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASTER CITY COUNCIL (CONTINUED)

The going concern basis of accounting for the Authority is adopted in consideration of the requirements set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements.

### **Other information**

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Chief Financial Officer's responsibilities**

As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud**

We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which our procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

We considered the nature of the Authority and its control environment, and reviewed the Authority's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the Authority operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Finance Act 2012 and Local Government and Housing Act 1989.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Authority's ability to operate or to avoid a material penalty. These included the Data Protection Act 2018 and relevant employment legislation.

We discussed among the audit engagement team including relevant internal specialists such as valuations and pensions regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following area, and our specific procedures performed to address it is described below:

- valuation of property assets: we engaged our property specialists to assess the assumptions and methodology used to value the estate

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASTER CITY COUNCIL (CONTINUED)

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

### REPORT ON OTHER LEGAL AND REGULATORY MATTERS

#### Matters on which we are required to report by exception

##### Use of resources

Under the Code of Audit Practice and the Local Audit and Accountability Act 2014, we are required to report to you if we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have nothing to report in respect of this matter.

#### **Respective responsibilities relating to the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

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

We are required under the Code of Audit Practice and Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2024 as to whether the Authority had proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASTER CITY COUNCIL (CONTINUED)

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Authority a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021 by the time of the issue of our audit report. Other findings from our work, including our commentary on the Authority's arrangements, will be reported in our separate Auditor's Annual Report.

### Reports in the public interest or to the regulator

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

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

### DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector relating to the years ending 31 March 2021, 31 March 2022 and 31 March 2023. We are satisfied that our remaining work in this area is unlikely to have a material impact on the financial statements or on our value for money conclusion.

### Use of our report

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



Paul Hewitson (Key Audit Partner)  
For and on behalf of Deloitte LLP  
Newcastle upon Tyne, United Kingdom

12 December 2024



# Annual Governance Statement

## 2020/21

### INTRODUCTION AND ACKNOWLEDGEMENT OF RESPONSIBILITY

Lancaster City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

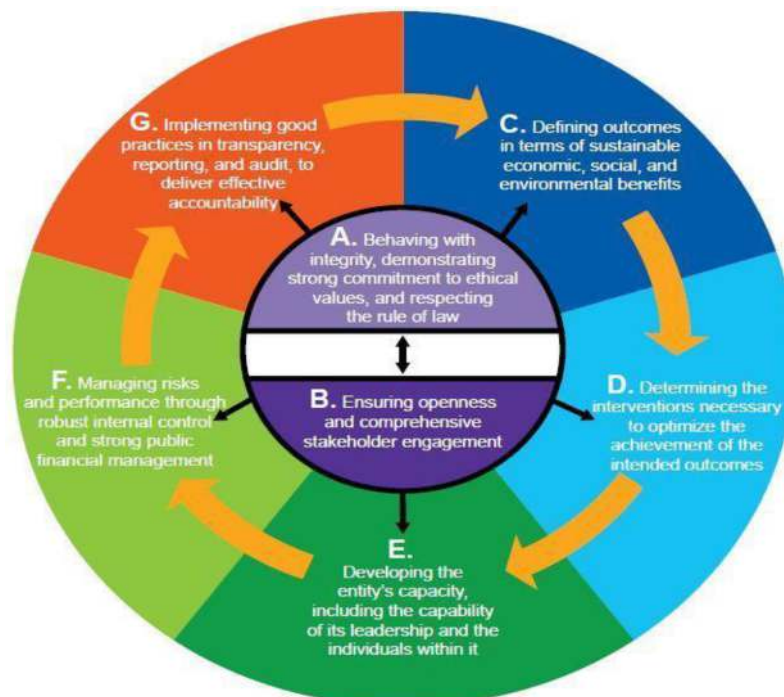
To meet our responsibility, we have put in place proper governance arrangements for overseeing what we do. These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in a timely, open and accountable manner. These arrangements consist of all the systems, processes, culture and values which direct and control the way in which we work and through which we account to, engage with and lead our communities.

The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require the council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts.

### THE GOVERNANCE FRAMEWORK

We have approved and adopted a Code of Corporate Governance, which sets out the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016) (The Framework). The Framework contains seven core interlinked principles detailed in table 1 below

Table 1. Principles for Delivering Good Governance in Local Government



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.

Table 2. Overview of the key elements of the Council’s Governance Framework

<p><u>The Council, Cabinet and Leader</u></p> <ul style="list-style-type: none"> <li>• Provide leadership, develop strategy, and set policy</li> <li>• Engage with and support the Council's communities and neighbourhoods to thrive and succeed</li> </ul>	<p><u>Scrutiny and Review</u></p> <ul style="list-style-type: none"> <li>• The Overview and Scrutiny Committee reviews Council policy and can scrutinise and challenge decisions</li> <li>• The Budget and Performance panel reviews operational and financial performance</li> <li>• The Audit Committee reviews internal control, fraud, risk management and governance</li> </ul>
<p><u>Decision Making</u></p> <ul style="list-style-type: none"> <li>• Meetings are held in public</li> <li>• Agendas, minutes and decisions are recorded on the Council's website</li> </ul>	<p><u>Risk Management</u></p> <ul style="list-style-type: none"> <li>• Risk management strategy ensures proper management of risks</li> <li>• Risk registers identify both strategic and operational risk</li> </ul>
<p><u>Management Team and Statutory Officers</u></p> <ul style="list-style-type: none"> <li>• The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers to deliver the strategies within the policy framework set by Elected Members</li> <li>• The Council’s Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money</li> <li>• The Head of Legal Services is the Council’s Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct</li> </ul>	

## HOW WE COMPLY WITH THE CIPFA / SOLACE FRAMEWORK

The COVID pandemic has made 2020-21 a year of significant change and the Council has, wherever required, adapted existing governance arrangements as part of its response to the pandemic and plans for recovery. We have set out below, for each governance principle, our self-assessment of compliance in the year and highlighted where COVID has impacted governance arrangements and where this has actually been an opportunity to enhance and seek to sustain the benefits of these changes.

## THE COVID – 19 PANDEMIC

In order to support the wider Government response to the pandemic the Council both directly and acting as an agent for Government departments, delivered services in response to the pandemic and provided Financial Support to third parties including businesses within the area. This support has been significant and where appropriate has required the reallocation of staffing resources from business as usual to ensure the administration process used was sound and effectively undertaken as follows:

- Maintaining front line services- in accord with the Council’s emergency and business continuity plans essential services continued to be delivered throughout the pandemic. Staff from non-essential services were reallocated to help deliver essential services or to deliver and support new pandemic related services- e.g., the community hub, the business hub. Furthermore, additional staff capacity was allocated to supporting the pan Lancashire work of the resilience forum.
- Supporting businesses - Rate relief together with grants for businesses in the retail, hospitality or leisure sector have to date helped out thousands of businesses with grants totalling £32.5M.
- Supporting residents – the Council has supported vulnerable residents and tenants through the community hub. With the help of volunteers, community groups and businesses, the Council contacted and supported 29,779 residents, and continues to reach out and offer support to those



who are vulnerable. This support took many forms including provision of food, ongoing phone calls, pickup and delivery of medicines, commissioning of bereavement counselling, distribution of funds to help families with practical household needs. Additionally, the Council continues to work to proactively support rough sleepers. Residents who have serious underlying health conditions have been identified and there are processes in place to support this group.

- Put place ICT infrastructure so that staff can work remotely from home wherever possible, and providing office equipment, furniture to support that.
- Virtual Council meetings have taken place to maintain open and transparent decision making whilst observing social distancing.
- COVID-19 pages on the Council website are updated daily and provide further information see [Coronavirus information - Lancaster City Council](#)
- The Council's Internal Audit service has worked to ensure that awareness of fraud risk and appropriate systems of governance and internal controls have been maintained despite the changes in processes necessary to provide local people and businesses with rapid and effective support. Internal Audit has also provided assurance that Covid-19 funding provided by the Government has been used for the purpose intended. This work will continue into 2021/22.

The impact of the pandemic on the Council will be long term. It will affect our communities, business and residents in many ways and create significant resource implications for the Council and our partners. As the pandemic is still running its course it is not at this point possible to provide a detailed assessment of these wider impacts.

For the Council itself we have already seen significant financial impacts. Through increasing demand for services and a potential for reduction in income. The impact upon the long-term financial position is very difficult to accurately assess with key elements of the Statutory Accounts such as the Collection Fund (which manages Council Tax and Business Rate collection) severely impacted. The Government is allowing Councils to manage Collection Fund losses over a three-year period (2021/22 to 2023/24) to phase the impact of income lost in 2020/21 and allow time for collection to recover. If this recovery does not happen then there is a risk of the legacy of COVID having a more longer lasting financial impact on the Council.

Set out below is how the Council has specifically complied with the seven core principles set out in the CIPFA / SOLACE framework during 2020/21.

Table 3: Summary of Compliance and COVID impact against the Local Code of Corporate Governance

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> <li>• Code of Conduct for both members and staff</li> <li>• The Council's 'values and behaviours framework'</li> <li>• Registers of interest policies for both staff and members</li> <li>• Council and Committee minutes show any declarations made at meetings are viewable on each Councillor's record on the website</li> <li>• An electronic Gifts and Hospitality register for both staff and Members</li> <li>• Both Standards and Overview and Scrutiny Committees</li> <li>• There are policies and procedures in place for dealing with unacceptable behaviours for both officers and Members</li> <li>• Effective monitoring and review of counter fraud policies are in place and are monitored and reviewed annually by the Corporate Enquiry Team to ensure they are applied consistently</li> <li>• A 'Raising Concerns' Policy is in place and sits with the Council's Monitoring Officer</li> <li>• The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government</li> <li>• Training is provided for regulatory committees on a regular basis.</li> </ul>

	<ul style="list-style-type: none"> <li>• Compliance with specific legislation, law or guidance is documented in decision making documents</li> <li>• The Constitution includes terms of references, defines decision making powers and describes roles and functions</li> </ul>
COVID-19 Impact and Council response	<p>Council, Cabinet and Committee face to face meetings, were unable to be held in March 2020. Virtual meetings were introduced online in April and were compliant with access to information and public access requirements. Key decisions to be made by Cabinet from April continued without delay or deferment of Council business, with some decisions taken by the Leader/ Portfolio Holders as necessary. Plans for re-instating face to face council meetings from May 2021, are in place.</p> <p>We applied, wherever required, our statutory powers and our scheme of delegation to ensure continuity of core Council services and to deliver the emergency response and outbreak management activity at pace, in line with COVID related funding conditions and regulations. All such decisions and actual expenditure are recorded and evidenced.</p>

<b>Principle B: Ensuring openness and comprehensive stakeholder engagement</b>	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> <li>• The Council's Corporate Plan is published to all staff, elected members, partners and the community</li> <li>• An annual 'Narrative Report' is published and accompanies the Statement of Accounts</li> <li>• The Section 151 Officer publishes annual accounts within statutory deadlines to the community to report on the organisation's activities, achievements and its financial position and performance</li> <li>• The Council is compliant with the Local Government Transparency Code 2015</li> <li>• An Overview and Scrutiny and Budget and Performance Panel report is published annually</li> <li>• The Council publishes all key decisions on its website</li> <li>• A Freedom of Information publication scheme is in place</li> <li>• Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published</li> <li>• The Council ensures that appropriate consultation and engagement takes place</li> <li>• The Council publishes all current and closed consultations on its website</li> <li>• Customer feedback forms are in place in key outlets e.g. Salt-Ayre Leisure Centre</li> <li>• The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan</li> <li>• Participative democracy (People's Jury) is being used to inform the Council's strategy for dealing with climate change</li> <li>• The Council has a Community Connector team whose role is to engage and connect with partners, communities and elected members.</li> <li>• During the year virtual meetings and events for stakeholders and residents, chaired by Elected Members were held on a regular basis (sometimes several times per week).</li> <li>• The Council has several communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide</li> <li>• The Council complies with publication dates for reports and the 'forthcoming decisions list (forward plan)</li> <li>• Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team</li> <li>• The Budget and Performance Panel was fully consulted in relation to the Council's budget</li> </ul>

	<ul style="list-style-type: none"> <li>The Council's vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders</li> </ul>
COVID-19 Impact and Council response	<p>We expanded our contribution to and collaboration with partner organisations to deliver a joined-up response to COVID through increased joint working in a wide variety of settings, notable examples are:</p> <ul style="list-style-type: none"> <li>Developing and delivering coordinated policy and support for vulnerable citizens and those shielding, distributing food and household essential parcels to clinically extremely vulnerable people and those who needed it, through the community hub.</li> <li>Supporting the national test and trace operation through our customer service centre.</li> <li>Providing buildings to allow the delivery of the national testing system and the NHS vaccination program, as well as Nightingale Court.</li> <li>Business engagement through the local Chamber of Commerce as well both the Morecambe and Lancaster BIDS and directly via the Business Grants helpline and through the business hub.</li> <li>Contributing to the recourses of the Lancashire Local Resilience forum in particular specific role taken up by the Chief Executive and Head of Public Protection in addition to their existing duties. Contributory roles taken up by many other Council staff.</li> </ul>

Principle C: Defining outcomes in terms of sustainable, economic, social and environmental benefits	
Compliance Overview	<p>The following key policies, procedures, and practices remained in place and were applied throughout the year.</p> <ul style="list-style-type: none"> <li>A revised suite of Corporate key performance indicators aligned to the new emerging priorities) are reported quarterly to Cabinet and the Budget and Performance Panel</li> <li>A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements</li> <li>There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure</li> <li>The Medium-Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities</li> <li>The Council has a capital programme of works</li> <li>The Council has an approved Capital Investment Strategy</li> <li>Individual capital projects are equality impact assessed</li> <li>All key decisions are required to consider fair access to services</li> <li>The development and delivery of the local plan has been subject to external consultation</li> <li>Procedures are in place to address conflicting interests e.g. the call-in procedure</li> <li>The Council has declared a climate change emergency and has committed to becoming net carbon zero by 2030. A strategy has been developed to deliver on this</li> <li>Formal decisions take into account and assessment of environmental impact, proportionate to the nature of the decision</li> </ul>
COVID-19 Impact and Sustainable Recovery Council response	<p>Lancaster District Plan 2030- Beyond the Crisis was approved by Cabinet in September 2020, to provide leadership on recovery from the pandemic and address challenges, uncertainty and new opportunities.</p> <p>Its overall aim is to deliver the Council's strategic priorities and to support recovery to a sustainable, safe and socially just District that is healthy, connected, empowered and enabled.</p> <p>The plan is delivered through 5 themed groups, all of which are interdependent-</p> <ul style="list-style-type: none"> <li>Group 1- Climate Emergency</li> <li>Group 2- Finance and Resources (internal focus)</li> <li>Group 3a- Healthy and Happy Communities</li> </ul>

	<ul style="list-style-type: none"> <li>• Group 3b- Community Power and Resilience</li> <li>• Group 4- Regenerative and Distributive Economy</li> </ul> <p>The Plan is underpinned by principles that ensure the plan remains dynamic and flexible enough to respond to changes in need.</p>
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Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes	
Compliance Overview	<p>The key arrangements for managing performance and delivery, to inform interventions, continued to operate throughout the year. These included</p> <ul style="list-style-type: none"> <li>• Effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and consideration on which decisions are based</li> <li>• Member and Officer briefings took place for more complex areas of decision making</li> <li>• The MTFS, Revenue Estimates and Capital Programme are configured to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead</li> <li>• The MTFS sets out the framework for corporately managing the Council's resources in the years ahead</li> <li>• Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel</li> <li>• Both Capital and Revenue bids consider 'social value'.</li> <li>• Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making</li> <li>• The Council considers public surveys, demographic information and public health reports when developing the Council Plan</li> </ul>
COVID-19 Impact and Council response	<p>Progress against the COVID-19 Recovery Plan was reported to Cabinet in January 2021 and progress will continue to be reported in 2021/22, until recovery priorities and measures of success are integrated with future updates to the Council Plan. Reporting progress in January, at the time of the third national lockdown, meant there was a further re-prioritisation of corporate activity, and realignment of resources to respond to changing circumstances and shifting recovery priorities.</p>
	<p>A temporary scheme of delegation addressing decision making and spending during the pandemic was introduced in June 2020 to ensure each allocation of the Council's resources was carefully considered and approved.</p> <p>During the initial period of the pandemic monthly financial information was provided to both Cabinet &amp; B&amp;PP. A transition to more standard ways of working took place for the final quarter of the year.</p> <p>A revised Budget was issued at the mid-year point to address the expected impacts of the pandemic and the annual budget was consulted on, issued and approved by Council in February 2021.</p>

Principle E: Developing the entity’s capacity, including the capability of its leadership and the individuals within it	
Compliance Overview	<p>The key arrangements for building our capacity and capability continued to operate throughout the year. The process for annual appraisals was temporarily paused early in the pandemic. Leadership forums, including Wider Leadership Forum were maintained</p> <ul style="list-style-type: none"> <li>• The Council is member of APSE and regularly benchmarks several key Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Leisure</li> <li>• The Council has received both blue and green flag status for its clean beaches and parks and open spaces</li> <li>• The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings</li> <li>• The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular meetings/1-1’s with the Leader, Cabinet and the Senior Leadership Team.</li> <li>• The Executive Team meet with the Leader and Director on a weekly basis.</li> <li>• The Section 151 Officer is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control and attends Executive Team meetings on invitation.</li> <li>• There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members’ Code of Conduct and a Protocol for Officer and Member relations</li> <li>• All new members receive a full corporate induction, ongoing support and role-specific training</li> <li>• An Accreditation review for Investors in People was carried out in January 2021, resulting in an upgrade to Silver accreditation, and an additional Health and Wellbeing Good Practice Award</li> <li>• An induction programme is provided for all new staff and Members</li> <li>• The Council has several policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.</li> </ul>
COVID-19 Impact and Council response	<p>In the earlier stages of the pandemic, the Council redeployed staff and redirected resources from non-essential activity to critical services and areas of greatest need, in accordance with our emergency action plans and business continuity plans. Staff involved in redeployment have fed-back that they felt valued, empowered to make best use of their existing skills and gained new skills and insights.</p>
	<p>The health &amp; wellbeing of our employees during the COVID pandemic and lockdown period has been a top priority, and as well as ensuring we engage with staff as stakeholders, we have focused on building a resilient and high performing workforce:</p> <ul style="list-style-type: none"> <li>• Maintaining wellbeing and HR policy information on dedicated staff intranet sites with links to active internal and external support networks, resources and staff well-being check in surveys; and actions arising from those surveys; and</li> <li>• Regular live broadcast to staff from Executive to communicate key well- being messages, updates and Q&amp;A.</li> </ul>
	<p>The Council’s move to the Cloud-based Microsoft 365 environment has secured communication and data security and has also enhanced our ability to work remotely and collaboratively.</p>

Principle F: Managing risks and performance through robust internal control and strong financial management

Compliance Review

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

<p>COVID-19 Impact and Council response</p>	<p>The impact of COVID on the Council’s financial position was subject to monthly financial analysis and presented to Cabinet and Budget &amp; Performance Panel alongside financial impact returns to central government.</p> <p>Quarterly budget monitoring reports provided a COVID/ Non-COVID forecast information as well as commentary on the position of the Capital Programme and any delays in delivery.</p> <p>COVID related expenditure was coordinated and governed centrally in accordance with delegated authorities. All specific grant funds and allocations were accounted for and controlled in compliance with the terms of the conditions of the grant and our financial rules and procedures.</p>
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<p>Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p>	
<p>Compliance Review</p>	<p>The Council endeavours always to be open and transparent. The regulations, policies and governance arrangements set out in the Code of Corporate Governance have been applied throughout the year for the Council and can be accessed here:</p> <ul style="list-style-type: none"> <li>• The Council is compliant with the Local Government Transparency Code 2015</li> <li>• Each year we publish information on our website outlining how we spend Council Tax income.</li> <li>• A ‘Narrative Report’ is published within the Statement of Accounts to reflect the Council’s key achievements</li> <li>• The Council’s website is comprehensive, accurate and user friendly</li> <li>• The Council has an on-line Planning Application Policy</li> <li>• Annual presentations are delivered for elected Members concerning the Council’s finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTF5</li> <li>• An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion</li> <li>• The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon</li> <li>• The Council complies with both the Public Sector Internal Audit Standards and CIPFA’s Statement on the role of the Head of Audit (2010)</li> <li>• In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually</li> <li>• The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members</li> <li>• The Council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training</li> <li>• Arrangements for accountability and prevention of corruption when working with suppliers and partners are documented within the Council’s Contract Procedure Rules</li> </ul>
<p>COVID-19 Impact and Council response</p>	<p>At to onset of the pandemic in accordance with regulations face to face meetings were temporarily cancelled with virtual meetings commencing 28th April. Reports and minutes were published and made available to the public in the usual way.</p> <p>A temporary scheme of delegation addressing decision making and spending during the pandemic was introduced in June 2020 to ensure each allocation of the Council’s resources was carefully considered and approved.</p>

	Although delivery of the 2020-21 Internal Audit plan was initially paused, due to reprioritisation of service based and audit resources, audit assurance work resumed in the year to complete sufficient audits to provide an annual audit opinion for the year.
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### Financial Management Code

The CIPFA Financial Management Code 2019 (FM Code) was introduced during 2020-21, to improve the financial resilience of organisations by embedding enhanced standards of financial management. Although the implementation of the FM Code is mandatory only from 2021-22, the Council has assessed compliance with the Code in 2020-21, against each of the seven standards. This concluded that the current working practice and noted planned improvements will meet the expectations of the Code of Practice against each of the standards:

- Responsibilities of the Chief Finance Officer and Leadership Team.
- Governance and Financial Management Style.
- Long to Medium Term Financial Management.
- The Annual Budget.
- Stakeholder Engagement and Business Plans.
- Monitoring Financial Performance; and
- External Financial Reporting

### **REVIEW OF EFFECTIVENESS**

We have responsibility for conducting, at least annually, a review of the effectiveness of our governance framework including the system of internal control. The review of effectiveness is informed by the work of managers within the Council who have responsibility for the development and maintenance of the governance environment and by the Head of Internal Audit's annual report. In addition, Directors have confirmed that they have complied with the risk management framework throughout the year and have provided assurances at year end, including additional assurances about COVID impacts through the year.

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

### **Assurance from Internal and External Audit**

#### Internal Audit Assurance

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

The 2020/21 Internal Audit Annual Report stated that whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic and other circumstances affecting the closure of audits the Council has... *"adequate' controls in place in the majority of the areas examined to be able to maintain an adequate and effective internal control environment. There are several areas where a 'limited assurance' opinion has been given and, in these instances, mitigating action plans have been agreed"*.

This year's report notes the significant progress made around operational risks and the involvement of Service Managers to update risk registers with details. However, the reports refer to concerns around ownership of strategic risks by the Council's Executive and capacity within the Council to fully embed risk management. The Executive are taking this matter seriously, including a comprehensive look at the end-to-end policies, plans, controls and capacity in place for Risk, Improvement, Audit and Assurance,



providing regular updates on this work to Audit Committee.

#### External Audit Assurance

The Council's external auditors, Deloitte 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. The revised COVID-19 deadlines have impacted the external auditor's ability to resource the audit and as a result the 2019/20 financial statements audit is yet to be concluded.

All External audit work is conducted with regard to the Code of Practice produced by the National Audit Office. Going forward certain changes are expected to external oversight as the recommendations from the Redmond Review are considered.

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

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2020/21 is set out in the table below.

<b>Indicator</b>	<b>Performance in 2020/21</b>
Formal reports issued by the Section 151 Officer or Monitoring Officer	No formal reports have been issued by the Section 151 Officer or the Monitoring Officer.
Number of data incidents reported to the Data Protection Officer (DPO)	20 incidents were reported to the DPO in 2020/21 All were checked and none were reported to the ICO
Number of Data Breaches reported to the Information Commissioner's Office (ICO)	Of the 20 incidents reported to the DPA, none were reported to the ICO
Outcomes from Standards Committee or Monitoring Officer investigations	6 breaches of the code of conduct were reported to the Monitoring Officer but none went to the Standards Committee in 2020/21 due to local resolution by the Monitoring Officer
Proven frauds carried out by councillors or members of staff	There have been no proven frauds carried out by Councillors' or members of staff in 2020/21
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2020/21

### **GOVERNANCE ISSUES AND SIGNIFICANT CHALLENGES**

#### **Issues Identified in Prior Years**

Risk Management and Information Governance were identified as governance issues in 2019/20, further commentary on the progress to address these is provided below.

#### **Significant Governance Issues**

##### Human Resources Assurance Work

Following a number of concerns, Internal Audit undertook a review into the Council's Human Resources highlighting a number of control weaknesses which resulted in a minimal assurance and gave rise to a number of recommendations. Whilst action was undertaken to address the more serious concerns and issues raised work is progressing to address these issues and work has continued to address them beyond the end of the financial year. Regular updates are now in place with the Audit Committee and a follow up Audit will take place in Autumn 2021.

##### Information Governance

The council's Information Governance (IG) Team continue to work on compliance with the General Data Protection Regulations which came into force on the 25 May 2018. The draft report and recommendations recognised that significant progress has been made in some areas. However, there were still a number of areas that required immediate attention, therefore only 'limited' assurance was provided. Much of the work required under the recommendations is collaborative and requires significant participation from all Council

departments. Unfortunately, owing to the need to prioritise the response to the pandemic and the re-allocation of large numbers of staff it has not been possible to progress the action plan to any significant degree. As the pandemic response is cautiously moving towards the recovery phase, it is hoped that significant progress can be made this audit year.

### **Minor Governance Issues**

A number of minor governance issues were identified following the Annual Governance meetings with key officers. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the progress reporting arrangements.

### **Significant Challenges for 2021/22 and Beyond**

#### Strategic Risk Management

Strategic risk management continues to be raised as an area of concern, whilst the Council has a Strategic Risk Register, it still requires significant improvement as it currently does not reflect all of the Council's key risks and priorities. As a result, Internal Audit have not been able to utilise this risk register to drive and prioritise their audit work. To date, the strategic risk register has been driven by the Internal Audit Team. The Executive are taking this matter seriously, including a comprehensive look at the end-to-end policies, plans, controls, and capacity in place for Risk, Improvement, Audit and Assurance, will provide regular updates on this work to Audit Committee. This should lead to a significant improvement in the Internal Audit Strategy and programme.

#### Provision of Internal Audit

For the past 4 years the Council has held an agreement with Wyre Borough Council for the provision of the role of Head of Internal Audit (HoIA). Unfortunately, the Council received notification that from 1st April 2021 this agreement would come to an end. Subsequent to this the Council's Principal Auditor has accepted a position at another local authority and as a result, the Council is without an Internal Audit function. All Councils are required to have an Internal Audit function as it occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. We are currently finalising proposals for the future provision and arrangements for securing an effective Internal Audit linked to the wider work on Risk, Improvement, Audit and Assurance cited above.

#### Financial Sustainability

The true impact of the COVID-19 pandemic on the 2021/22 budget and future years is unknown. Government assistance through various grant payments and the extension of the furlough scheme is helping to support the local economy, however it is unclear what the impact will be once these support packages end. Given the absence of a long-term financial settlement by Central Government, the continuing impact of COVID-19 on sales, fees and charges, financial sustainability remains a significant risk facing the Council.

The 2021/22 revenue budget was approved at Full Council 24 February 2021 and required a contribution of £2.267M from the Council's reserves in order to balance the budget.

Based on current assumptions the year-on-year cumulative structural deficit is forecast to exceed £11M by 2024/25. Although there are many variables contained within the calculation of the deficit, funding purely from the Council's reserves is not an option as it does not address the underlying structural issues. Reserves can however be utilised to help to ensure the smooth transition of a number of initiatives aimed at eliminating the deficit.

Although Outcomes Based Budgeting (OBR) principles have been applied as part of the 2021/22 budget process it is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit. It will be further considered by the Financial Resilience Group alongside ongoing work to embed the Council's new priorities and outcomes during 2021/22.

A process is already underway to seek an in year reduction in the amount of reserves being utilized and to deliver a balanced budget for 2022/23 and beyond with an initial focus on systematic review of vacancies to align with priorities, a detailed analysis of the Budget book and workshops with Heads of Service, alongside extensive work with elected members to set priorities aligned with resources.

## REVIEWING AND REPORTING ARRANGMENTS

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.

Owing to the Covid-19 pandemic and key staff being redeployed to work in other areas, this year the Annual Governance Statement for 2020/21 has been pulled together via engagement with all key officers, who have the most appropriate knowledge, expertise and levels of seniority providing information and key evidence to support how the organisation has complied with the principles set out in guidance.

As well as demonstrating how the Council is meeting each of the principles, it is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure.

The AGS is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the Council's governance framework.

## 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 2021 is satisfactory.



**Councillor Caroline Jackson**  
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 2021 is satisfactory.



**Kieran Keane**  
Chief Executive of Lancaster City Council



# Statement of Responsibilities for the Statement of Accounts

## 1 The Council's Responsibilities

The council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In line with statute, this is the Section 151 Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the audited Statement of Accounts.

## 2 The Section 151 Officer's Responsibilities

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

In preparing this Statement of Accounts, the Section 151 Officer has:

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

Section 151 Officer has also:

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

## 3 Section 151 Officer Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the authority as at 31 March 2021 and the income and expenditure for the year then ended.

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

Date 30 July 2021

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

Date 11 December 2024

## 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 11 December 2024.

Cllr Paul Stubbins

Date 11 December 2024



## Statement of Accounts

### Movement in Reserves Statement

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

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

2020/21	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
<b>Balance at 31/03/2020</b>	<b>5,361</b>	<b>15,320</b>	<b>2,858</b>	<b>10,579</b>	<b>-</b>	<b>36</b>	<b>103</b>	<b>34,257</b>	<b>133,573</b>	<b>167,830</b>
<b>Movements in 2020/21</b>										
Total Comprehensive Income and Expenditure	(3,154)	-	(1,559)	-	-	-	-	(4,713)	(5,210)	(9,923)
Adjustments between accounting & funding basis under regulations (Note 8)	15,918	-	2,076	-	404	483	-	18,881	(18,881)	-
Net Increase/(Decrease) before transfers to earmarked reserves	12,764	-	517	-	404	483	-	14,168	(24,091)	(9,923)
Transfers (to)/from earmarked reserves (Note 9)	(10,317)	10,317 *	(89)	89	-	2	-	2	(2)	-
<b>Increase/(decrease) in 2020/21</b>	<b>2,447</b>	<b>10,317</b>	<b>428</b>	<b>89</b>	<b>404</b>	<b>485</b>	<b>-</b>	<b>14,170</b>	<b>(24,093)</b>	<b>(9,923)</b>
<b>Balance at 31/03/2021</b>	<b>7,808</b>	<b>25,637</b>	<b>3,286</b>	<b>10,668</b>	<b>404</b>	<b>521</b>	<b>103</b>	<b>48,427</b>	<b>109,480</b>	<b>157,907</b>

\* Within Transfers to General Fund earmarked reserves is £8.121m in respect of business rates deficit/Section 31 grant. Of this £6.941m is Section 31 grant which will be discharged againsts the Collection Fund deficit in 2021/22. A further £1.180m has been set aside to discharge the Collection Fund deficit eligible to be spread into 2022/23 & 2023/24. £0.838m relate to Covid-19 support grant and the Covid Hardship Fund from central government to be utilised during 2021/22.

2019/20	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
<b>Balance at 31/03/2019</b>	<b>5,714</b>	<b>14,843</b>	<b>2,235</b>	<b>10,537</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>33,432</b>	<b>129,564</b>	<b>162,996</b>
<b>Movements in 2019/20</b>										
Total Comprehensive Income and Expenditure	(6,259)	-	(1,251)	-	-	-	-	(7,510)	12,344	4,834
Adjustments between accounting & funding basis under regulations (Note 8)	6,383	-	1,916	-	-	36	-	8,335	(8,335)	-
Net Increase/(Decrease) before transfers to earmarked reserves	124	-	665	-	-	36	-	825	4,009	4,834
Transfers (to)/from earmarked reserves (Note 9)	(477)	477	(42)	42	-	-	-	-	-	-
<b>Increase/(decrease) in 2019/20</b>	<b>(353)</b>	<b>477</b>	<b>623</b>	<b>42</b>	<b>-</b>	<b>36</b>	<b>-</b>	<b>825</b>	<b>4,009</b>	<b>4,834</b>
<b>Balance at 31/03/2020</b>	<b>5,361</b>	<b>15,320</b>	<b>2,858</b>	<b>10,579</b>	<b>-</b>	<b>36</b>	<b>103</b>	<b>34,257</b>	<b>133,573</b>	<b>167,830</b>

## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) records all of the council's revenue income and expenditure for the year. Expenditure represents a combination of statutory duties and discretionary spend focused on local priorities and needs. As the council does not have any equity in the Balance Sheet, these gains and losses should reconcile to the overall movement in net worth.

The CIPFA Code of Local Authority Accounting regulates how expenditure and income relating to services is classified in the CIES.

The CIES has two sections:

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

2019/20				2020/21			
Gross Exp	Gross Inc	NET	NOTES	Gross Exp	Gross Inc	NET	
£000	£000	£000		£000	£000	£000	
<i>Continuing Operations:</i>							
1,509	-	1,509	Central Services	1,257	(21)	1,236	
24,426	(16,558)	7,868	Communities & Environment	23,601	(7,731)	15,870	
15,087	(15,455)	(368)	Housing Revenue Account	15,233	(15,387)	(154)	
11,182	(3,849)	7,333	Economic Growth & Regeneration	12,363	(2,994)	9,369	
37,353	(27,673)	9,680	Corporate Services	39,563	(33,079)	6,484	
<b>89,557</b>	<b>(63,535)</b>	<b>26,022</b>	<b>Cost of Services</b>	<b>92,017</b>	<b>(59,212)</b>	<b>32,805</b>	
2,502	(1,516)	986	Other Operating Expenditure	10	2,185	(1,208)	977
6,661	(288)	6,373	Financing and Investment Income and Expenditure	11	5,804	(64)	5,740
-	-	-	(Surplus) / Deficit on discontinued operations	29	-	-	-
19,604	(45,475)	(25,871)	Taxation and Non Specific Grant Income and Expenditure	12	20,137	(54,946)	(34,809)
		<b>7,510</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>4,713</b>	
		(3,399)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets			(11,661)	
		(8,945)	Actuarial (Gains)/Losses on Pension Assets/Liabilities	41		16,871	
		<b>(12,344)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>5,210</b>	
		<b>(4,834)</b>	<b>Comprehensive Income and Expenditure</b>			<b>9,923</b>	

The net expenditure of £9.923M 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 2020 £000		NOTES	31 March 2021 £000
238,963	Property, Plant & Equipment	13	248,527
9,518	Heritage Assets	14	9,518
26,002	Investment Property	15	33,203
183	Intangible Assets	16	68
-	Assets Held for Sale	21	-
-	Long Term Debtors	17	102
<b>274,666</b>	<b>Long Term Assets</b>		<b>291,418</b>
-	Short Term Investments	17	-
448	Inventories	18	623
12,135	Short Term Debtors	19	24,491
40,893	Cash & Cash Equivalents	20	25,100
<b>53,476</b>	<b>Current Assets</b>		<b>50,214</b>
-	Bank Overdraft	20	-
(16,041)	Short Term Borrowing	17	(1,041)
(20,035)	Short Term Creditors	22	(43,465)
<b>(36,076)</b>	<b>Current Liabilities</b>		<b>(44,506)</b>
(225)	Long Term Creditors	17	(170)
(6,233)	Provisions	23	(7,142)
(61,084)	Long Term Borrowing	17	(60,043)
(56,694)	Other Long Term Liabilities	41	(71,864)
<b>(124,236)</b>	<b>Long Term Liabilities</b>		<b>(139,219)</b>
<b>167,830</b>	<b>Net Assets</b>		<b>157,907</b>
34,257	Usable Reserves	24	48,427
133,573	Unusable Reserves	25	109,480
<b>167,830</b>	<b>Total Reserves</b>		<b>157,907</b>

The net movement between years is £9.923M 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.

2019/20 £000		NOTES	2020/21 £000
Cash (Out) / In			Cash (Out) / In
(7,510)	Net surplus or (deficit) on the provision of services		(4,713)
26,837	Adjustments to net surplus or deficit on the provision of services for non-cash movements	26	24,573
(6,709)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(8,866)
<b>12,618</b>	<b>Net cash flows from Operating Activities</b>		<b>10,994</b>
7,540	Investing Activities	27	(4,105)
13,832	Financing Activities	28	(22,682)
<b>33,990</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(15,793)</b>
6,903	Cash and cash equivalents at the beginning of the reporting period		40,893
<b>40,893</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>25,100</b>

## Notes to the Accounts

The notes to the accounts have three significant roles:

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

A list of the notes provided is as follows:

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

## 1. ACCOUNTING POLICIES

### 1.1 Basis of Preparation

The Statement of Accounts summarises the council's transactions for the 2020/21 financial year and its position on 31 March 2021. The accounts of the council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards (IFRS).

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

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

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

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

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

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Interest receivable on investments is accounted for as income based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the Balance Sheet.

### 1.3 Cash and Cash Equivalents

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

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

#### **1.4 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.

#### **1.5 Charges to Revenue for Non-Current Assets**

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **1.6 Council Tax and Non-Domestic Rates**

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

##### Accounting for Council Tax and NDR

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

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

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

#### **1.7 Employee Benefits**

##### Benefits Payable during Employment

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

### Termination Benefits

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

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

### The Local Government Pension Scheme

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

Defined benefit scheme - the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

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

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

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

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

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

<b>Component</b>	<b>Description</b>	<b>Treatment</b>
<b>Service Costs</b>		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.

<b>Re-measurements</b>		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
<b>Contributions</b>		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

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

### **Discretionary Benefits**

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

### **1.8 Events after the Balance Sheet Date**

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

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

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

### **1.9 Financial Instruments**

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured by fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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



Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### Financial Assets

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

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

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

#### Financial Assets measured at Amortised Cost

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

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Expected credit loss model

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

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

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

### **1.10 Government Grants and Contributions**

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

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

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

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

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

### **1.11 Business Improvement Districts**

Business Improvement District (BID) schemes apply to Lancaster City Centre and Morecambe Town Centre. The Scheme is funded by a BID levy paid by non-domestic ratepayers. The council collects the levy in respect of the BID and pays this across to Lancaster BID Ltd and Morecambe BID Ltd CIC as managing bodies for the Scheme.

### **1.12 Heritage Assets**

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. The collection has an indeterminate life and is subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

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

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

### **1.13 Intangible Assets**

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

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

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

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

#### **1.14 Inventories and Long-term Contracts**

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

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

#### **1.15 Investment Property**

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

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

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

#### **1.16 Leases**

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

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

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

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

##### **Finance Leases**

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

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

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

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

## **Operating Leases**

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

## **The Council as Lessor**

### **Finance Leases**

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

Lease rentals receivable are apportioned between:

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

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

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

### **Operating Leases**

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

## **1.17 Overheads and Support Services**

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

## **1.18 Property, Plant and Equipment**

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

See accounting policy 1.21 for details of the Council's infrastructure assets policy.

### **Recognition**

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

repairs and maintenance) is charged as an expense when it is incurred.

### Componentisation

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

### Measurement

Assets are initially measured at cost, comprising:

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

Assets that are being constructed by the council will initially be recognised at cost. The council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

Category	Measurement Basis
Dwellings	Current value, determined using the basis of existing use value for social housing (EUV-SH)
Council offices	Current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost which is used as an estimate of current value
Surplus assets	Fair value – highest and best
All other assets	Existing use value

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

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

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

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

Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

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

### 1.19 Impairment

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

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

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

### 1.20 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the allocation of their depreciable amounts over the time of their useful lives. Assets are not depreciated in the year of acquisition and a full year's depreciation is charged in the year of disposal.

Depreciation is calculated on the following basis:

Category	Method and period over which assets depreciated
Land	Not depreciated
Council Dwellings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 80 years)
Other buildings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 40 years)
Vehicles, plant and equipment	Straight-line allocation over 5 to 15 years depending on the type of asset;
Community Assets	Not depreciated
Assets under construction	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historical

cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of:

- Their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale.
- Their recoverable amount at the date of the decision not to sell.

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

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

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

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

## **1.21 Infrastructure Assets**

Infrastructure assets include sea river and flood defences, environmental improvement works, street furniture lighting and landscaping and footways and cycleways.

### Recognition

Expenditure on the acquisition of infrastructure assets is capitalised on an accruals basis, if it is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably.

### Measurement

Infrastructure assets are measured on a depreciated historical cost basis. However, for opening balances for infrastructure assets held under the accounting rules that applied before 1 April 1994 this is a modified form of historical cost with expenditure that was incurred before this date only included to the extent that it had not been financed before the end of the 1993/94 financial year.

Where material impairment losses are identified they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

### Depreciation

Depreciation is provided on infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.



Useful lives of the various infrastructure assets are assessed using industry standards where applicable as follows:

<b>Asset Type</b>	<b>Useful Life</b>
Sea & River Defences	40 years
Environmental Improvement Works	40 years
Street Furniture, lighting & landscaping	40 years
Footways & Cycleways	20 years

## **1.22 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.

## **1.23 Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that

year to score against the Surplus and Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

#### **1.24 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.

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

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

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

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

#### IFRS 16 Leases (deferral to 1 April 2024)

This standard will require local authorities to review all their lessor and lessee accounting arrangements to comply with the new financial reporting standard, with potential balance sheet implications, and the initial assessment should be completed by the council during 2024-25. The key aspect is for lessees to recognise appropriate leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition of de minimis thresholds for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2024 (from 1 April 2020). As IFRS16 is effective on or after 1 April 2024, there will be no impact on 2021-22 comparatives.

#### Definition of a Business: Amendments to IFRS 3 Business Combinations

IFRS 3 has been amended to clarify the definition of a business, with the intention of making it easier to determine whether an acquisition should be accounted for as a business combination or as an acquisition of miscellaneous assets. A business will now be defined as an integrated set of activities and assets that must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output. As the amendment is wholly prospective from the date of application, it will not entail any restatement of 2020-21 transactions.

#### Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7

##### Pre-IBOR replacement issues

These amendments are intended to ensure that hedge accounting will not be impacted unduly by the replacement of Inter-Bank Offer Rates (IBORs). Only relevant where hedge accounting is being applied and IBORs are currently part of a forecast transaction that is currently being treated as highly probable.

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

##### Issues arising when an IBOR benchmark is actually replaced.

The amendments introduce a practical expedient for modifications of financial assets and liabilities that would arise from IBOR reform, allowing the updating of the effective interest rate. Hedge accounting will not be discontinued solely because of the IBOR reform. Hedging relationships must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk and the amended relationships tested against the qualifying criteria for hedge accounting.

It is not expected that these new standards will have any material impact on the Council's financial performance or financial position. However, a formal assessment will be undertaken at the time of adoption by the CIPFA Code of Practice.

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

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

#### Local Government Funding

There is still a high degree of uncertainty about future levels of funding for local government, the full impact of COVID-19 pandemic and revisions to the Business Rate Retention scheme is unclear. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

#### Pension Prepayment

The Council is liable to make contributions towards the cost of post-employment benefits. For the 3-year period 2020/21 – 2022/23, the Council agreed with the Lancashire County Pension Fund that the employer contributions payable to the Local Government Pension Scheme (LGPS) could be paid as a single up-front payment.

In April 2020 the Council prepaid an amount of £8.459M to Lancashire County Council Pension Fund in April 2020. The prepayment covers estimated employee contributions for the period 2020/21 – 22/23 and will generate an estimated saving of £0.491M over the period based on an estimated pensionable payroll £17.95M.

In line with the Council's accounting policies. In 2020/21 the amounts relating to 2021/22 and 2022/23 were offset against the pension liability on the balance sheet. These amounts were then reflected in the pension reserve in the years to which they related.

For further details see Note 41 Defined Benefit Pension Schemes.

#### Property Plant & Equipment

The Council's non-current assets within its general fund are valued on the balance sheet in accordance with the statement of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors. The Council carries out a rolling programme that ensures all Plant, Property and Equipment required to be measured at fair value is revalued within a three-year cycle. All assets reviewed had a valuation date of 1 April 2020. Any material changes after the valuation date have been accounted for.

#### Council Dwellings

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

#### Investment Properties

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

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

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

The items in the Balance Sheet on 31st March 2021 for which there is a significant risk of material adjustment in the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions																																								
Property, plant and equipment  Valuations	<p>The Code prescribes the detailed bases for measuring the different classes of property, plant and equipment (PPE). Valuations are undertaken by qualified valuers in accordance with Royal Institute of Chartered Surveyors Guidance on the basis of a three year rolling programme.</p> <p>HRA assets are revalued at least every five years on a rolling programme, while investment properties are revalued on an annual basis.</p> <p>A number of judgements are required to be made as part of the revaluation and impairment assessment process. This brings with it uncertainties, and assumptions have to be made and responded to accordingly. Where necessary, any resultant long-term implications would be incorporated into our financial strategy.</p> <p>The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Councils internal valuers.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. This would not impact real GF or HRA balances.</p> <p>Sensitivity analysis detailing movement in valuations is provided in the table below.</p>																																								
<p>Movement in property valuations analysis</p> <table border="1" data-bbox="411 1111 1385 1440"> <thead> <tr> <th data-bbox="411 1111 724 1240" rowspan="2">Asset Category</th> <th data-bbox="724 1111 884 1240" rowspan="2">Assets Valuation 31<sup>st</sup> March 2021</th> <th colspan="2" data-bbox="884 1111 1043 1173">Increase in valuation</th> <th colspan="2" data-bbox="1043 1111 1385 1173">Decrease in valuation</th> </tr> <tr> <th data-bbox="884 1173 979 1240">1%</th> <th data-bbox="979 1173 1043 1240">5%</th> <th data-bbox="1043 1173 1139 1240">1%</th> <th data-bbox="1139 1173 1385 1240">5%</th> </tr> </thead> <tbody> <tr> <td data-bbox="411 1240 724 1279">Council Dwellings</td> <td data-bbox="724 1240 884 1279">131,023</td> <td data-bbox="884 1240 979 1279">132,333</td> <td data-bbox="979 1240 1043 1279">137,574</td> <td data-bbox="1043 1240 1139 1279">129,713</td> <td data-bbox="1139 1240 1385 1279">124,472</td> </tr> <tr> <td data-bbox="411 1279 724 1317">Other Land and Buildings</td> <td data-bbox="724 1279 884 1317">51,638</td> <td data-bbox="884 1279 979 1317">52,154</td> <td data-bbox="979 1279 1043 1317">54,220</td> <td data-bbox="1043 1279 1139 1317">51,122</td> <td data-bbox="1139 1279 1385 1317">49,056</td> </tr> <tr> <td data-bbox="411 1317 724 1355">Surplus Assets</td> <td data-bbox="724 1317 884 1355">992</td> <td data-bbox="884 1317 979 1355">1,002</td> <td data-bbox="979 1317 1043 1355">1,042</td> <td data-bbox="1043 1317 1139 1355">982</td> <td data-bbox="1139 1317 1385 1355">942</td> </tr> <tr> <td data-bbox="411 1355 724 1393">Investment Properties</td> <td data-bbox="724 1355 884 1393">33,203</td> <td data-bbox="884 1355 979 1393">33,535</td> <td data-bbox="979 1355 1043 1393">34,863</td> <td data-bbox="1043 1355 1139 1393">32,871</td> <td data-bbox="1139 1355 1385 1393">31,543</td> </tr> <tr> <td data-bbox="411 1393 724 1440"><b>Total</b></td> <td data-bbox="724 1393 884 1440"><b>216,856</b></td> <td data-bbox="884 1393 979 1440"><b>219,025</b></td> <td data-bbox="979 1393 1043 1440"><b>227,699</b></td> <td data-bbox="1043 1393 1139 1440"><b>214,687</b></td> <td data-bbox="1139 1393 1385 1440"><b>206,013</b></td> </tr> </tbody> </table>			Asset Category	Assets Valuation 31 <sup>st</sup> March 2021	Increase in valuation		Decrease in valuation		1%	5%	1%	5%	Council Dwellings	131,023	132,333	137,574	129,713	124,472	Other Land and Buildings	51,638	52,154	54,220	51,122	49,056	Surplus Assets	992	1,002	1,042	982	942	Investment Properties	33,203	33,535	34,863	32,871	31,543	<b>Total</b>	<b>216,856</b>	<b>219,025</b>	<b>227,699</b>	<b>214,687</b>	<b>206,013</b>
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Property, plant and equipment  Depreciation	<p>Assets are depreciated over their assessed useful lives, considering assumptions about the level of repairs and maintenance that will be undertaken. The current economic climate makes it uncertain that current spending on repairs and maintenance can be sustained, bringing into doubt the useful lives of its assets will be incurred in relation to individual assets.</p> <p>If the useful life of assets is reduced depreciation increases and the carrying amount of assets falls. However, due to capital regulations, there would be no impact on the general fund balance.</p>	<p>If the useful economic life (UEL) of assets is reduced, depreciation will increase and the carrying value of assets will decrease.</p> <p>Had the council assumed a UEL of one year less in 2020/21 for all assets with a UEL of 20 years or more, depreciation charges would have been higher.</p>																																								
Fair Value Measurements	<p>When the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. Where possible,</p>	<p>The significant unobservable inputs used in the fair value measurement include management assumptions about rent growth, vacancy levels (for</p>																																								

	the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk.	investment properties) and discount rates. Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in Note 15.
Pensions Liability	Estimation of the liability to pay pensions within the Local Government Pension Scheme depends on a number of complex judgements relating to: the rate for discounting scheme liabilities; the rate at which salaries are projected to increase; changes in retirement ages and mortality rates; and expected returns on pension fund assets. A firm of actuaries is engaged by the Lancashire County Pension Fund to provide all the authorities within that fund with expert advice about the assumptions to be applied in calculating the IAS19 figures for accounting purposes.	Several factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 41 of these financial statements.
Provision for Business Rate Appeals	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 2020/21 and earlier financial years in proportion to their share. The Authority has made a provision of £6.445M, based on the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using data provided by an external software provider who utilises the Valuation Office Agency (VOA) ratings list of appeals and its own extensive property list and historic rating information.	An increase in the estimated settlement rate of 10% would have the effect of adding £0.645M to the provision needed.
Debtors/ Arrears	Note 19 shows non-public sector debtors of £4.381M  The level of required provision is based on various assumptions and estimates, such as the national and local economic outlook and previous collection rates. Given the current economic climate, there is some uncertainty as to whether collection rates will be sustained and therefore as to the required level of bad debt provision.	If collection rates were to deteriorate, then the level of bad debt provisions would need to be increased. A 10% increase in impairment of doubtful debts would require an additional amount in the region of £400K to be set aside.

## 5 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts were authorised for issue by the Chief Finance Officer on 30<sup>th</sup> July 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

## 6 THE EXPENDITURE AND FUNDING ANALYSIS

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

2019/20				2020/21		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
			<i>Continuing Operations:</i>			
1,425	(84)	1,509	Central Services	1,156	(80)	1,236
4,568	(3,300)	7,868	Communities & Environment	10,904	(4,966)	15,870
(6,630)	(6,262)	(368)	Housing Revenue Account	(6,824)	(6,670)	(154)
4,529	(2,804)	7,333	Economic Growth & Regeneration	6,142	(3,227)	9,369
6,541	(3,139)	9,680	Corporate Services	5,733	(751)	6,484
<b>10,433</b>	<b>(15,589)</b>	<b>26,022</b>	<b>Net Cost of Services</b>	<b>17,111</b>	<b>(15,694)</b>	<b>32,805</b>
(11,223)	7,289	(18,512)	Other Income and Expenditure	(30,392)	(2,300)	(28,092)
<b>(790)</b>	<b>(8,300)</b>	<b>7,510</b>	<b>(Surplus) or Deficit</b>	<b>(13,281)</b>	<b>(17,994)</b>	<b>4,713</b>
33,328			Opening General Fund & HRA Balances & Reserves	34,118		
790			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	13,281		
<b>34,118</b>			<b>Closing General Fund and HRA Balance &amp; Reserves at 31/3/2021</b>	<b>47,399</b>		

\* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

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

<b>Adjustments between Funding and Accounting Basis 2020/21</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	£000	£000	£000	£000
Central Services	-	(80)	-	<b>(80)</b>
Communities & Environment	(3,758)	(1,206)	(2)	<b>(4,966)</b>
Housing Revenue Account	(6,155)	(517)		<b>(6,672)</b>
Economic Growth & Regeneration	(2,628)	(596)	(3)	<b>(3,227)</b>
Corporate Services	(365)	(383)	(1)	<b>(749)</b>
<b>Net Cost of Services</b>	<b>(12,906)</b>	<b>(2,782)</b>	<b>(6)</b>	<b>(15,694)</b>
Other income and expenditure from the Expenditure and Funding Analysis	10,639	(1,264)	(11,675)	<b>(2,300)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(2,267)</b>	<b>(4,046)</b>	<b>(11,681)</b>	<b>(17,994)</b>

<b>Adjustments between Funding and Accounting Basis 2019/20</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	£000	£000	£000	£000
Central Services	-	(84)	-	<b>(84)</b>
Communities & Environment	(1,896)	(1,403)	(1)	<b>(3,300)</b>
Housing Revenue Account	(6,135)	(127)	-	<b>(6,262)</b>
Economic Growth & Regeneration	(2,353)	(450)	(1)	<b>(2,804)</b>
Corporate Services	(348)	(2,791)	-	<b>(3,139)</b>
<b>Net Cost of Services</b>	<b>(10,732)</b>	<b>(4,855)</b>	<b>(2)</b>	<b>(15,589)</b>
Other income and expenditure from the Expenditure and Funding Analysis	6,697	(1,481)	2,073	<b>7,289</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(4,035)</b>	<b>(6,336)</b>	<b>2,071</b>	<b>(8,300)</b>

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

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

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

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

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

#### **Other Differences**

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

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

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

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

	2019/20	2020/21
	£000	£000
Employee benefits expenses	32,611	31,193
Other services expenses	59,780	63,340
Support service recharges	1,332	1,514
Depreciation, amortisation, impairment	11,426	11,676
Interest payments	2,951	2,916
Precepts and levies	987	1,232
Payments to Housing Capital Receipts Pool	698	654
Gain on the disposal of assets	(375)	(366)
<b>Total Expenditure</b>	<b>109,410</b>	<b>112,159</b>
Fees, charges and other service income	(47,292)	(38,976)
Interest and investment income	1,939	1,560
Net Income from council tax, non domestic rates, district rate income	(18,986)	(10,689)
Government grants and contributions	(37,561)	(59,341)
<b>Total Income</b>	<b>(101,900)</b>	<b>(107,446)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>7,510</b>	<b>4,713</b>



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

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

	2019/20 Comparative Figures						2020/21					
	Usable Reserves		Usable Reserves				Usable Reserves		Usable Reserves			
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000
<b>Adjustments to the Revenue Resources:</b>												
<b>Amounts by which income and expenditure included in the Comprehensive income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.</b>												
Pensions costs (transferred to (or from) the Pensions Reserve)	(5,801)	(536)	-	-	-	-	(3,315)	(731)	-	-	-	-
Financial instruments (transferred to the Financial instruments Adjustments Account)	-	-	-	-	-	-	-	-	-	-	-	-
Council tax and NDR (transfers to or from Collection Fund)	2,073	-	-	-	-	-	(11,675)	-	-	-	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(2)	-	-	-	-	-	(7)	1	-	-	-	-
Reversal of entries included in the Surplus or Deficit on the provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(3,981)	(7,201)	-	-	-	-	(2,306)	(6,970)	-	-	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>(7,711)</b>	<b>(7,737)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,303)</b>	<b>(7,700)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Revenue and Capital Resources</b>												
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	11	1,480	(1,491)	-	-	-	13	1,161	(1,174)	-	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(34)	34	-	-	-	-	(23)	23	-	-	-
Payments to the government housing receipts pool funded by a transfer from the Capital Receipts Reserve	(698)	-	698	-	-	-	(654)	-	654	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	3,126	-	(3,126)	-	-	-	3,317	-	(3,316)	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,599	1,041	-	-	-	-	1,760	1,041	-	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	416	208	-	-	-	-	267	127	-	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>1,328</b>	<b>5,821</b>	<b>(759)</b>	<b>(3,126)</b>	<b>-</b>	<b>-</b>	<b>1,386</b>	<b>5,623</b>	<b>(497)</b>	<b>(3,316)</b>	<b>-</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>												
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	723	-	-	-	-	-	13	-	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	3,126	-	-	-	-	-	2,913	-	-
Application of capital grants to finance capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>723</b>	<b>3,126</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>2,913</b>	<b>-</b>	<b>-</b>
<b>Total Adjustments</b>	<b>(6,383)</b>	<b>(1,916)</b>	<b>(36)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15,917)</b>	<b>(2,077)</b>	<b>(484)</b>	<b>(403)</b>	<b>-</b>	<b>-</b>

## 9 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2020/21.

	Balance at 31 March 2019	Transfers Out	Transfers In	Balance at 31 March 2020	Transfers Out	Transfers In	Balance at 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Corporate Property Reserve	372	(33)	-	339	-	-	339
Covid 19 Support Reserve	-	-	-	-	(187)	2,000	1,813
Other Commuted Sums	1,103	(342)	415	1,176	(376)	169	969
Restructuring Reserve	531	-	-	531	(80)	-	451
Renewals	330	(434)	485	381	(272)	493	602
Capital Support	262	(4)	-	258	(185)	-	73
Canal Quarter	237	(168)	-	69	(69)	-	-
Corporate Priorities (Budget Support)	2,532	(379)	-	2,153	(557)	882	2,478
Economic Growth	204	(445)	367	126	(55)	118	189
Invest to Save Reserve	1,450	(53)	-	1,397	(193)	29	1,233
Business Rates Retention Reserve	6,284	(367)	1,460	7,377	(814)	1,738	8,301
Welfare Reforms Reserve	349	(24)	-	325	-	-	325
Homelessness Support	101	-	9	110	-	-	110
Revenue Grants Unapplied *	694	(121)	254	827	(260)	7,930	8,497
Other Reserves £100K and under	394	(189)	46	251	(47)	53	257
<b>Total</b>	<b>14,843</b>	<b>(2,559)</b>	<b>3,036</b>	<b>15,320</b>	<b>(3,095)</b>	<b>13,412</b>	<b>25,637</b>

\* Transfers to Revenue Grants Unapplied Reserve include £6.941m Section 31 grant (which will be discharged againsts the Collection Fund deficit in 2021/22) and £0.838m Covid-19 Support grant and Covid Hardship Fund grant to be utilised during 2021/22.

<b>HRA:</b>							
Hsg Mgt System Replacement	575	(49)	57	583	(3)	-	580
Flats Planned Maintenance	612	(53)	133	692	(67)	133	758
Sheltered Housing Reserves	1,046	(70)	191	1,167	(22)	235	1,380
Business Support Reserve	8,265	(167)	-	8,098	(188)	-	7,910
Other Reserves £100K and under	39	-	-	39	-	-	39
<b>Total</b>	<b>10,537</b>	<b>(339)</b>	<b>381</b>	<b>10,579</b>	<b>(280)</b>	<b>368</b>	<b>10,667</b>

### General Fund Earmarked Reserves

#### **Amenity Improvements**

Established to enable the continuation of the proactive regeneration focused programme of work to remedy untidy land and buildings in regeneration priority areas

#### **Corporate Property**

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

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

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

#### **Other Commuted Sums**

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

#### **Restructuring**

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

#### **Renewals**

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

**Capital Support**

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

**Canal Quarter**

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

**Corporate Priorities (Budget Support)**

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

**Covid 19 Support Reserve**

Established to provide support to businesses and vulnerable people in response to the Covid 19 Pandemic

**Elections**

Established to manage the cost of Elections

**Economic Growth**

To support economic growth activities in the district.

**Homelessness Support**

To hold unspent homelessness grant monies

**Investment Property Maintenance and Voids**

Established to set aside a % of gross rents on newly acquired investment properties to cover maintenance and voids

**Invest to Save**

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

**Business Rates Retention**

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

**Welfare Reforms**

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

**Morecambe Area Action Plan (MAAP)**

To support implementation of the MAAP.

**Museums Acquisitions**

Established to hold funds to finance acquisitions across the museums in the district

**Planning Fee Income**

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

**Revenue Grants Unapplied**

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

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

Established to fund future major IT systems replacement.

**Flats – Planned Maintenance Reserve**

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

**Sheltered Housing Reserves**

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

### Business Support Reserve

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

## 10 OTHER OPERATING INCOME & EXPENDITURE

The council's various income streams have been assessed and classified in line with Chapter 2 of the 2020/21 Code of Practice and revenue has been recognised accordingly, with specific consideration given to:

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

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

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

	2019/20	2020/21
	£000	£000
Parish council precepts	663	688
Payments to the Government Housing Capital Receipts Pool	698	654
(Gains)/losses on the disposal of non-current assets	(375)	(365)
	<b>986</b>	<b>977</b>

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

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

	2019/20	2020/21
	£000	£000
Interest payable and similar charges	2,951	2,916
Pensions interest cost and expected return on pensions	1,481	1,264
Interest receivable and similar income	(288)	(64)
Income and expenditure in relation to investment properties and changes in their fair value	2,228	1,623
Other investment income and expenditure	1	1
	<b>6,373</b>	<b>5,740</b>

## 12 TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

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

	2019/20 £000	2020/21 £000
Council tax income	(10,063)	(10,187)
Non domestic rates	(8,600)	41
Non-ringfenced government grants:		
* Section 31 Grant	(2,281)	(9,488)
MHCLC income compensation scheme for lost sales, fees and charges	-	(4,197)
Covid 19 emergency funding & new burdens grants	(174)	(2,910)
New Homes Bonus	(1,672)	(1,502)
75% Taxation Income Guarantee	-	(291)
Revenue Support Grant	(200)	(203)
Capital grants and contributions	(2,881)	(6,072)
	<b>(25,871)</b>	<b>(34,809)</b>

\* Section 31 Grant has increased to compensate for loss of Business Rate income arising from Covid-19 pandemic in 2020/21 & 2021/22

### 13 PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Property, Plant and Equipment £000
<b>Cost/Valuation</b>							
<b>Balance as at 1 April 2020</b>	<b>132,868</b>	<b>64,375</b>	<b>21,880</b>	<b>8,614</b>	<b>981</b>	<b>4,018</b>	<b>232,736</b>
additions	3,042	44	2,260	100	-	-	5,446
donations	-	-	-	-	-	-	-
revaluation increases/(decreases) recognised in the Revaluation Reserve	3,097	860	-	-	21	-	3,978
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	(3,850)	(1,177)	-	-	24	-	(5,003)
derecognition - disposals	(837)	-	(222)	-	-	-	(1,059)
derecognition - other	-	-	-	-	-	-	-
assets reclassified (to)/from Assets Held for Sale	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	(3,882)	(3,882)
<b>Balance as at 31 March 2021</b>	<b>134,320</b>	<b>64,102</b>	<b>23,918</b>	<b>8,714</b>	<b>1,026</b>	<b>136</b>	<b>232,216</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>Balance as at 1 April 2020</b>	<b>(3,102)</b>	<b>(7,611)</b>	<b>(15,621)</b>	<b>(34)</b>	<b>(30)</b>	<b>-</b>	<b>(26,398)</b>
depreciation charge	(3,317)	(2,675)	(1,325)	(5)	(34)	-	(7,356)
depreciation on revaluations written back recognised in the Revaluation Reserve	2,140	5,513	-	-	30	-	7,683
depreciation on revaluations written back recognised in the Surplus/Deficit on Provision of Services	961	-	-	-	-	-	961
derecognition - disposals	20	-	220	-	-	-	240
<b>Balance as at 31 March 2021</b>	<b>(3,298)</b>	<b>(4,773)</b>	<b>(16,726)</b>	<b>(39)</b>	<b>(34)</b>	<b>-</b>	<b>(24,870)</b>
<b>Net Book Value</b>							
<b>at 31 March 2020</b>	<b>129,766</b>	<b>56,764</b>	<b>6,259</b>	<b>8,580</b>	<b>951</b>	<b>4,018</b>	<b>206,338</b>
<b>at 31 March 2021</b>	<b>131,022</b>	<b>59,329</b>	<b>7,192</b>	<b>8,675</b>	<b>992</b>	<b>136</b>	<b>207,346</b>

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Property, Plant and Equipment £000
<b>Cost/Valuation</b>							
<b>Balance as at 1 April 2019</b>	<b>132,731</b>	<b>63,067</b>	<b>21,291</b>	<b>8,614</b>	<b>1,158</b>	<b>545</b>	<b>227,406</b>
additions	4,086	231	732	-	255	3,473	8,777
donations	-	-	-	-	-	-	-
revaluation increases/(decreases) recognised in the Revaluation Reserve	707	399	-	-	(381)	-	726
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	(3,500)	678	-	-	(51)	-	(2,873)
derecognition - disposals	(1,156)	-	(143)	-	-	-	(1,299)
derecognition - other	-	-	-	-	-	-	-
assets reclassified (to)/from Assets Held for Sale	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-
<b>Balance as at 31 March 2020</b>	<b>132,868</b>	<b>64,375</b>	<b>21,880</b>	<b>8,614</b>	<b>981</b>	<b>4,018</b>	<b>232,736</b>
<b>Accumulated Depreciation and Impairment</b>							
<b>Balance as at 1 April 2019</b>	<b>(2,961)</b>	<b>(5,769)</b>	<b>(14,228)</b>	<b>(29)</b>	<b>(57)</b>	<b>-</b>	<b>(23,044)</b>
depreciation charge	(3,126)	(2,184)	(1,536)	(5)	(30)	-	(6,881)
depreciation on revaluations written back recognised in the Revaluation Reserve	2,330	340	-	-	5	-	2,675
depreciation on revaluations written back recognised in the Surplus/Deficit on	606	2	-	-	52	-	660
derecognition - disposals	49	-	143	-	-	-	192
<b>Balance as at 31 March 2020</b>	<b>(3,102)</b>	<b>(7,611)</b>	<b>(15,621)</b>	<b>(34)</b>	<b>(30)</b>	<b>-</b>	<b>(26,398)</b>
<b>Net Book Value</b>							
<b>at 31 March 2019</b>	<b>129,770</b>	<b>57,298</b>	<b>7,063</b>	<b>8,585</b>	<b>1,101</b>	<b>545</b>	<b>204,362</b>
<b>at 31 March 2020</b>	<b>129,766</b>	<b>56,764</b>	<b>6,259</b>	<b>8,580</b>	<b>951</b>	<b>4,018</b>	<b>206,338</b>

### Infrastructure Assets

Movements on Balances	2019/20 £000	2020/21 £000
<b>Opening Net Book Value</b>	<b>34,013</b>	<b>32,625</b>
Additions	24	6,066
De-recognition	-	-
Other Transfers	-	3,882
Depreciation	(1,412)	(1,393)
<b>Closing Net Book Value</b>	<b>32,625</b>	<b>41,180</b>

Total Property Plant & Equipment	2019/20 £000	2020/21 £000
<b>Infrastructure Assets</b>	<b>32,625</b>	<b>41,180</b>
<b>Other PPE Assets</b>	<b>206,338</b>	<b>207,346</b>
<b>Total PPE Assets</b>	<b>238,963</b>	<b>248,526</b>

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The Council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 30M (England) of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

## 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: 20 - 40 years.

## Capital Commitments

At 31 March 2021, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 anticipated to cost £2.189M. Similar commitments at 31 March 2020 were £5.325M. The major commitments are:

- Sea and Flood Defence £2.131M
- Electronic Vehicle Charging Points £0.058M

## Revaluations

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

The significant assumptions applied in estimating the fair values are:

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

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant Furniture &amp;</b>	<b>Surplus Assets</b>	<b>Total</b>
	£000	£000	£000	£000	£000
Carried at historical cost	-	-	7,192	-	7,192
Valued at current value as at:					
31 March 2021	131,023	51,638	-	992	183,653
31 March 2020	-	5,813	-	-	5,813
31 March 2019	-	1,878	-	-	1,878
31 March 2018	-	-	-	-	-
31 March 2017	-	-	-	-	-
<b>Total Cost or Valuation</b>	<b>131,023</b>	<b>59,329</b>	<b>7,192</b>	<b>992</b>	<b>198,536</b>

## 14 HERITAGE ASSETS

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

	2019/20	2020/21
	£000	£000
<b>Opening Balance</b>		
Civic Regalia and other donated items	833	833
Museum Collections	8,400	8,400
Public Art Works	100	100
Art Collection	185	185
	<b>9,518</b>	<b>9,518</b>
<b>Disposals</b>	-	-
<b>Revaluations</b>	<b>833</b>	-
<b>Closing Balance</b>		
Civic Regalia and other donated items	833	833
Museum Collections	8,400	8,400
Public Art Works	100	100
Art Collection	185	185
	<b>9,518</b>	<b>9,518</b>

### Civic Regalia and other donated assets

There are over 80 pieces of civic regalia and other donated assets, with some of the more valuable items including the mayoral chains, and the Lancaster and Morecambe maces. In addition to these are numerous items of silverware, china and glassware. The majority of these items are held at Lancaster Town Hall and can be viewed at the annual Heritage Open Day held every September in addition to any guided town hall tours that may be held throughout the year.

### Museums' Collections

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

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

### Public Artwork

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

### Art Collection

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

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

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

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



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

## 15 INVESTMENT PROPERTIES

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

	2019/20	2020/21
	£000	£000
Rental income from investment property	(1,784)	(1,894)
Direct operating expenses arising from investment property	942	726
<b>Net (gain)/loss</b>	<b>(842)</b>	<b>(1,168)</b>

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

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

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>23,328</b>	<b>26,002</b>
Additions:		
- Purchases	4,925	8,767
- Construction	91	7
Disposals:		
Net gains/losses from fair value adjustments	(2,342)	(1,573)
Transfers:		
- to/from Property, Plant & Equipment	-	-
<b>Balance as at 31 March</b>	<b>26,002</b>	<b>33,203</b>

### Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy at 31 March 2021 are as follows:

2020/21	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 2021
	£000	£000	£000	£000
<i>Recurring fair value measurements using:</i>				
Office	-	-	4,070	4,070
Retail	-	4,127	2,556	6,683
Agriculture & Allotments	-	1,062	153	1,215
Commercial Land	-	1,449	754	2,203
Commercial Buildings	-	8,777	2,023	10,800
Mixed Commercial	-	-	8,232	8,232
<b>Total</b>	<b>-</b>	<b>15,415</b>	<b>17,788</b>	<b>33,203</b>

2019/20	Quoted prices			Fair Value as at 31 March 2020
	in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
Office	-	-	4,137	4,137
Retail	-	-	2,850	2,850
Agriculture & Allotments	-	1,062	416	1,478
Commercial Land	-	1,474	992	2,466
Commercial Buildings	-	4,935	1,826	6,761
Mixed Commercial	-	-	8,310	8,310
<b>Total</b>	-	<b>7,471</b>	<b>18,531</b>	<b>26,002</b>

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

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

#### Significant Observable Inputs – Level 2

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

#### Significant Unobservable Inputs – Level 3

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

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

### Highest and best use of Investment Properties

With the exception of a piece of Commercial Land at Burrow Beck Lancaster, Commercial Buildings on Dorrington Road and King George Playing Fields, Commercial Land on York Road, Blackberry Hall Lane, Lansil Estate and Agricultural Land on Ashford Road, in estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

If the properties were to be sold they have a potential alternative use as residential housing land. They have, therefore, been valued at £2.5M which is deemed to be the highest and best use value.

### Valuation Techniques

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

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

	2020/21
	£000
<b>Balance as at 1 April</b>	<b>18,531</b>
Transfers in	.
Transfers out	-
Total gains/losses for the period included in Surplus or Deficit on the Provision of Services resulting from changes in fair value	(750)
Additions	7
Disposals	-
<b>Balance as at 31 March</b>	<b>17,788</b>

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

## 16 INTANGIBLE ASSETS

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

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

	2019/20	2020/21
	£000	£000
<b>Balance at start of year:</b>		
- Gross carrying amounts	926	934
- Accumulated amortisation	(627)	(751)
<b>Net carrying amount at start of year</b>	<b>299</b>	<b>183</b>
Additions:		
- Purchases	8	-
Amortisation for the period	(124)	(115)
<b>Net carrying amount at the end of year</b>	<b>183</b>	<b>68</b>
<b>Comprising:</b>		
- Gross carrying amounts	934	934
- Accumulated amortisation	(751)	(866)
<b>Balance as at 31 March</b>	<b>183</b>	<b>68</b>

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

## 17 FINANCIAL INSTRUMENTS

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

## Financial Liabilities

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

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

## Financial Assets

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

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

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

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

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

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

	Non Current		Current	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000
<b>Investments</b>				
Amortised Cost	0	0	0	0
Fair value through profit or loss	0	0	0	0
Fair value through other comprehensive income - designated equity	0	0	0	0
Fair value through other comprehensive income - other	0	0	0	0
<b>Total investments</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Debtors</b>				
Amortised Cost	0	102	12,135	24,491
Fair value through profit or loss	0	0	0	0
Fair value through other comprehensive income - designated equity	0	0	0	0
Fair value through other comprehensive income - other	0	0	0	0
<b>Total Debtors</b>	<b>0</b>	<b>102</b>	<b>12,135</b>	<b>24,491</b>
<b>Bank account</b>	<b>0</b>	<b>0</b>	<b>40,893</b>	<b>25,100</b>
<b>Total assets</b>	<b>0</b>	<b>102</b>	<b>53,028</b>	<b>49,591</b>
<b>Borrowings</b>				
Amortised Cost	(61,084)	(60,043)	(16,041)	(1,041)
Fair value through profit or loss				
Lease liabilities	0	0	0	0
<b>Total borrowings</b>	<b>(61,084)</b>	<b>(60,043)</b>	<b>(16,041)</b>	<b>(1,041)</b>
<b>Creditors</b>				
Amortised Cost	(225)	(170)	(20,035)	(43,465)
Fair value through profit or loss				
<b>Total Creditors</b>	<b>(225)</b>	<b>(170)</b>	<b>(20,035)</b>	<b>(43,465)</b>
<b>Bank (Overdraft) / Cash in Hand</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total liabilities</b>	<b>(61,309)</b>	<b>(60,213)</b>	<b>(36,076)</b>	<b>(44,506)</b>

## Income, Expenses, Gains and Losses

	2019/20					2020/21				
	Financial Assets measured at amortised cost £000	Financial Assets measured at Fair value through profit or loss £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Liabilities measured at Fair value through profit or loss £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest payable	2,951	-	-	-	2,951	2,916	-	-	-	2,916
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>2,951</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,951</b>	<b>2,916</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,916</b>
Interest income	(288)	-	-	-	(288)	(64)	-	-	-	(64)
Interest income accrued on impaired financial assets	-	-	-	-	-	-	-	-	-	-
Increases in fair value	-	-	-	-	-	-	-	-	-	-
Gains and derecognition	-	-	-	-	-	-	-	-	-	-
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>(288)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(288)</b>	<b>(64)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64)</b>
Gains on revaluation	-	-	-	-	-	-	-	-	-	-
Losses on revaluation	-	-	-	-	-	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-	-	-	-	-	-
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (gain)/loss for the year</b>	<b>2,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,663</b>	<b>2,852</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,852</b>

## Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Carrying values are assumed to be equal to the fair value of short term assets and liabilities held. The value of long term creditors is reviewed at each balance sheet date based on the current values outstanding and best estimates of amounts required to settle liabilities of uncertain timing or amount. PWLB loans are the only financial instrument where the fair value is judged to be different from the carrying amount. The fair value is calculated based on premature repayment rates between 1.71% and 3.33%.

	31 March 2020		31 March 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	97,160	166,152	104,549	157,708
Long-term creditors & provisions	6,458	6,458	7,312	7,312
<b>Total</b>	<b>103,618</b>	<b>172,610</b>	<b>111,861</b>	<b>165,020</b>

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

	31 March 2020		31 March 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	53,028	53,028	49,591	49,591
Long-term debtors *	-	-	102	102
<b>Total</b>	<b>53,028</b>	<b>53,028</b>	<b>49,693</b>	<b>49,693</b>

\* Represents a new loan to the Winter Gardens, repayable over 25 years as approved by Cabinet 14 January 2020

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

## 18 INVENTORIES

	Consumable Stores		Maintenance Materials		Items for Resale		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
<b>Balance as at 1 April</b>	58	16	270	339	102	93	430	448
Purchases	56	3	1,019	1,246	450	129	1,525	1,378
Recognised as an expense in the year	(98)	(4)	(948)	(1,074)	(458)	(107)	(1,504)	(1,185)
Written off balances	-	(15)	(2)	-	(1)	(3)	(3)	(18)
Reversals of write-offs in previous years	-	-	-	-	-	-	-	-
<b>Balance as at 31 March</b>	<b>16</b>	<b>-</b>	<b>339</b>	<b>511</b>	<b>93</b>	<b>112</b>	<b>448</b>	<b>623</b>

## 19 SHORT TERM DEBTORS

	31 March 2020 £000	31 March 2021 £000
Council Taxpayers	861	1,128
Central Government Bodies	1,090	10,924
Housing Rents	571	321
Other Local Authorities	5,274	9,186
Commercial Ratepayers	389	879
Other entities and individuals	3,950	2,053
	<b>12,135</b>	<b>24,491</b>

## 20 CASH AND CASH EQUIVALENTS

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

	31 March 2020 £000	31 March 2021 £000
Bank current account	893	3,100
Investments < 3 months	40,000	22,000
	<b>40,893</b>	<b>25,100</b>

## 21 ASSETS HELD FOR SALE

The Council currently has no assets held for sale.

## 22 SHORT TERM CREDITORS

	31 March 2020 £000	31 March 2021 £000
Council Taxpayers	(196)	(235)
Central Government Bodies	(11,713)	(34,191)
Housing Rents	(311)	(414)
Other Local Authorities	(2,435)	(1,784)
Commercial Ratepayers	(80)	(110)
Other entities and individuals	(5,300)	(6,731)
	<b>(20,035)</b>	<b>(43,465)</b>

## 23 PROVISIONS

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

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

	<b>Insurance</b>	<b>Business Rate Appeals</b>	<b>Back Pay</b>	<b>Total</b>
	£000	£000	£000	£000
<b>Balance as at 1 April 2020</b>	<b>(573)</b>	<b>(5,611)</b>	<b>(49)</b>	<b>(6,233)</b>
Contribution to Provision	(148)	(2,752)	-	<b>(2,900)</b>
Amounts Paid	73	1,918	-	<b>1,991</b>
<b>Balance as at 31 March 2021</b>	<b>(648)</b>	<b>(6,445)</b>	<b>(49)</b>	<b>(7,142)</b>

### **Insurance Provision**

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

### **Business Rates**

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

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

### **Back Pay**

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



## 24 USABLE RESERVES

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

	31 March 2020 £000	31 March 2021 £000
General Fund Balance	5,361	7,808
HRA Balance	2,858	3,286
HRA Business Plan Reserve	8,098	7,910
Housing Mgt System Replacement Reserve	583	580
Flats Planned Maintenance	692	758
Major Repairs Reserve	-	403
Sheltered Equipment	375	411
Sheltered Planned Maintenance	283	401
Sheltered Support Grant Maintenance	509	568
Renewals Reserve	211	403
Capital Support	258	73
Other Commuted Sums	1,176	969
Corporate Property Reserve	339	339
Restructuring Reserve	531	451
Welfare Reforms Reserve	325	325
Invest to Save Reserve	1,397	1,233
Capital Grants Unapplied	102	102
Capital Receipts Unapplied	-	522
Business Rates Retention Reserve	7,377	8,301
Revenue Grants Unapplied	827	8,497
Corporate Priorities (Budget Support) Reserve	2,153	2,478
Covid-19 Support Reserve		1,813
Economic Growth Reserve	126	189
Homelessness Support Reserve	111	110
Car Parks Reserve	111	123
Other Reserves under £100K	454	374
<b>Total usable reserves</b>	<b>34,257</b>	<b>48,427</b>

## 25 UNUSABLE RESERVES

	31 March 2020 £000	31 March 2021 £000
Revaluation Reserve	74,804	82,876
Financial Instruments Adjustment Account	(143)	(143)
Capital Adjustment Account	113,161	113,594
Pensions Reserve	(56,694)	(77,611)
Deferred Credits	-	-
Accumulated Absences Account	(200)	(206)
Collection Fund Adjustment Account	2,645	(9,030)
<b>Total unusable reserves</b>	<b>133,573</b>	<b>109,480</b>

## Revaluation Reserve

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

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

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

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>74,412</b>	<b>74,804</b>
Upwards revaluation of assets	6,795	16,411
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,396)	(4,749)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	3,399	11,662
Difference between fair value depreciation and historical cost depreciation.	(2,591)	(3,262)
Accumulated gains on assets sold or scrapped	(416)	(328)
Amount written off to the Capital Adjustment Account	(3,007)	(3,590)
<b>Balance as at 31 March</b>	<b>74,804</b>	<b>82,876</b>

## Capital Adjustment Account

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

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

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

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>114,223</b>	<b>113,160</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non current assets	(8,274)	(8,742)
- Revaluation gains/(losses) on Property, Plant and Equipment	(2,214)	(4,042)
- Amortisation of Intangible Assets	(124)	(115)
- Revenue Expenditure funded from Capital under statute.	(2,341)	(1,679)
- 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	(1,107)	(818)
<b>Sub total</b>	<b>101,204</b>	<b>98,805</b>
Adjusting amounts written out of the Revaluation Reserve	3,007	3,590
Write down long-term loan debtor by principal repaid in year	-	(2)
<b>Net written out amount of the cost of non current assets consumed in the year.</b>	<b>104,211</b>	<b>102,393</b>
Capital financing applied in the year:		
- Use of Capital Receipts Reserve	723	13
- Use of the Major Repairs Reserve	3,126	2,913
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	5,219	7,693
- Application of grants to capital financing from the Capital Grants Unapplied Account.	-	-
- Statutory provision for the financing of capital investment charged against General Fund and HRA balances	1,599	1,760
- Capital expenditure charged against the General Fund and HRA balances	624	395
<b>Sub total</b>	<b>115,502</b>	<b>115,167</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	(2,342)	(1,573)
<b>Balance as at 31 March</b>	<b>113,160</b>	<b>113,594</b>

### Financial Instruments Adjustment Account (FIAA)

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in line with statutory provisions. The council uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums and discounts are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund and HRA balance to the FIAA in the Movement in Reserves Statement. Over time, the expense and income are 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.

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>(143)</b>	<b>(143)</b>
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	-	-
<b>Balance as at 31 March</b>	<b>(143)</b>	<b>(143)</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, and changing assumptions and investment returns on any resources set aside to meet such costs. However, statutory arrangements require pensions to be financed as the council makes employer's contributions to pension funds or

eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>(59,302)</b>	<b>(56,694)</b>
Actuarial gains or (losses) on pensions assets and liabilities	8,945	(16,871)
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(9,556)	(7,108)
Employer's pension contribution and direct payments to pensioners payable in the year	3,219	3,062
<b>Balance as at 31 March</b>	<b>(56,694)</b>	<b>(77,611)</b>

### Collection Fund Adjustment Account

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

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>572</b>	<b>2,645</b>
Amount by which council tax and business rates income credited to Comprehensive Income and Expenditure statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	2,073	(11,675)
<b>Balance as at 31 March</b>	<b>2,645</b>	<b>(9,030)</b>

### Accumulated Absences Account

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

	2019/20	2020/21
	£000	£000
<b>Balance as at 1 April</b>	<b>(198)</b>	<b>(200)</b>
Settlement or cancellation of accrual made at the end of the preceding year	198	200
Amounts accrued at the end of the current year	(200)	(206)
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	(2)	(6)
<b>Balance as at 31 March</b>	<b>(200)</b>	<b>(206)</b>

## 26 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2019/20	2020/21
	£000	£000
Interest received	294	89
Interest paid	(4,064)	(2,916)

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

	2019/20	2020/21
	£000	£000
Depreciation	8,274	8,742
Impairment & downward valuations	2,233	4,047
Amortisation	124	115
Increase/(decrease) in creditors	2,458	11,341
(Increase)/decrease in debtors	(1,242)	(1,097)
(Increase)/decrease in inventories	(18)	(176)
Movement in pension liability	9,369	(1,701)
Carrying amount of non-current assets and assets held for sale sold or derecognised	1,107	819
Other non- cash items charged to the net surplus of deficit on the provision of services	4,531	2,483
	<b>26,836</b>	<b>24,573</b>

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

	2019/20	2020/21
	£000	£000
Proceeds from short-term and long-term investments	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,491)	(1,173)
Any other items for which the cash effects are investing or financing cash flows	(5,219)	(7,693)
	<b>(6,710)</b>	<b>(8,866)</b>

## 27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2019/20	2020/21
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(13,953)	(19,885)
Purchase of short-term and long-term investments	(10,000)	-
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	1,491	1,173
Other payments from investing activities	(431)	7,338
Proceeds from short-term and long-term investments	26,000	-
Other receipts from investing activities	4,433	7,269
<b>Net cash flows from investing activities</b>	<b>7,540</b>	<b>(4,105)</b>

## 28 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2019/20	2020/21
	£000	£000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	-	-
Repayment of short-term and long-term borrowing	(1,041)	(16,041)
Cash receipts of long and short term borrowing	15,000	-
Other payments for financing activities	(127)	(6,641)
<b>Net cash flows from financing activities</b>	<b>13,832</b>	<b>(22,682)</b>

## 29 ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations in 2020/21.

## 30 TRADING OPERATIONS

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

	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Trade Waste</b>					
Turnover	(1,241)	(1,378)	(1,435)	(1,493)	(1,190)
Expenditure	1,104	1,124	1,275	1,015	983
(Surplus)/Deficit	(137)	(254)	(160)	(478)	(207)
<b>Garden Waste</b>					
Turnover	(258)	(990)	(911)	(901)	(961)
Expenditure	396	1,190	1,378	1,064	1,165
(Surplus)/Deficit	138	200	467	163	204
<b>Markets</b>					
Turnover	(419)	(414)	(397)	(400)	(117)
Expenditure	310	318	389	340	315
(Surplus)/Deficit	(109)	(96)	(8)	(60)	198
<b>Commercial Properties / Industrial Units</b>					
Turnover	(1,062)	(1,208)	(1,246)	(1,400)	(1,601)
Expenditure	872	898	923	700	538
(Surplus)/Deficit	(190)	(310)	(323)	(700)	(1,063)
<b>Consolidated</b>					
<b>Turnover</b>	<b>(2,980)</b>	<b>(3,990)</b>	<b>(3,989)</b>	<b>(4,194)</b>	<b>(3,869)</b>
<b>Expenditure</b>	<b>2,682</b>	<b>3,530</b>	<b>3,965</b>	<b>3,119</b>	<b>3,001</b>
<b>(Surplus)/Deficit</b>	<b>(298)</b>	<b>(460)</b>	<b>(24)</b>	<b>(1,075)</b>	<b>(868)</b>

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

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Net (surplus)/deficit on trading operations	(298)	(460)	(24)	(1,075)	(868)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	-	-	-	-	-
<b>Net (surplus)/deficit</b>	<b>(298)</b>	<b>(460)</b>	<b>(24)</b>	<b>(1,075)</b>	<b>(868)</b>

### 31 AGENCY SERVICES

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

	2019/20 £000	2020/21 £000
Expenditure on agency arrangement	184	169
Income on agency arrangement	(162)	(129)
<b>Net deficit arising on agency arrangements</b>	<b>22</b>	<b>40</b>

### 32 MEMBERS' ALLOWANCES

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

	2019/20 £000	2020/21 £000
Basic Allowances	216	221
Special Responsibility Allowances	95	91
Expenses	2	-
<b>Total</b>	<b>313</b>	<b>312</b>

### 33 OFFICERS' REMUNERATION

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

	Salary, Fees and allowances	Expenses & Benefits in Kind	Compensation for Loss of Office	Total Remuneration (excluding pension contributions)	Employer Pension contribution	Total Remuneration (including pension contributions)
2020/21	£000	£000	£000	£000	£000	£000
Chief Executive	117	1	-	118	18	136
Director for Economic Growth & Regeneration	84	-	-	84	13	97
Director Communities & Environment	84	-	-	84	13	97
Deputy Director Communities & Environment	72	-	-	72	11	83
Head of Human Resources	59	2	-	61	9	70
Head of Legal Services	59	-	-	59	9	68
Head of ICT	56	1	-	57	9	66
Head of Planning & Place	55	1	-	56	9	65
Head of Economic Development	56	-	-	56	8	64
Head of Financial Services & Section 151 Officer	56	-	-	56	8	64
Head of Public Protection	53	2	-	55	8	63
Head of Public Realm	53	-	-	53	8	61
Head of Community Involvement & Leisure	53	-	-	53	8	61
Democratic Services Manager	51	-	-	51	8	59
Repairs and Maintenance Manager	47	-	-	47	7	54
Culture & Heritage Manager	47	-	-	47	7	54
Business Improvement & Project Delivery Lead	45	-	-	45	7	52
ICT Operations Manager	43	2	-	45	7	52
Public Health & Protection Manager	43	1	-	44	6	50
Director Corporate Services	32	-	-	32	5	37 *

\* Note post of Director of Corporate Services vacant for 7 months during 2020/21

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

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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £	2020/21 £
£0 - £20,000	-	-	3	-	3	-	18,362	-
£20,001 - £40,000	-	-	3	2	3	2	100,450	62,383
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	-	-	-	1	-	1	-	79,599
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>6</b>	<b>3</b>	<b>6</b>	<b>3</b>	<b>118,812</b>	<b>141,982</b>

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

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

### 34 EXTERNAL AUDIT COSTS

The following costs relate to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors.

	2019/20 £000	2020/21 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	60	45
Additional Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for previous years	-	23
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor in relation to 2019/20 objections	-	12
Fees payable in respect of other services provided by external auditors for the year	11	3
PSAA prior years refund	(5)	-
<b>Total</b>	<b>66</b>	<b>83</b>

In both 2019/20 and 2020/21 Deloitte performed the main audit and KPMG provided other services.

### 35 GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21:

	2019/20	2020/21
	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	200	203
New Homes Bonus	1,672	1,502
S31 Business Rates Grants	2,281	9,488
MHCLG Sales, Fees & Charges Compensation	-	4,197
75% Taxation Income Guarantee	-	291
New Burdens	-	503
Environment Agency Caton Road Flood Relief Scheme	2,734	6,065
DCLG COVID19 Grant	101	2,399
Other Grants Under £50K	220	15
<b>Total</b>	<b>7,208</b>	<b>24,663</b>

	2019/20	2020/21
	£000	£000
<b>Credited to Services</b>		
MHCLG (formerly DCLG) Disabled Facilities Grant	2,324	1,492
MHCLG Coastal Revival Fund	-	94
Discretionary Housing Payments	227	337
Supporting People	257	253
Active Lives: Other Grants	191	41
Parliamentary/European/Police/Individual Elections	379	34
Armside & Silverdale AONB Grants	143	150
Benefits DWP grant	439	664
DCLG Local Council Tax Support Grant	173	173
DCLG EU Exit Grant	150	154
Transformation Change	578	-
Lancashire County Council - Syrian Refugees	92	44
Homes & Communities Agency - Bailrigg Garden Village	64	105
Standard Rent Allowances: Government Grants	18,301	18,026
DCLG Housing Options	-	463
COVID Discretionary & LSRG Discretionary Grants	-	4,363
COVID Hardship Fund	-	1,428
COVID Emergency Assistance Grant	-	180
COVID Compliance & Enforcement Grant	-	50
COVID Re-opening the High Street	-	70
MHCLG Homelessness	230	-
Rent Rebates - Council Housing: Government Grants	6,200	5,940
NNDR Administration: Government Grants	213	210
Other Grants Under £50K	392	407
<b>Total</b>	<b>30,353</b>	<b>34,678</b>

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

	2019/20	2020/21
Capital Grants Receipts in Advance	£000	£000
DFG Grant	596	1,249
Department for Business, Energy & Industrial Strategy	-	6,827
MHCLG Coastal Revival Fund	103	10
Other Grants Under £50K	100	155
<b>Total</b>	<b>799</b>	<b>8,241</b>

### 36 RELATED PARTIES

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

#### Central Government

Central Government has effective control over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 7 on expenditure and income analysed by nature. Grant receipts outstanding at 31 March 2021 are contained within debtors Note 19.

#### Members

The council maintains a register of all members' disclosable pecuniary interests. Within 28 days of election, Councillors are legally required to inform the council's Monitoring Officer of any pecuniary interests they have. If a Councillor is present at a meeting of the authority, or any committee, subcommittee, joint committee or joint subcommittee of the authority, and has a disclosable pecuniary interest then, if that interest is not registered they must disclose that interest to the meeting and notify the council's Monitoring Officer to have that interest added to the register of interests.

The register of members' interests is open to public inspection as required by Section 29 of the Localism Act 2011. Copies of the Registration of Interest Forms completed by members are also available to view on the council's website. Where a member has a disclosable pecuniary interest they are precluded from taking part in meetings or decisions related to their previously disclosed interest, unless an appropriate dispensation has been granted.

In respect of 2020/21 financial year a number of council members had a controlling interest in a company, partnership, trust or equity. The controlling interest was by way of ownership, or as a director, trustee, governor or partner of an organisation. The existence of the procedures described above ensures that the council is able to both identify where a member has an interest and take action to ensure that there is no participation in any decisions relevant to their interest. All major decisions are available for public scrutiny and challenge as part of the council's constitutional arrangements. Members of the council have direct control over the council's financial and operating policies.

The total of members' allowances paid in 2020/21 is shown in Note 32. During 2020/21, some Councillors acted in a number of other capacities for related parties, namely being either employed by other local organisations or serving on the management boards of companies, schools and voluntary bodies.

There are no transactions to disclose in 2020/21.

#### Officers

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

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

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

#### Entities Controlled or Significantly Influenced by the Authority

The council previously nominated four of its City Councillor's as trustees of the Dukes Playhouse Ltd, however as there was no trustee representation made by the council during 2020/21 there is no further disclosure requirement for the Dukes.

### 37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

	2019/20	2020/21
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>82,885</b>	<b>86,701</b>
<i>Capital investment:</i>		
Property, Plant and Equipment	8,548	11,511
Investment Properties	5,270	8,774
Intangible Assets	8	104
Revenue Expenditure Funded from Capital Under Statute	2,341	1,679
<i>Sources of financing:</i>		
Capital receipts	(723)	(13)
Government Grants and other contributions	(5,219)	(7,693)
Direct revenue contributions	(624)	(395)
Minimum Revenue Provision	(2,640)	(2,801)
Depreciation of HRA non dwellings	(19)	(6)
Major Repairs Reserve	(3,126)	(2,913)
<b>Closing Capital Financing Requirement</b>	<b>86,701</b>	<b>94,948</b>
<i>Explanation of movements in year:</i>		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	3,816	8,247
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>3,816</b>	<b>8,247</b>

### 38 LEASES

#### Finance Leases

The council has no finance lease obligations.

#### Operating Leases

The council does act as lessor for a number of operating leases on land and buildings in the district. The minimum future lease payments under these agreements are summarised below:

	Minimum lease payments	
	31 March	31 March
	2020	2021
	£000	£000
Not later than 1 year	957	1,216
Later than 1 year and not later than 5 years	3,041	4,581
Later than 5 years	4,078	5,635
<b>Minimum lease payments</b>	<b>8,076</b>	<b>11,432</b>

### **39 IMPAIRMENT LOSSES**

During 2020/21 the council has not recognised any impairment losses in relation to non-current asset valuations.

### **40 TERMINATION BENEFITS**

The council terminated the contracts of 2 employees and granted flexible retirement to 1 employee in 2020/21 incurring liabilities of £142K (£118.8K in 2019/20). Of this total £84K (£2.7K in 2019/20) was payable in enhanced pension benefits.

### **41 DEFINED BENEFIT PENSION SCHEMES**

#### **Participation in Pension Schemes**

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

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

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

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid, as well as the required percentage to be applied for on-going contributions and their value. As part of the 2019 Valuation, employers were offered the opportunity to make these payments in one discounted lump sum in 2020/21 rather than paying each year. The benefit to the council was that the value of the lump sum was less than the on-going annual cost even after allowing for potential interest losses by prepaying and as a result the offer was taken up by the council.

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

#### **Transactions Relating to Post-Employment Benefits**

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

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme	
	2019/20	2020/21
	£000	£000
<i>Cost of services:</i>		
Current service cost	5,559	5,844
Past Service cost	2,512	-
Administration expenses	97	110
Settlements and curtailments	4	-
<i>Financing &amp; Investment Income &amp; Expenditure:</i>		
Interest costs	5,594	5,483
Expected return on scheme assets	(4,210)	(4,329)
<b>Total Post Employment Benefit Charged to Provision of Services</b>	<b>9,556</b>	<b>7,108</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>		
Actuarial gains and losses	(8,945)	16,871
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>611</b>	<b>23,979</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(9,556)	(7,108) *
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	8,945	(16,871) *
<b>Net charge in relation to pension adjustments</b>	<b>-</b>	<b>-</b>
Actual amount charged against Funds for pensions in the year - employers contributions	3,219	3,062 *
<i>* Net Movement on Pension Fund Reserve</i>	<i>2,608</i>	<i>(20,917)</i>

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

	Funded Liabilities		Unfunded Liabilities	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Present value of the defined benefit obligation	228,776	265,801	2,966	3,019
Fair value of plan assets	(175,048)	(191,209)	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>53,728</b>	<b>74,592</b>	<b>2,966</b>	<b>3,019</b>

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

	Local Government Pension Scheme	
	2019/20	2020/21
	£000	£000
<b>Opening fair value of scheme assets</b>	<b>178,411</b>	<b>175,048</b>
Interest income	4,210	4,329
Remeasurement gain/(loss)	(1,548)	15,350
Administration expenses	(97)	(110)
Employer contributions	191	3,062
Contributions by scheme participants	1,028	1,182
Benefits paid	(7,147)	(7,652)
<b>Closing fair value of scheme assets</b>	<b>175,048</b>	<b>191,209</b>

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

	Funded Liabilities		Unfunded Liabilities	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>230,913</b>	<b>228,776</b>	<b>3,772</b>	<b>2,966</b>
Current service cost	5,559	5,844	-	-
Interest cost	5,506	5,415	88	68
Contributions from scheme participants	1,028	1,182	-	-
Remeasurement (gains) and losses	(9,844)	31,991	(649)	230
Past service cost	2,512	-	-	-
Curtailments	4	-	-	-
Benefits paid	(6,902)	(7,407)	(245)	(245)
<b>Closing balance at 31 March</b>	<b>228,776</b>	<b>265,801</b>	<b>2,966</b>	<b>3,019</b>

### Local Government Pension Scheme assets comprised:

	2019/20	2020/21
	£000	£000
Bonds:		
UK corporate	2,100	-
Overseas corporate	2,276	-
UK Fixed gilts	-	-
UK index linked	-	-
Overseas Fixed Interest	-	-
Property:		
Offices	-	84
Offices/Warehouse	-	-
Industrial/Warehouse	700	1,592
Shops	-	188
Retail Warehouse	175	-
Shopping Centre	-	-
Multi let Commercial Building	1,575	1,412
Alternatives:		
UK private equity	-	-
Overseas private equity	14,004	15,341
Infrastructure	24,157	22,931
Credit funds	27,658	25,560
Pooled Fixed Income	9,278	6,374
Indirect Property Funds	12,428	23,955
UK Pooled Equity Funds	-	1,955
Overseas Pooled Equity Funds	78,772	87,595
Cash:		
Cash and cash equivalents	-	-
Cash accounts	4,901	4,721
Net current assets	(2,976)	(499)
<b>Closing fair value of scheme assets</b>	<b>175,048</b>	<b>191,209</b>

### Significant assumptions used by the actuary

	2019/20	2020/21
	£000	£000
Longevity at 65 for current pensioners		
- Men	22.3	22.4
- Women	25.0	25.1
Longevity at 65 for current pensioners (aged 65 in 20 years time)		
- Men	23.8	23.9
- Women	26.8	26.9
Rate of CPI inflation	2.1	3
Rate of increase in salaries	3.6	4.2
Rate of increase in pensions	2.2	2.8
Rate for discounting scheme liabilities	2.4	2.1

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	268,820	264,492	273,218	269,295	277,053
Assets	(191,209)	(191,209)	(191,209)	(191,209)	(191,209)
Deficit/(Surplus)	77,611	73,283	82,009	78,086	85,844
Projected Service Cost for next year	7,418	7,223	7,621	7,418	7,658
Projected Net Interest Cost for next year	1,593	1,573	1,688	1,605	1,768

## Impact on the Council's Cash Flows

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

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

The council anticipated paying £3.062M expected contributions to the scheme in 2020/21 (£3.219M in 2019/20). The weighted average duration of the defined benefit obligation for scheme members is 16 years, 2020/21, (16 years 2019/20).

## 42 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2021:

**Luneside East Regeneration Scheme** – In assembling the land for this project, the Council used compulsory purchase order (CPO) powers to acquire the land. Protracted legal action ensued around the compulsory purchase and the valuation of compensation with the Land Tribunal making a final determination in October 2013.

Further claims/issues on this matter were determined with by the Court of Appeal in January 2016 and the Land Tribunal in December 2016. In January 2017, the Council was informed that the company concerned had been placed into Administration. The rights to the company's claim were assigned to a third party in October 2019 and a further claim for compensation under the Land Compensation Act 1961 was made. The further claim was unsuccessful and determined by Land Tribunal in November 2020. The new company continues to threaten the Council with litigation in connection with the land at Luneside East.

**NNDR Appeals** – The council has made provision for NNDR appeals based on its best estimate of the actual liability as at 31 March 2021. 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.

## 43 CONTINGENT ASSETS

There are no material contingent assets as at 31 March 2021.

#### 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 2020/21 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the council are as detailed in the following table:

Y	P11	P12	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7

	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	£1m	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 CNAV	AAA	£6m	liquid
Money Market Funds LVNAV	AAA	£6m	liquid
Money Market Funds VNAV	AAA	£6m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£6m	liquid
Ultra-Short Dated Bond 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 £22.000M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but not impossible, for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the council's deposits, but for the £22.000M, there was no evidence at 31 March 2021 that this was likely to materialise.

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

	Balance 31/03/21	Historical experience of default	Exposure at 31/03/21	Exposure at 31/03/20
	£000 (a)	% (b)	£000 (a * b)	£000
AAA rated counterparties	-	0%	0%	0%
Trade debtors	2,053	Bad debt provision	2,470	2,764
<b>Total</b>	<b>2,053</b>		<b>2,470</b>	<b>2,764</b>

No credit limits were exceeded during the reporting period and the council does not expect any losses from non-

performance by any of its counterparties in relation to deposits.

With regard to other financial instruments, such as sundry debtors, the council does not generally allow credit for customers, such that £2.775M of the £3.394M sundry debt balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/20	31/03/21
	£000	£000
Current, < 28 Days	1,140	619
28-59 Days	264	305
60-91 Days	90	81
92-183 Days	179	414
184-364 Days	221	375
365+ Days	1,453	1,600
<b>Total</b>	<b>3,347</b>	<b>3,394</b>

### Liquidity Risk

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

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

All deposits in year were held on either instant access or terms of less than 6 months with the Debt Management Office (DMO) and part-nationalised banks.

### Liquidity risk loan maturity

	31/03/20	31/03/21
	£000	£000
Less than 1 Year	16,041	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	2,098	1,057
More than 30 Years	39,200	39,200
<b>Total</b>	<b>77,125</b>	<b>61,084</b>

### Market Risk

#### *Interest Rate Risk*

The council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods.

The council's investments held within instant access Call accounts are affected by movements in interest rates.

The prevailing bank rate at the balance sheet date was 0.10%, returns being at very low levels during the year. Had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.12%, an increase of 1% on interest rates during 2020/21 would have had the following marginal effect:

	<b>Actual</b> £000	<b>+1%</b> £000
<b>New or variable investments:</b>		
Call accounts	56	523
<b>Total</b>	<b>56</b>	<b>523</b>

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



## Housing Revenue Account

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

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

2019/20		NOTES	2020/21	
£000			£000	£000
	<b>Expenditure</b>			
5,124	Repairs and maintenance		5,005	
3,695	Supervision and management		3,762	
160	Rent, rates, taxes and other charges		307	
6,154	Depreciation and impairment of non-current assets	<b>4&amp;5</b>	6,161	
-	Debt management costs		-	
109	Movement in the allowance for bad debts	<b>8</b>	148	
-	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	<b>9</b>	-	
<b>15,242</b>	<b>Total Expenditure</b>			<b>15,383</b>
	<b>Income</b>			
(13,643)	Dwelling rents		(13,601)	
(276)	Non-dwelling rents		(263)	
(1,596)	Charges for services and facilities		(1,589)	
(8)	Contributions towards expenditure		(8)	
(86)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(76)	
<b>(15,609)</b>	<b>Total Income</b>			<b>(15,537)</b>
<b>(367)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>			<b>(154)</b>
-	HRA services' share of Corporate and Democratic Core			-
-	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services			-
<b>(367)</b>	<b>Net Cost for HRA Services</b>			<b>(154)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>			
(339)	Gain or Loss on sale of HRA non-current assets			(321)
1,889	Interest payable and similar charges			1,840
(90)	Interest and investment income			(18)
199	Pension interest cost and expected return on pension assets	<b>7</b>		214
(41)	Capital grants and contributions receivable			(2)
<b>1,251</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>1,559</b>

## MOVEMENT ON THE HRA STATEMENT

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

2019/20 £000		2020/21 £000
<b>(2,235)</b>	<b>Balance on the HRA at the end of the previous year</b>	<b>(2,858)</b>
1,251	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	1,559
(1,916)	Adjustments between accounting basis and funding basis under statute	(2,076)
<b>(665)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>(517)</b>
42	Transfers to or (from) reserves	89
<b>(623)</b>	<b>(Increase) or decrease in year on the HRA</b>	<b>(428)</b>
<b>(2,858)</b>	<b>Balance on the HRA at the end of the year</b>	<b>(3,286)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2021 the council held the following number of dwellings, noting that during the year 18 properties were disposed of under the Right to Buy Scheme, and one house was converted to form two flats. Also, there was some minor re-classification of property types:

	2019/20	2020/21
Bedsits	77	77
1 Bedroom		
Houses & Bungalows	654	654
Flats & Maisonettes	548	550
2 Bedroom		
Houses & Bungalows	480	474
Flats & Maisonettes	665	664
3 Bedroom		
Houses & Bungalows	1,163	1,150
Flats & Maisonettes	6	6
4 or more bedroomed dwellings	84	85
<b>TOTAL DWELLINGS</b>	<b>3,677</b>	<b>3,660</b>



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

	Value as at 1 April 2020 £000	Value as at 31 March 2021 £000
<b>Operational Assets:</b>		
Council Dwellings	129,766	131,023
Other land and buildings	101	108
	<b>129,867</b>	<b>131,131</b>
<b>Non-operational Assets</b>	1,551	1,602
<b>TOTAL</b>	<b>131,418</b>	<b>132,733</b>





Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the fifth of which updated all values to 01 April 2020. This has resulted in a net increase in asset values of £5.391M in the year, which forms part of the net movement in asset values shown above. Non-dwelling assets were also revalued as at 01 April 2020.

The vacant possession value of dwellings held on 01 April 2020 was £332.092M. The difference between this and the EUV-SH valuation of £134.340M (i.e. the updated figure after the valuation exercise effective as of 01 April 2020 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:

	2019/20	2020/21
	£000	£000
<b>Opening Balance 01 April</b>	-	-
Transfer to HRA – Depreciation	3,145	2,919
Transfer to HRA - Depreciation Adjustment	(19)	(6)
Transfer to HRA - Additional Capital Financing	-	404
Capital Expenditure - Houses	(3,126)	(2,913)
<b>Closing Balance 31 March</b>	-	<b>404</b>

## 3 CAPITAL EXPENDITURE

Capital expenditure of £3.042M was incurred during the year relating to works on improvements to dwellings. This was financed as follows:

	2019/20	2020/21
	£000	£000
Usable Capital Receipts	711	-
Earmarked Reserves	208	127
Majors Repairs Reserve	3,126	2,913
Grants and Contributions	41	2
<b>Total Capital Financing</b>	<b>4,086</b>	<b>3,042</b>

Capital receipts totalling £1.161M were received during the year from the following sources:

	2019/20	2020/21
	£000	£000
Sale of dwellings	1,480	1,161
Repayment of Principal on Mortgages	-	-
<b>Total Capital Receipts</b>	<b>1,480</b>	<b>1,161</b>

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

#### 4 DEPRECIATION

Total depreciation charges for the year were as follows:

	2019/20	2020/21
	£000	£000
Council Dwellings	3,126	3,317
Other land and buildings	-	-
Non-operational Assets	19	6
Deferred Charges on Intangible Assets	-	-
<b>TOTAL</b>	<b>3,145</b>	<b>3,323</b>

#### 5 IMPAIRMENT CHARGES

No impairment charges were made to the HRA for the financial year 2020/21. There was, however, a revaluation downwards of £3.042M in respect of non-enhancing capital expenditure on Council Housing stock. This was offset by £5.391M upward revaluation as a result of the full revaluation exercise.

#### 6 INTANGIBLE ASSETS

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

#### 7 CONTRIBUTIONS TO/FROM PENSIONS RESERVE

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

#### 8 RENT ARREARS

Total arrears of rent at 31 March 2021 amounted to £559K (£933K for 2019/20). An amount of £528K (£612K for 2019/20) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The provision gives cover of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

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

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

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

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

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

### Statement of Movement on the HRA Balance

	2019/20	2020/21
	£000	£000
<b>Adjustments between accounting basis and funding basis under statute</b>		
Difference between interest payable and similar charges including amortisation of premiums & discounts determined in accordance with the Code & those determined in accordance with statute.	-	-
Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements.	-	1
Gain or loss on sale of HRA non-current assets.	339	321
HRA share of contributions to or from the Pension Reserve.	(537)	(731)
Capital Expenditure funded by the Housing Revenue Account	208	127
Transfer to/(from) Major Repairs Reserve	-	404
Transfer to/(from) the Capital Adjustment Account	(1,926)	(2,198)
	<b>(1,916)</b>	<b>(2,076)</b>
<b>Transfers to or (from) reserves</b>		
Transfer to/(from) Earmarked Reserves	42	89
	<b>(1,874)</b>	<b>(1,987)</b>



## Collection Fund

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

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

2019/20		NOTES	2020/21	
Business Rates £000	Council Tax £000		Business Rates £000	Council Tax £000
<b>INCOME</b>				
	(77,402)	Income from Council Tax		(78,991)
	-	Transfer for Transitional Relief S13A [1] [C]		(1,011)
(68,792)		Income from Business Ratepayers	(48,408)	
(144)		Transitional Protection Payments due from Central Government	-	
-		Contributions towards previous year's estimated Collection Fund deficit	-	(590)
<b>(68,936)</b>	<b>(77,402)</b>	<b>TOTAL INCOME</b>	<b>(48,408)</b>	<b>(80,592)</b>
<b>EXPENDITURE</b>				
<b>Precepts and Demands</b>				
	55,749	Lancashire County Council		58,393
	10,059	Lancaster City Council (including parish precepts)		10,361
	8,340	Lancashire Police Authority		8,817
	2,876	Lancashire Fire Authority		2,955
31,092		Shares of non-domestic rating income to major preceptors and the billing authority	32,212	
31,092		Payments made to central government in respect of central share	32,212	
-		Transitional Protection Payments due to Central Government	169	
4,730		Renewable Energy Disregard	3,026	
213		Cost of Collection Allowance	210	
95	227	Write-offs of uncollectable amounts	-	154
410	129	Allowance for Impairment	204	701
4,775		Adjustment to Provision for alteration of lists & appeals	2,086	
738		Contribution towards previous year's estimated Collection Fund surplus	2,958	
<b>73,145</b>	<b>77,380</b>	<b>TOTAL EXPENDITURE</b>	<b>73,077</b>	<b>81,381</b>
<b>4,209</b>	<b>(22)</b>	<b>(SURPLUS) / DEFICIT ON FUND</b>	<b>24,669</b>	<b>789</b>
<b>MOVEMENT ON THE FUND</b>				
(1,497)	654	Opening Balances	2,712	633
2,712	633	Closing Balances	27,381	1,423
<b>4,209</b>	<b>(21)</b>	<b>TOTAL MOVEMENT ON FUND</b>	<b>24,669</b>	<b>790</b>

## NOTES TO THE COLLECTION FUND

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

### 1 COUNCIL TAX

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

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the council's Tax Base for that year. For 2020/21 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	16,267	8,814
Band B	13,886	9,833
Band C	11,312	9,149
Band D	6,230	5,833
Band E	3,924	4,562
Band F	1,949	2,673
Band G	820	1,301
Band H	48	94
<b>Total</b>	<b>54,436</b>	<b>42,259</b>
<i>Collection Rate</i>		98.68%
<b>Council Tax Base</b>		<b>41,700</b>

### 2 BUSINESS RATES

The council collects National Non-Domestic Rates (NNDR) for its area based on rateable values set by the Valuation Office Agency (VOA), multiplied by a uniform business rate set by Central Government. For most businesses, this was set at 51.2p per £ for 2020/21 (50.4p for 2019/20) For local businesses with a rateable value of less than £18,000, a discount of 1.3p was allowed giving a rate of 49.9p per £. The total rateable value for the district at 31 March 2021 was £159,442,643 (£160,838,828 for 2019/20).

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

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates, allowing for any top up amount to ensure that all authorities receive their baseline income. Tariffs payable to Government are used to finance such top ups to those authorities who do not achieve their targeted baseline funding. The tariff payable by the council during 2020/21 was £19.594M (£19.280M in 2019/20).

In addition to tariffs, a 'safety net' is calculated at 92.5% of the baseline amount, which ensures that authorities are protected to this level of Business Rate income. For the council no safety net was required for 2020/21. 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 2021. Appeals are charged and provided for in proportion to the precepting shares. The total provision as at 31 March 2021 has been estimated at £16.113M (£14.028M in 2019/20), the council's share of which is £6.445M.

### 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	Deficit	Precept	Surplus	
	£000	Allocation £000	£000	Allocation £000	
Lancashire County Council	58,393	(434)	5,798	266	64,023
Lancashire Police Authority	8,817	(59)	-	-	8,758
Lancashire Fire Authority	2,955	(23)	644	30	3,606
Lancaster City Council	10,361	(74)	25,770	1,183	37,240
	<b>80,526</b>	<b>(590)</b>	<b>32,212</b>	<b>1,479</b>	<b>113,627</b>





## Glossary of Terms used in the Accounting Statements

### Accounting Policies

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

- recognising
- selecting measurement bases for, and
- presenting

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

Accounting policies do not include estimation techniques.

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

### Acquired Operations

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

### Actuarial Gains and Losses

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

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

### Capital Expenditure

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

### Class of Tangible Fixed Assets

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

Property, plant and equipment  
Investment property  
Assets held for sale

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

### Consistency

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

### Constructive Obligation

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

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

**Contingent Asset**

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

**Contingent Liability**

A contingent liability is either:

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

**Corporate and Democratic Core**

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

**Current Service Cost (Pensions)**

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

**Curtailment**

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

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

**Defined benefit Scheme**

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

**Defined Contribution Scheme**

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

**Depreciation**

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

**Discontinued Operations**

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

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

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

### **Discretionary benefits**

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

### **Estimation Techniques**

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

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

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

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

### **Exceptional Items**

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

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

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

### **Extraordinary Items**

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

### **Fair value**

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

### **Finance Lease**

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

### **Government Grants**

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

### **Impairment**

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

### **Infrastructure Assets**

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

**Interest Cost (Pensions)**

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

**Inventories**

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

**Long-term Contracts**

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

**Net book value**

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

**Net Current Replacement Cost**

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

**Net Debt**

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

**Non-operational Assets**

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

**Operating Leases**

A lease other than a finance lease.

**Past Service Cost**

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

**Prior Period Adjustments**

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

**Projected Unit Method**

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

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

## **Related Parties**

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

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

Examples of related parties of an authority include:

- (i) central government
- (ii) local authorities and other bodies precepting or levying demands on the council tax
- (iii) its subsidiary and associated companies
- (iv) its joint ventures and joint venture partners
- (v) its members
- (vi) its chief officers
- (vii) its other key management personnel, and
- (viii) its pension fund.

These lists are not intended to be comprehensive.

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

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

## **Related Party Transaction**

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

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

This list is not intended to be comprehensive.

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

## **Remuneration**

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

## **Residual value**

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

## **Retirement benefits**

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

**Scheme Liabilities**

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

**Settlement (re pension matters)**

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

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

**Tangible Fixed Assets**

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

**Useful Life**

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

**Vested Rights**

In relation to a defined benefit scheme, these are:

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