



Preston City Council

Statement of Accounts

2019-20



CHRISTIAN
SCIENCE CHURCH

CHURCH STREET

FISHERGATE

COUNTY HALL/TRAINS

TOWN HALL & 7

GUILD HALL & BUSES

Contents Page

Councillor Preface	1
City Treasurer's Narrative Report (Section 151 Officer)	2
Statement of Responsibilities for the Statement of Accounts	21
Auditor's Report to Preston City Council	22
Core Financial Statements:-	
• Comprehensive Income and Expenditure Account Statement	27
• Movements in Reserve Statement	28
• Balance Sheet	29
• Cash Flow Statement	30
• Notes to the Core Financial Statements	33
Supplementary Statements:-	
• Collection Fund	85
• Bequest and Trust Funds (Unconsolidated)	89
• Other Funds (Unconsolidated)	89
Annual Governance Statement	90
Glossary of Terms	105



Narrative Report

1 Councillor Preface

Introduction to the 2019/20 Statement of Accounts by Councillor Martyn Rawlinson, Cabinet Member for Resources.

Thank you for taking the time to read Preston City Council's Statement of Accounts for 2019/20, giving me the opportunity to highlight the excellent management of the Council's resources, in spite of the financial challenges the Council continues to face.



Preston City Council has continued to maintain its professionalism and efficiency in both financial management and governance procedures. One example of this is the Council's embedded culture of financial prudence among its staff and officers.

Over the last four years the Council has been implementing its Four Year Efficiency Plan which achieved significant savings during 2016/17 to 2019/20. We have progressed our Digital Agenda and commenced implementation of our Investment Property Action Plan; the plan seeks to maximise returns on the Council's own investment property assets situated within the Preston Area. We have implemented significant management cost savings through a management restructure and we seek to achieve value for money in running the Council's services.

Alongside this, we have continued to pursue our ambitious agenda, progressing our Towns Fund Bid, Harris Re-Imagining Project and other key areas of work such as progressing the Climate Change agenda. Our Fairness Agenda work includes Community Wealth Building, along with other really important work across the City with projects and initiatives such as the Holiday Markets, Connected Communities and Somewhere Safe to Stay.

Despite the difficult budget decisions that we have had to make in recent years, I believe that we are delivering high-quality frontline services to Preston's residents. Our ambitions remain high and we are proud to serve this city and of the work we, alongside partners, continue to achieve. We currently find ourselves in uncharted waters, amidst a global pandemic from which the social, economic and health impact are still largely unknown. Unfortunately we are now faced with unprecedented levels of financial and economic uncertainty as we continue to support our residents, communities and businesses through the pandemic and prepare for the recovery phase.

We have healthy levels of reserves and have previously identified a list of contingency savings which could easily be implemented in the event urgent savings are required. The greatest challenge for the Council is achieving long term financial stability, ensuring we have a position where we do not spend more than our income.

Finally, I would like to take this opportunity to thank the Finance staff who have once again worked hard to close the accounts and prepare the Statement of Accounts accurately and on time, achieving the revised statutory deadline.

Narrative Report

2 City Treasurer's Narrative Report (Section 151 Officer)

1. Introduction

The purpose of this narrative report is to provide information about Preston, including keys issues affecting the Council and its accounts. It also provides a summary of the financial position as at 31 March 2020.

The narrative report adopts the following structure:

- An Introduction to Preston
- Information about the Council
- The Council's Non-Financial Performance in 2019/20
- Financial Performance of the Council in 2019/20
- Economic Climate and Financial Outlook for the Future
- Principal Risks and Uncertainties affecting the Council
- Explanation of Financial Statements



Jackie Wilding
City Treasurer

2. An Introduction to Preston



Preston is a City in Lancashire, situated approximately 27 miles (43 km) northwest of Manchester, 26 miles (42 km) northeast of Liverpool, and 15 miles (24 km) east of the coastal town of Blackpool.

Located in the heart of the North West of England, on the north bank of the River Ribble, Preston is one of the most networked Cities in the country, being a major stop on the west

coast mainline, and with road connections north and south via the M6 and east via the M65.

The River Ribble provides a southern border for the City and the Forest of Bowland forms a backdrop to Preston to the northeast, while the Fylde lies to the west. The

southern section of Preston is mostly urbanised whilst north Preston is quite rural.

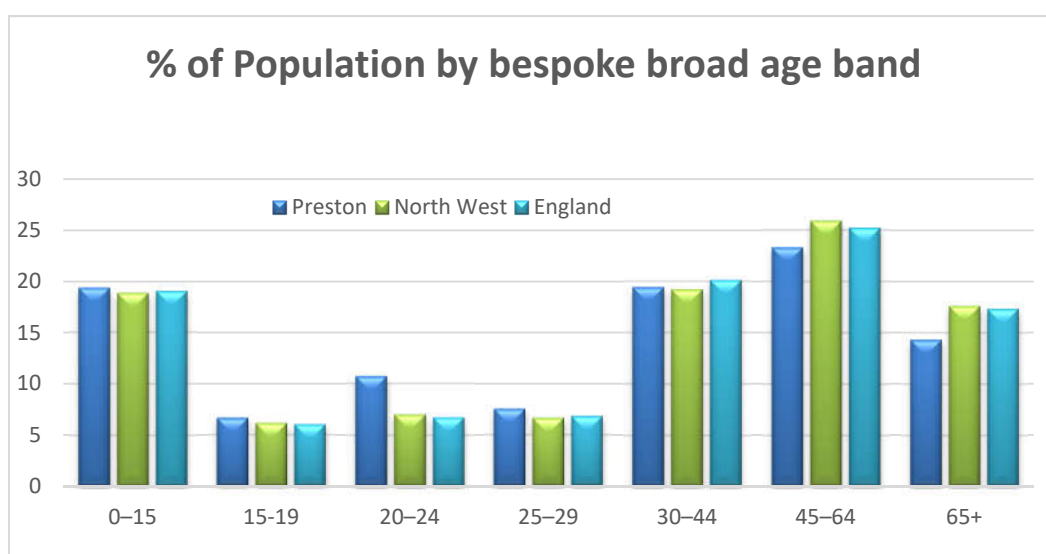


Preston is one of twelve lower tier district Councils in the county of Lancashire and shares borders with Wyre, Fylde, South Ribble and Ribble Valley.

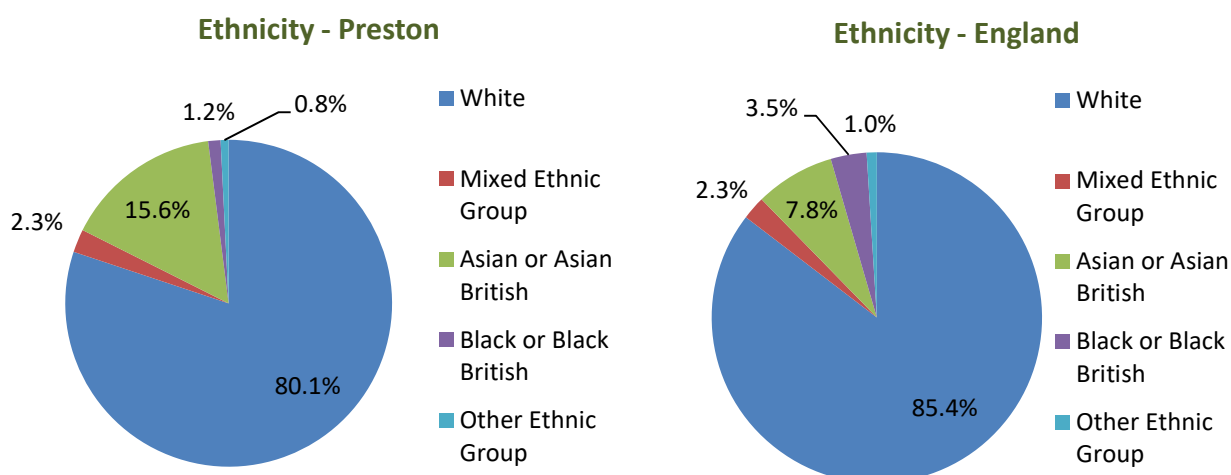
Narrative Report

Population

- Preston has a population of around 141,025.
- The population of Preston is projected to remain relatively stable until 2041.
- The number of people per km² is more than twice the England and Wales average.
- Preston’s population is relatively young with a higher than average percentage of under 25s and fewer elderly people.
- The presence of the large university, UCLan, in central Preston has a strong impact on the age distribution in the area. Preston also has a smaller proportion of older people (65+) compared with the national average.



Preston is a diverse and multicultural City, the ethnic makeup based on the 2011 census is shown in the comparative graphs below:-



Narrative Report

Local Economy and Business Information

Preston is an important retail centre which includes the City Centre and the Deepdale retail park, consequently employment in the retail sector is high. The City is also a significant night time destination offering restaurants, pubs and clubs.

In 2019, there were 5,375 (5,165 in 2018) active enterprises in Preston. The former docks area has seen major developments whilst significant numbers of people have moved back in to the city centre to live in new apartments.

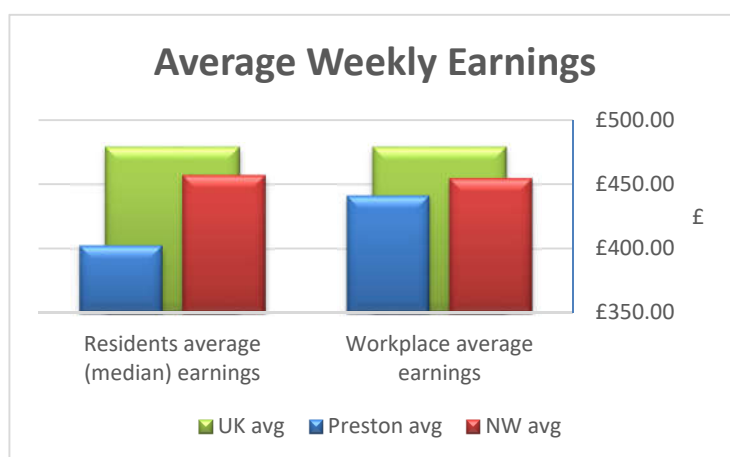
In Preston as in most places, the manufacturing sector has shed jobs over the years whilst the service sector has grown to become a far greater source of employee jobs. Preston has a lower rate of employee jobs in the manufacturing sector than is the norm in Lancashire and nationally and conversely a higher rate of employment in the service sector. Employment numbers in the human health and social work, public administration, defence, compulsory social security and education are high. In addition to both Preston City Council and Lancashire County Council's presence in the centre of Preston, public sector employment in the area is supplemented by the Lancashire Fire and Rescue Service HQ in Fulwood. The University of Central Lancashire (UCLan) is also a major source of employment, as is Royal Preston Hospital.

The Preston, South Ribble and Lancashire City Deal is a landmark agreement to help achieve even more transformation of the area, creating thousands of new jobs and homes. A total £434m new investment is leading to the expansion and improvement of the transport infrastructure in Preston and South Ribble at an unprecedented rate, enabling a forecast 20,000 new jobs and 17,420 new homes to be created. It is providing a huge boost to the local economy, which is expected to grow by £1 billion within the City Deal life span.

Housing and Earnings

Preston has around 62,600 dwellings, and 82% are owner occupied or private rented. 46.3% are in lowest category 'A' Council tax band, possibly due to the high number of terraced houses within the City. Since 2016/17 the Preston area has recorded over 1,500 net additional dwellings.

Statistics for 2019 show the average (median) weekly earnings for residents in Preston is £402.50 compared to the North West average of £457.30 and UK average of £479.10. However when considered by workplace the average weekly earnings for Preston increase to £441.20 compared to the North West average of £454.60 and UK average of £479.10. These figures show that for a number of people Preston is an attractive place where they commute to better paid employment opportunities rather than live. The average (mean) household income in Preston at £21.7k, is 87.1% of the average for the UK, this is a 1.6% increase on the previous year.



Narrative Report

15.1% of households were in fuel poverty in 2017 (12th highest rate out of 326 authorities in England, compared to 14.1% in 2016) as determined by the energy efficiency status of the property, the cost of energy, and household income. The 2019 Indices of Deprivation reveals that Preston was the 46th most deprived area out of 317 districts and unitary authorities in England, when measured by the rank of average rank.

3. Information about the Council

Preston City Council is a district council, working alongside Lancashire County Council as part of a two-tier local government system.

Political Structure

Following a boundary review, all out elections took place in May 2019, the number of wards has reduced to 16 from 22 and the number of elected Councillors reduced to 48 from 57.

Councillors are responsible for taking decisions about the future of Preston and important public services such as planning, housing, leisure and culture, waste collection and recycling.

As well as representing the public, Councillors also represent political parties. After the local election on 2 May 2019 the political make-up of the Council was:

Political Make-up
30 Labour Councillors
9 Conservative Councillors
9 Liberal Democrat Councillors

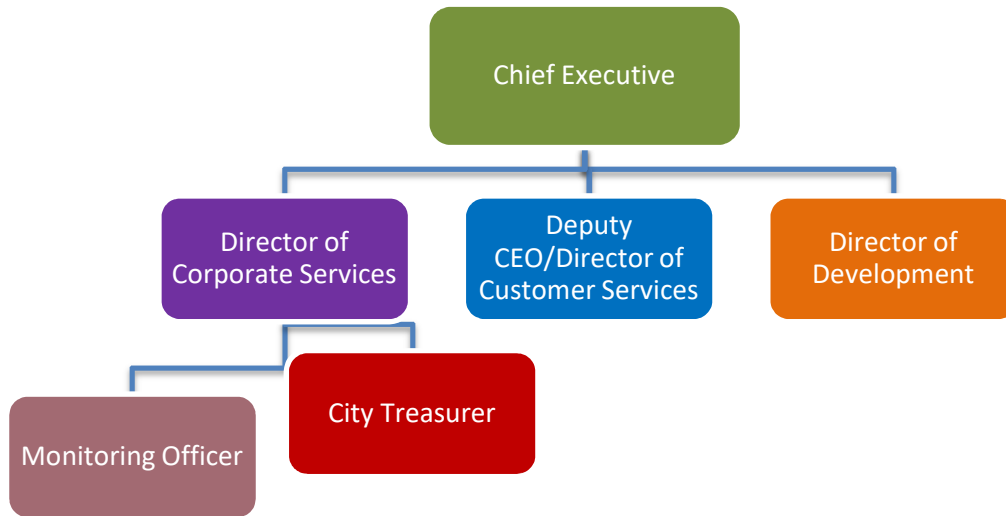
The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive functions. Cabinet Members are held to account by a system of scrutiny which is set out in the Constitution.

Management Structure

Supporting the work of Councillors is the organisational structure of the Council headed by the Corporate Management Team. The interim Chief Executive (Adrian Phillips) was confirmed as the permanent Chief Executive in April 2019. The 2019/20 Corporate Management Team (CMT) comprised the Chief Executive, three Directors and the City Treasurer.

CMT provides managerial leadership of the Council and supports Elected Members of the Council in developing strategies, identifying and planning resources, delivering plans and reviewing the Council's effectiveness. The team works together to achieve the most effective services possible for the City's diverse communities.

Narrative Report



A new Corporate Management Structure has been put in place from April 2020, in which the City Treasurer became the Director of Resources increasing the number of Directors to four.

Council Employees

The Council is one of the largest employers in the area with 663 (565 FTE) employees. The figure includes a number of apprentices employed in a wide variety of roles. From April 2017, the Council was required to pay an annual apprenticeship levy which equates to 0.5% of the Council's total pay bill. This money is used to pay for apprenticeship training and to implement an approved apprenticeship standard for both new recruits and existing employees.

Council Services

The Council spends more than £79 million a year providing a range of public services from waste collection to planning.

Narrative Report

During an average year, the Council:



Environmental

Preston City Council, along with the 14 District Councils (including the two Unitaries) within Lancashire are striving to meet the Government's stringent targets for reducing emissions by 34% by 2020 and a further reduction of 80% by the year 2050 (based on 1990 levels).

Preston City Council has *reduced its Green House Gas Emission since 2008 by around 60%*. This has been achieved by investing in energy saving measures including the installation of new energy efficient heating boilers, replacing an existing gas boiler for a bio-mass boiler, the introduction of energy efficient LED lighting, the installation of voltage optimisation equipment and staff awareness training.

Members agreed a Notice of Motion, declaring a Climate Change Emergency at the April 2019 Council meeting. A task and finish working group has been set up to consider options on how the Council can become carbon neutral by 2030. The first meeting of the Councillors Task and Finish group was in January 2020. Officers are increasing their knowledge of Climate Change matters and are seeking to learn from other Councils about best practice relating to becoming carbon neutral.

The Council continues to promote recycling, although the recycling rate has reduced to 33.5% following the introduction of charges for garden waste collections. This still represents 17,673 tonnes of waste which has been recycled in 2019/20.

Narrative Report

4. The Council's Non- Financial Performance in 2019/20

There have been a number of key issues that influenced the Council and its Financial Position in 2019/20:

- The final year of the Four Year Efficiency Plan (2016/17 to 2019/20) in response to the Government's ongoing austerity measures
- Achieving the Councils Strategic Priority Areas
- Major plans for City Centre Development
- Preston, South Ribble and Lancashire City Deal
- Re-Imagining the Harris

These are explained in more detail within this narrative report.

Our Priority Areas

Our overall ambition is that Preston is a growing vibrant City. We try to make all our efforts as a Council count towards achieving this by focusing on **three priority areas**:-

Preston – A growing vibrant City

Your City

- Securing investment; improving assets and infrastructure; attracting high quality jobs; creating a City with a strong cultural and leisure offer.

Fairness for you

- Fairness at the heart of decision making; an economy supporting prosperity and promoting fairness in working lives and practices; accessibility to affordable energy and decent affordable homes.

Your Council

- Providing well run value for money services; demonstrating good governance, openness, transparency and a strong democratic process

The current priority areas are explained in the Achieving Preston's Priorities document agreed at Budget Council February 2020 which can be found at: <https://www.preston.gov.uk/corporateplan>

Partnership Working

To deliver our priorities we frequently work in partnership with other organisations. Much of this work is led and co-ordinated through formal partnerships and where practical, priorities are aligned to ensure we have a common purpose and co-ordinate resources.

Throughout the year the City Council has played an active role in collaborative working across Lancashire. The Council is working together with Lancashire County Council and UCLAN to improve the infrastructure of Preston City Centre. Progress continues on the City Deal, with our partners, with housing developments ongoing in North West Preston and work on the Preston Western Distributor road has commenced. We have established a Cultural Framework Board with our

Narrative Report

creative partners. In addition we have been engaged and are active partners in the Central Lancashire Health & Wellbeing Partnership, the Preston Co-operative Development Network, the Preston, South Ribble and Lancashire City Deal, the Shadow Lancashire Combined Authority (LCA).

How we Performed in 2019/20 – Achieving Preston’s Priorities



During 2019/20 significant progress has been made on a number of projects which are improving the City for residents, visitors and businesses alike. We have made good progress across all our priorities and with regard to our Fairness Agenda have continued to attract interest from other Council’s and at national level. At the same time, Preston continues to be a growing vibrant City. The following gives a summary of progress during 2019/20 and the next steps.

Narrative Report

Your Council

How we performed

- The **Service Improvement Board** has enabled the implementation of a number of projects including:
- Self Service Scanning** - self service scanning stations in the Council's One-Stop-Shop
- Cyber risk awareness training** for staff and Council Members
- Virtual Desktop Infrastructure (VDI)** - We continue to roll out VDI.
- Corporate Print & Post**
- Secure portable media in transit**

- Carbon Neutral** - A notice of motion to declare a climate change emergency has been agreed by the Council. A task and finish working group has been set up to consider options on how the Council can become carbon neutral by 2030.

Your City

How we performed

- Revitalised Market/New Cinema & Restaurant Development** - A number of major steps forward were made with the Harris Quarter Leisure Scheme, during the course of the year. Demolition of the former Indoor Market and car park was completed before the end of 2019 leaving a ready-to-go development site for when the final stages of preparation work have been concluded in 2020.
- **Preston, South Ribble and Lancashire City Deal** - The Penwortham by-pass, was completed and opened in 2019 as were the Broughton public transport corridor works. The largest road scheme of the whole City Deal programme, the new Preston Western Distributor and East-West Link Road, got underway on site in September 2019.
- **Moor Park Restoration** - significant progress Heritage Lottery Fund scheme now nearing completion.
- Re-imagining the Harris** - Intensive work is underway to deliver the development phase of the Re-imagining the Harris project to develop the stage 2 bid for submission in November 2020.

Fairness for You

How we performed

- Embedded fairness in the Council's strategic Planning**, the principles in the Fairness Charter underpin all of the Council's activities.
- Social Value Policy** - we have been working with other Preston "anchor" institutions to encourage the sharing of best practice
- Lead partner in a second **EU funded transnational urban project - Making Spend Matter**.
- Community Wealth Building** - continuing to increase the amounts of existing Council and partner expenditure, spent within the Preston and Lancashire boundaries
- Community Bank** - The plans for a North West Community Bank continue to move forward. A business case is being prepared which will be presented to Cabinet in early 2020.
- Financial Inclusion** - continued development of the www.helpinpreston.com website.
- Rough Sleeper Initiative** - was successful in receiving funding to work in partnership with the Foxton Centre and Community Gateway Association to reduce the number of people sleeping rough in Preston.

Your Council

•What's next

- Work is underway regarding the Council's migration to **Office 365** and **sharepoint online**.
- Working towards a **Combined Authority for Lancashire**.
- Working towards a **Carbon Neutral Council** by 2030.

Your City

•What's next

- Continuing with the **City Centre Development** plans including Towns Fund submission
- Harris Quarter** - continued progress towards a cinema-led leisure scheme.
- Re-imagining the Harris** - working towards the round 2 NLHF application.

Fairness for You

•What's next

- Continuing with **Community Wealth Building**
- Work towards increasing the flow of **affordable housing units**
- Continued working towards setting up a **Community Bank**.
- Continue supporting the **Preston Co-operative Development |Network**

Narrative Report

Four Year Efficiency Plan

The Council has in the main implemented the savings included in the Four Year Efficiency Plan 2016/17 to 2019/20. Budget Working Group which consists of Cabinet Members and three backbenchers will continue to review future savings plans with the ultimate aim of achieving a balanced budget ongoing. Further details on the Four Year Efficiency Plan can be found within the Achieving Preston's Priorities document presented to Budget Council in February 2020.

<https://www.preston.gov.uk/corporateplan>

Alongside the work on the Efficiency Plan, the Council has continued to successfully implement additional savings where possible. Subsequently revenue expenditure has reduced in line with savings targets.

Managing Performance

At the start of every year each of the Council's services sets out a service delivery plan which covers the key Council priority work areas and key performance areas. Progress is monitored through quarterly performance reports to the relevant individual Cabinet Members with any significant performance areas reported to Cabinet or Council.

An action included in last year's Annual Governance Statement was to review the performance management framework. During 2019 all performance indicators have been reviewed. This has involved identifying those which are no longer fit for purpose, identifying which are strategic or operational and linking these to the strategic priorities or operational service provision. In addition, a full review of the process and performance management IT system was carried out. A number of improvements have been agreed for implementation and an original target date was set for June 2020. This has now been delayed to December 2020 due to Covid-19.

The Council has a proactive approach to financial forecasting and budget management with extensive systems and procedures in place. In 2019/20 the Council has in overall terms achieved its financial targets and aspirations and has worked successfully within reduced budgets to deliver services. However, the Covid-19 pandemic now brings a further challenge on top of the reduced Government funding. The Council continues to face a turbulent future in respect of its finances. The outcome of the Government's Fair Funding Review and the Business Rate Retention scheme could have a significant impact on the Council's resources. In addition the uncertainty and complexity of the Council's financial landscape is magnified by the as yet unquantifiable impact of Brexit on the economy, future legislation and Local Government funding. These impacts could turn out to be either positive or negative overall but are likely to affect key budget factors such as interest and inflation rates, labour costs and property and rental values.

5. Financial Performance of the Council in 2019/20

The Council set an original revenue net budget of £20.577m (February 2019 Budget Council) for 2019/20. This was revised to £20.905m as a result of known forecast issues and reported to Budget Council in February 2020. The Council finances its net budget through Council Tax, General Government Grants and Retained Business Rates income.

The 2019/20 original budget included a number of savings targets which have been achieved as planned in year. The main savings targets were:

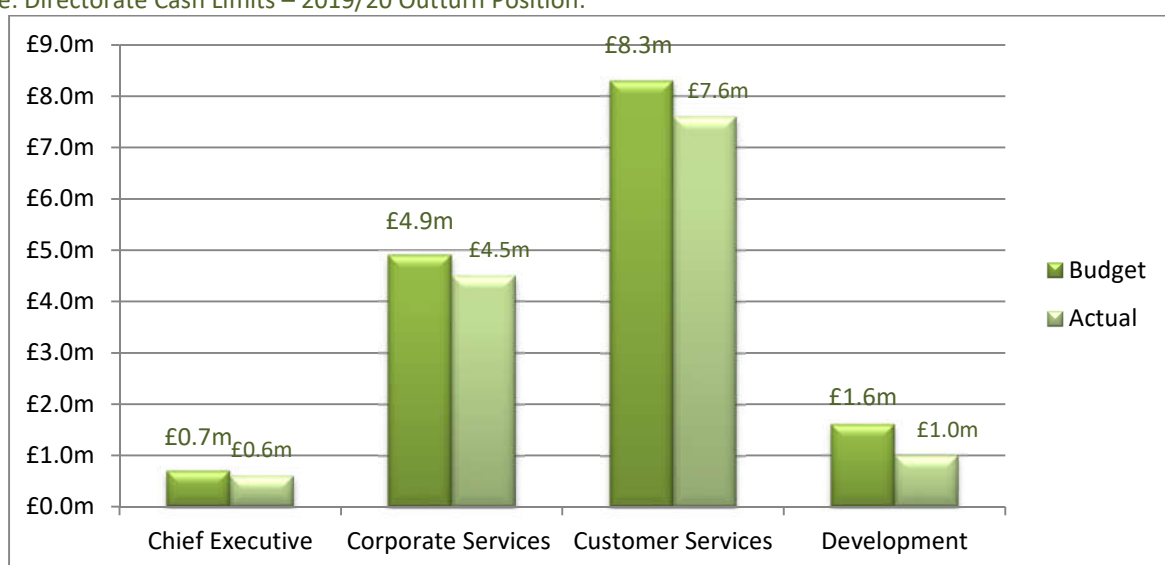
Narrative Report

- Digital Strategy and Management Efficiency Savings
- Waste Collection efficiencies
- Management cost savings

Service Financial Performance

The Council manages and presents in-year financial information in the format of Directorate Cash Limit Budgets. The Directorate cash limit outturn position was reported within the Outturn Report to Cabinet on 12 August 2020. Full details of expenditure, income and budget variances are set out within the report which is available on the Council's website.

Table: Directorate Cash Limits – 2019/20 Outturn Position:



The outturn position for 2019/20 resulted in a net underspend of £1.398m against budget which has enabled the Council to contribute to general fund reserves. When taking into consideration the requests for carry forward of budget underspends totalling £1.144m into 2020/21 the underlying underspend is £0.254m. This improves the Council's financial position in the short term however in the long term the financial position still remains a key concern.

The Council sets aside government funding relating to business rates in order to alleviate peaks and troughs on the financial forecast from the timings of when an Authority accounts for deficits or surpluses on the Collection Fund. In 2020/21 £0.655m has been transferred into the NNDR equalisation reserve from the General Fund.

The Council has a policy to avoid compulsory redundancy where possible, seeking volunteers and identifying redeployment opportunities. There have been 4 posts affected during 2019/20. The Medium Term Financial Strategy (MTFS) included a budget provision to fund the costs of redundancy.

Narrative Report

The Council has a Reserves and Balances policy which is reviewed annually by the Cabinet Member for Resources. The next update will be in October 2020 and will reflect the impact on balances from the outturn position.

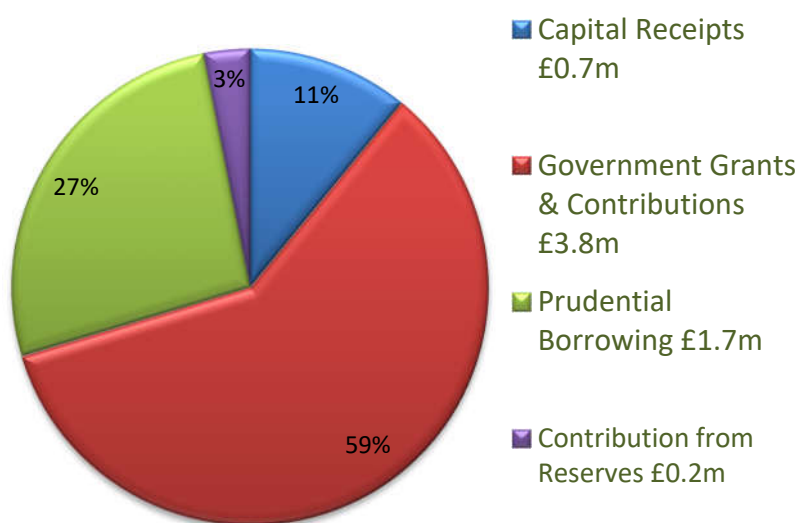
The table below shows the summary revenue budget outturn for 2019/20:

Summary of Revenue Expenditure in 2019/20	Budget £m	Actual £m	Variance £m
Service Directorate – Cash Limit Net Expenditure <i>(see chart above)</i>	15.5	13.7	-1.8
Other net expenditure <i>(as set out in the outturn report)</i>	8.0	10.6	2.6
Total Net Expenditure	23.5	24.3	0.8
Financing:			
Government Grants	-5.0	-5.3	-0.3
Non-Domestic Rate Distribution	-2.6	-2.6	0.0
Capital grants and contributions	-2.2	-4.0	-1.8
Council Tax Requirement	-12.3	-12.3	0.0
Sub total	-22.1	-24.2	-2.1
Net Call on General Fund Balance	1.4	-0.1	-1.3

Capital Investment in 2019/20

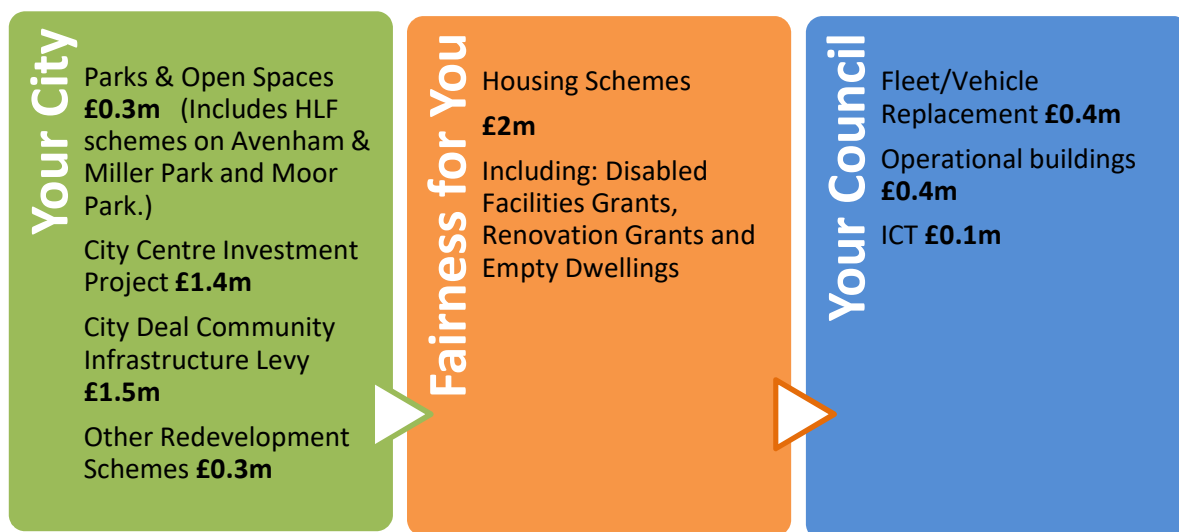
During 2019/20 the Council spent £6.369m on capital projects against a target estimate of £8.123m. This was financed via various funding sources as indicated in the pie chart opposite. *Further details can be found in the Outturn report presented to Cabinet 12 August 2020.*

Financing of 2019/20 Capital Expenditure



Narrative Report

Examples of capital schemes by Council Priority:



Future Capital Spending Plans

The Council has an ambitious five year capital programme of £34.7m which includes key schemes aiming to create regeneration of the City Centre and investment in major infrastructure via the City Deal Partnership. The table below shows the predicted spend over the period to 2023/24.

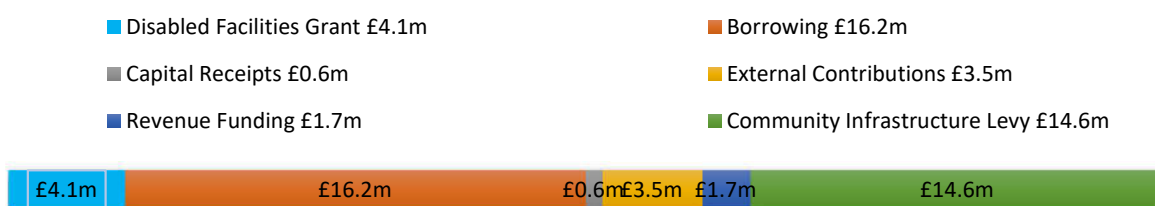
Table: Capital Investment Programme Summary 2019/20 to 2023/24:

The table below highlights spend in relation to the Council's key priorities.

Priority Area	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m	£m	£m
Your Council	0.9	4.4	3.4	3.3	0.8	12.8
Your City	5.4	3.5	2.6	3.6	5.1	20.2
Fairness for You	1.8	3.9	1.0	0.4	0.5	7.6
Estimated Expenditure	8.1	11.8	7.0	7.3	6.4	40.6

The capital programme, approved at the Budget Council meeting in February 2020, identified spend between approved schemes and those still awaiting scheme approval by Cabinet. The table above highlights spend in relation to the Council's key priorities.

The following diagram shows the financing sources available to fund the capital investment programme:



Narrative Report

Balance Sheet

The Council's net assets have increased by £20.3m from the end of March 2019 to the end of March 2020. The increase is due to several different factors including a decrease in value of the Council's Pension Liability (Long-term Liabilities), and an increase in Short-term Debtors. The Council currently has a significant level of non-earmarked reserves, however these are being used to fund the shortfall between how much the Council spends and how much funding the Council receives. In addition the Council holds a number of earmarked reserves for specific purposes and capital receipts available for financing future capital investment. The table below shows a summarised view of the balance sheet:

Table: Balance Sheet Summary

	At 31 March 2019	At 31 March 2020
	£m	£m
Non-current assets	172.3	171.8
Net current assets – debtors, stock and cash less short term creditors and total liabilities	(100.1)	(79.3)
Net Assets	72.2	92.5
Represented by: Usable reserves	36.6	42.4
Represented by: Unusable reserves	35.6	50.1

Non-Current Assets - In 2019/20, the Council spent £6.4m on capital schemes. The Council carries out a programme of revaluations on its operational assets, in addition an annual review is conducted to ensure that the valuation in the accounts does not differ materially from fair value of the asset.

In 2009/10 the Council received £8m from the Homes and Communities Agency (HCA), as an endowment in respect of the transfer of ownership and ongoing maintenance of community related assets. A small number of Homes & Community Agency assets are still waiting to be transferred to the Council.

Borrowings and Investments

The Council is able to borrow money from PWLB (an agency of HM Treasury), banks and building societies, or from other public bodies. The Council's borrowing need as at 31 March 2020 was met by a combination of long term actual debt of £12.3m and internal cash balances. The use of internal cash balances in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. These amounts are analysed in the notes to the Balance Sheet. The interest payable in relation to the Council's borrowing totalled £0.6m in 2019/20.

The **Capital Financing Requirement (CFR)**, a key Prudential Indicator, determines the amount that the Council needs to borrow for a capital purpose and is the total of the Council's capital assets less all of the Council's capital reserves. The CFR for the year ending 31 March 2020 was £21.0m.

The **Authorised Limit for External Debt** is a key Prudential Indicator that controls the overall level of borrowing and is a statutory limit set by the Council that must not be breached. The Council's Authorised Limit for external debt for 2019/20 was £22.3m. The Council repaid £5m of short term PWLB debt in 2019/20. The Council's actual total long term debt was £12.3m which is well below the Authorised Limit.

Narrative Report

Long Term Debt:

- £12.3m (£12.3m 2018/19)

The Council's investments are exposed to interest rate risk and volatility in the money markets. Financial markets fell in March 2020 as the impact of coronavirus worsened. This has led to investment returns remaining at low levels and volatility in the fair value of funds. The security of capital remains the Council's main investment objective.

The investments held as at 31 March 2020 were:

Long Term Investments:

- £19.2m (£23.3m 2018/19)

Pension Fund Liabilities

The Council has net pension liabilities of £78.1m in the Balance Sheet as at 31 March 2020 (£88.1m as at 31 March 2019). This reflects the value of pension liabilities which the Council is required to pay in the future (as they fall due), offset by the value of assets invested in the Pension Fund. The Pension Fund has to be reviewed every three years as part of the comprehensive actuarial review of the pension fund. A triennial review was carried out at 31 March 2019 with changes to the pension fund being effective from 1 April 2020. The next review is due to be carried out on 31 March 2023.

The Collection Fund (Council Tax and Business Rates)

The Council is required to maintain a separate fund in respect of Council Tax and National Non-Domestic Rates (NNDR). The deficit on the Collection Fund for Council Tax as at 31 March 2020 was £1.112m and will be shared between the City Council (billing authority), the County Council, the Police and Crime Commissioner for Lancashire and the Lancashire Combined Fire Authority in the following two years. The City Council's share of the deficit is £0.182m. The actual rate of in year collection of Council Tax for 2019/20 was 92.85% (93.6% for 2018/19). The in-year collection rates have reduced since April 2013 mainly due to Council Tax being collected from claimants who previously received full Council Tax Benefit.

In April 2014 government introduced the current business rates retention scheme. Under this system the Council retains a 40% share of its NNDR. However, in 19/20 the Council was a member of the Lancashire Business Rates 75% Pool and benefitted from an increased retained share of 56%. In the year ended 31 March 2020 the collection of NNDR was above the Government set target resulting in growth of which the Council's share is £1.685m. The accumulated surplus on the Collection Fund for NNDR is £1.138m as at 31 March 2020. The Council's share of the surplus is £0.690m.

Further details in relation to the Collection Fund can be found in the Supplementary Statements.

Principal Risks and Uncertainties

The Council has a risk management strategy in place to identify and evaluate risks. All risks are identified, potential impacts are highlighted and controls and mitigations are set in place. The Corporate Management Team (CMT) identified a number of key corporate risks which the Council

Narrative Report

monitors and reports to Cabinet Members and Audit Committee during the year, a selection of the risks have been highlighted below:

Corporate Risks Include:
Failure to have effective partnership working or effective collaborative working
Failure to deliver Council priorities and ambitions as expressed in the Council's Achieving Preston's Priorities (APP)
Failure to secure value for money through inadequate procurement and commissioning
Failure to support Council priorities through ineffective ICT systems
Adverse impact of Covid-19 pandemic
Failure to prevent or detect significant acts of fraud/cyber fraud
Failure to achieve ambitious City building plans
Failure to adequately resource Council services
Risk that Contingent liabilities materialise
Adverse impact of UK exit from EU

Key Future Financial Risks – Along with the corporate risk there are a number of key financial risks identified within the Medium Term Financial Strategy which potentially could have a significant impact on the financial forecast, these are:

Key Financial Risks
Impact of Fair Funding review and future Business Rates retention (2021/22 onwards)
Business Rates Lancashire Pool 75% Pilot 2019/20
Council Tax income – new housing build not in line with projections
Impact on forecast from delays in implementing efficiency plan
Changes in Government Policy eg. New Homes Bonus
Pension Fund Triennial Review
Council Tax Support Scheme
Universal Credit
Estimated Sale of Council owned assets not being achieved
Impact of leaving the EU
Guild Hall – responsibility for the operation/building
Unexpected movements in cashflow and interest rates
Security of monies invested with counterparties

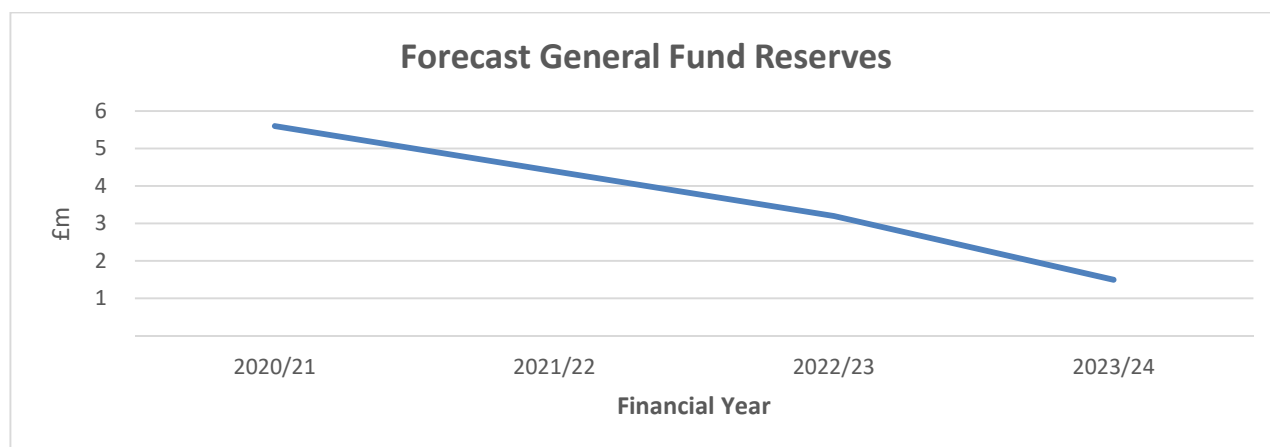
The Achieving Preston's Priorities report to Budget Council February 2020 sets out the above and details the risks, potential impact and mitigations/controls in place. For 2020/21 the financial impact from Covid-19 will be added to the above list. Note, the Council was only in a business rates pool for 2019/20. For 2020/21 the Council remained out of the Pool due to the risk under the previous pool arrangements which the Lancashire Pool reverted back to.

Narrative Report

6. The Economic Climate and Financial Outlook for the Future:

The latest MTFS reported to Budget Council in February 2020 sets out the Council's spending plans and available capital and revenue resources for the period 2019/20 to 2023/24. The MTFS set out the funds required to deliver the Council's essential services and the objectives in our priority areas. It also highlighted the key areas/issues facing the Council in the current year and future years. For 2020/21 onwards a major concern is the impact of Covid-19, future Government funding and potential impact of a no deal Brexit.

The table below summarises the forecast General Fund year end reserves taking into consideration the impact of the 2019/20 year end outturn position.



The Government is planning to announce a three year spending review for the period 2021/22 to 2023/24. Until this announcement is made and the local government finance settlement figures are published we have no indication of the level of funding the Council will receive from 2021/22 onwards.

In addition to the above the uncertainty of the Council's finances is magnified by the yet unquantifiable impact of Brexit and Covid-19. The mid-year forecast being presented to the October Council will set out different scenarios based on the sensitivity analysis of these risk areas.

The Council's Four Year Efficiency Plan 2016/17 to 2019/20 has in the main been implemented in line with targets. Significant savings over the life of the plan have been achieved such as the transfer of the Leisure Centres to GLL, efficiency savings from the digital agenda, management savings and commencing implementing the investment property action plan. The Council will continue implementing the actions in the Investment Property Plan and Digital Agenda. The Council has a contingency plan of alternative savings should they be required.

In light of the current risks and uncertainties the Council will aim to continue to maintain a healthy and robust level of reserves. The Council's strategic budget plan has been to use reserves to fund the shortfall over the life of the forecast. The Council also holds a significant level of earmarked reserves which as a last resort could be partly used to fund any shortfall. Ultimately the Council's aim is to bridge the gap (shortfall between how much the Council spends and how much the Council receives in funding) over the long term to ensure long term sustainability for the Council.

Narrative Report

7. Explanation of the Financial Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and the Service Reporting Code of Practice 2019/20 (SeRCOP) and comprises core and supplementary statements.

The Core Financial Statements:

Comprehensive Income and Expenditure Statement – this statement shows the accounting cost in the year of providing services in accordance with general accounting practices rather than actual cost of services funded through taxation. The first section shows entries for income and expenditure arising from day to day operational services and the second section shows increase or decrease to net worth as a movement in fair value of assets.

Movement in Reserves Statement – this statement shows a summarised view of the movement in year on the different reserves held by the Council, analysed into 'usable reserves' (those which can be applied to fund expenditure) and 'unusable reserves' (those which cannot be used to fund expenditure).

Balance Sheet – this sets out the Council's assets and liabilities as at 31st March 2020 and how these are funded (by reserves, borrowing, provisions and other balances).

Cash Flow Statement - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Notes to the Core Financial Statements - assist in the interpretation of the Accounts by summarising significant accounting policies and other explanatory information.

The Supplementary Statements:

Statement of Responsibilities for the Statement of Accounts - identifies the officer who is responsible for the proper administration of the Council's financial affairs.

Annual Governance Statement - gives assurance on effectiveness of the Council's Governance arrangements including its monitoring and evaluation of its code of governance and highlighting any planned changes in the coming period.

Collection Fund - this fund is maintained separately to record the collection of Council Tax and National Non-Domestic Rates (NNDR) due. The Council operates the Collection Fund under the Local Government Finance Act 1988. It contains the income and expenditure relating to Council Tax and National Non-Domestic Rates.

Glossary – an explanation of some of the key technical terms used in these accounts.

Narrative Report

8. Access to further information

If you would like to receive further information about the Statement of Accounts please contact Accountancy Services at Preston Town Hall, Lancaster Road, Preston, PR1 2RL.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For Preston City Council the officer is the Director of Resources;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities.

The Director of Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy) 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting (the Code);
- kept proper accounting records which were up to date; and,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer's Certification

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31st March 2020.

Signed

Date

16 December 2020

J Wilding

Jackie Wilding
Director of Resources
(Section 151 Officer)

The Council has delegated the responsibility for approving the Statement of Accounts to the Audit Committee. In accordance with the Accounting and Audit Regulations 2015, I certify that the approval of this Statement of Accounts was minuted by the Council's Audit Committee on 2 December 2020.

Signed

Date

16 December 2020

R Woollam

Councillor Woollam
Chair of Audit Committee

Independent Auditor's Report for Preston City Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Preston City Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) 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 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the City Treasurer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the City Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the City Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report for Preston City Council

In our evaluation of the City Treasurer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, and the authority's share of the local government pension scheme's property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's direct and indirect property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The City Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 of the Authority obtained in 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 there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

Independent Auditor's Report for Preston City Council

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application 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 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the City Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 21, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the City Treasurer. The City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the City Treasurer 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 City Treasurer 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 unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Independent Auditor's Report for Preston City Council

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied 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 have undertaken our review 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 April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Preston City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Farrar

John Farrar, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

17 December 2020

Preston
City Council

Core
Financial
Statements

2019/20

Comprehensive Income & Expenditure Statement

The Comprehensive Income and Expenditure Statement (CI&ES)

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

Brought Forward 2018/19					2019/20		
Gross Expend £'000	Gross Income £'000	Net Expend £'000		Note	Gross Expend £'000	Gross Income £'000	Net Expend £'000
			Service Segments				
804	221	583	Chief Executive		730	110	620
5,150	1,039	4,111	Corporate Services		6,498	1,999	4,499
18,612	11,615	6,997	Customer Services		19,110	11,538	7,572
5,639	4,723	916	Development		6,091	4,521	1,570
21	-	21	Environment		-	-	-
52,445	40,541	11,904	Central Services*		46,849	35,145	11,704
82,671	58,139	24,532	Cost of Services	26	79,278	53,313	25,965
		120	Other Operating Expenditure	6			322
		326	Financing and Investment Income and Expenditure	7			(347)
		(701)	Other Income				(437)
		(20,010)	Taxation and Non-Specific Grant Income	8			(27,531)
		4,267	(Surplus)/Deficit on Provision of Services				(2,028)
		(1,917)	(Surplus)/Deficit on revaluation of non-current assets	21(a)			(2,517)
		(3,848)	Remeasurements of the net defined (benefit)/liability	34(h)			(15,740)
		(5,765)	Other Comprehensive Income and Expenditure				(18,257)
		(1,498)	Total Comprehensive Income and Expenditure				(20,285)

* Central Services contains the centrally managed budgets which include Housing Benefits, utilities, depreciation and pensions.

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance in the year following those adjustments.

	Note	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Total General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance as at 1 April 2018		8,344	18,350	26,694	3,580	4,682	34,956	35,775	70,731
Adjustments for the restatement of financial instruments (IFRS 9)		(41)		(41)			(41)	27	(14)
Revised Balance as at 1 April 2018		8,303	18,350	26,653	3,580	4,682	34,915	35,802	70,717
Total Comprehensive Income and Expenditure		(4,267)	-	(4,267)	-	-	(4,267)	5,765	1,498
Adjustments between accounting basis and funding basis under regulations	9	7,791	-	7,791	213	(2,056)	5,948	(5,948)	-
Net Increase or Decrease before Transfers to Earmarked Reserves		3,524	-	3,524	213	(2,056)	1,681	(183)	1,498
Transfers (to)/from Earmarked Reserves		(2,949)	2,949	-	-	-	-	-	-
Increase/Decrease (movement) in year		575	2,949	3,524	213	(2,056)	1,681	(183)	1,498
Balance as at 31 March 2019 carried forward		8,878	21,299	30,177	3,793	2,626	36,596	35,619	72,215
Total Comprehensive Income and Expenditure		2,028	-	2,028	-	-	2,028	18,257	20,285
Adjustments between accounting basis and funding basis under regulations	9	118	-	118	51	3,622	3,791	(3,791)	-
Net Increase or Decrease before Transfers to Earmarked Reserves		2,146	-	2,146	51	3,622	5,819	14,466	20,285
Transfers (to)/from Earmarked Reserves	20(a)	(2,201)	2,201	-	-	-	-	-	-
Increase/Decrease (movement) in year		(55)	2,201	2,146	51	3,622	5,819	14,466	20,285
Balance as at 31 March 2020 carried forward		8,823	23,500	32,323	3,844	6,248	42,415	50,085	92,500

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement of Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

As at 31 March 2019		Note	As at 31 March 2020
£'000			£'000
73,526	Property, Plant & Equipment	11	73,399
35,963	Heritage Assets	12	38,435
39,346	Investment Properties	15	40,556
-	Assets Held for Sale (more than 1 year)		-
23,302	Long-term Investments	13(b)	19,231
178	Long-term Debtors	13(b)	144
172,315	Total Long Term Assets		171,765
14,046	Short-term Investments	13(b)	15,517
236	Inventories		253
5,875	Short-term Debtors	16	11,060
9,508	Cash and Cash Equivalents	18	11,406
29,665	Total Current Assets		38,236
(5,220)	Short-term Borrowing	13(b)	(131)
(16,402)	Short-term Creditors	19	(18,225)
(21,622)	Total Current Liabilities		(18,356)
(5,252)	Provisions	14	(6,277)
(12,491)	Long-term Borrowing	13(b)	(12,484)
(88,080)	Pension Liability	34(g)	(78,064)
(2,320)	Capital Grants Receipts in Advance	17	(2,320)
(108,143)	Total Long-term Liabilities		(99,145)
72,215	Net Assets		92,500
	Represented by		
36,596	Usable Reserves	20 & MIRS	42,415
35,619	Unusable Reserves	21 & MIRS	50,085
72,215	Total Reserves		92,500

The audited accounts were authorised for issue on the 16 December 2020

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2018/19		2019/20
£'000	Note	£'000
(4,267)	Net surplus or (deficit) on the provision of services	2,028
13,046	Adjustment to surplus or deficit on the provision of services for non-cash movements	9,156
<u>(2,182)</u>	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	<u>(3,670)</u>
6,597	Net cash flows from operating activities	7,514
(7,952)	Net cash flows from investing activities	2,087
<u>(925)</u>	Net cash flows from financing activities	<u>(7,703)</u>
(2,280)	Net increase or decrease in cash and cash equivalents	1,898
<u>11,788</u>	Cash and cash equivalents at the beginning of the reporting period	<u>9,508</u>
<u>9,508</u>	Cash and cash equivalents at the end of the reporting period	<u>11,406</u>

Notes to the

Core

Financial

Statements

Index of Notes to Core Financial Statements

Note	Page
1 Accounting Policies	33
2 Accounting Standards Issued, Not Adopted	45
3 Critical Judgements In Applying Accounting Policies	45
4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	45
5 Events after the Balance Sheet Date	46
6 Other Operating Expenditure	46
7 Financing and Investment Income and Expenditure	46
8 Taxation and Non-Specific Grant Income	46
9 Adjustments between Accounting Basis and Funding Basis under Regulations	47
10 Grant Income	49
11 Property, Plant & Equipment	50
12 Heritage Assets	54
13 Financial Instruments	
a) Balances	55
b) Fair Values	56
c) Risks	57
14 Provisions	59
15 Investment Properties	60
a) Fair Value Hierarchy	60
16 Short-term Debtors	61
17 Capital Grants Receipts in Advance	61
18 Cash & Cash Equivalents	61
19 Creditors	61
20 Usable Reserves	
a) Transfers to/from Earmarked Reserves	62
b) Capital Grant Unapplied	63
21 Unusable Reserves	64
a) Revaluation Reserve	64
b) Financial Instruments Adjustment Account	64
c) Capital Adjustment Account	65
d) Pensions Reserve	65
e) Deferred Capital Receipts Reserve	66
f) Collection Fund Adjustment Account	66
g) Available for Sale Financial Instruments Reserve	66
h) Accumulated Absences Account	67
i) Pooled Investment Funds Adjustment Account	67
22 Cash Flow Statement – Operating Activities	67
23 Cash Flow Statement – Investing Activities	68
24 Cash Flow Statement – Financing Activities	68
25 Cash Flow Statement – Reconciliation of Liabilities arising from Financing Activities	68
26 Expenditure Funding Analysis	69
a) Note to the Expenditure Funding Analysis	70
b) Expenditure and Income Analysed by Nature	71
27 Members' Allowances	71
28 Officers' Remuneration	72
29 Termination Benefits	73
30 Related Parties	74
31 External Audit Costs	75
32 Agency Services	75
33 Capital Expenditure and Capital Financing	75
34 Defined Benefit Pension Scheme	
a) Retirement Benefit Obligations	76
b) Early payment of Pension Deficit Lump Sum	76
c) Impact of the McCloud Judgement	76
d) Impact of Covid-19	76
e) Governance and Risk Management	76
f) Transactions Relating to Retirement Benefits	78
g) Pensions Assets and Liabilities Recognised in the Balance Sheet	78
h) Comprehensive Income and Expenditure Statement	79
i) Reconciliation of the Movements in the Fair Value of Scheme Assets	80
j) Reconciliation of Present Value of the Scheme Liabilities	80
k) Pension Scheme Assets Comprised	81
l) Basis for Estimating Assets and Liabilities	82
m) Sensitivity Analysis	82
n) Impact on the Council's Future Cash Flows	82
35 Contingent Liabilities	83
36 Contingent Assets	84

Notes to the Core Financial Statements

Accounting Policies

1. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), 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. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

2. 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 policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of 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.

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.

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

3. Accruals of Income and Expenditure

The financial statements have been prepared on an accruals basis for all transactions and balances. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

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

4. Revenue Recognition

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 goods or a 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.

Notes to the Core Financial Statements

Accounting Policies

5. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits available on demand. Cash equivalents are short-term (three months or less) highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

6. 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, for which a reliable estimate can be made of the amount of the obligation. Provisions are a charge to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

7. Reserves

Reserves are classified as either 'usable' (identified and maintained for specific future purposes and contingencies and include General Fund reserve, Earmarked reserve and Usable Capital Receipts reserve) or 'unusable' (kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council) – these reserves are explained in the relevant policies.

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 against the Surplus or 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.

8. Contingent Liabilities

A contingent liability arises either:

- 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; and,
- 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.

9. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council 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.

10. Employee Benefits

(i) Short-term Employee Benefits

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary

Notes to the Core Financial Statements

Accounting Policies

benefits (eg. Mobile phones) 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 which employees can carry forward into the next financial year. To ensure no impact on Council Tax a corresponding transfer is made to the Accumulated Absence Account.

(ii) Employee Accumulated Absence Accrual

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the end of the financial year, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year. The accrual is charged to Surplus or Deficit on the provision of services, but then reversed out through the Movement in Reserves Statement. This ensures that holiday benefits are charged to revenue in the financial year in which the holiday entitlement occurs.

(iii) 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 and are charged on an accruals basis to the service lines in the Comprehensive Income and Expenditure Statement.

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.

(iv) Retirement Benefits

Employees of the Council are members of the Local Government Pension Scheme administered by Lancashire County Council. The scheme provides defined benefits to members, earned as employees work for the Council. Retirement benefits are determined independently of scheme investments and the Council must contribute to any deficit where assets are insufficient to meet retirement benefits.

The Local Government Scheme is accounted for as a defined benefits scheme:

- the liabilities of the scheme 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 earnings for current employees. Liabilities are discounted to their value at current prices, using a real discount rate of 2.4% (2.4% 2018/19) determined by reference to market yields at the balance sheet date based on high quality corporate bonds; and,
- the assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value.

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

- current service cost – the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- net interest on the net defined benefit liability, i.e. net interest expense for the Council. This is the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement;
- re-measurements comprising:

Notes to the Core Financial Statements

Accounting Policies

- the return on plan assets (excluding amounts included in net interest on the net defined benefit liability) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and,
- actuarial gains and losses. Due to changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- contributions paid to the pension fund. This is cash paid to the pension fund in settlement of liabilities.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund, not the amount calculated according to the relevant accounting standards. This means that there are transfers in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable but unpaid at the year end.

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to a 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.

11. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and adverse, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue which may have a bearing upon the financial results of the past year. 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; and,
- 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 and either their estimated financial effect or a statement that such an estimate cannot be made reliably.

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

12. 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 (HMRC). VAT receivable is excluded from income.

13. Apprenticeship Levy

The full cost of the Levy will be recognised as a direct cost of employment in the Comprehensive Income and Expenditure Statement ('CIES') when it is paid to HMRC. When funds are transferred from the Government's Digital Apprenticeship Account to an approved training provider a training expense up to the value of the training provided, with a corresponding entry for a government grant, will be recognised in the CIES against the service benefiting from the training.

14. Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Council 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 in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Notes to the Core Financial Statements

Accounting Policies

Monies advanced as grants and 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 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 Capital 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.

15. Central Support Service Overheads

In 2016 CIPFA revised the layout of the Income and Expenditure Statement to bring it in line with the way Councils report their service segments to their Corporate Management Teams. This Council reports Central Support Services within the relevant Directorates, e.g. Accountancy, Legal and Human Resources within the Corporate Services Directorate.

16. Intangible Assets

Intangible Assets are assets that do not have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis (e.g. software licences). They are controlled by the Council as a result of past events and future economic or service benefits flow to the Council from intangible assets. These assets are capitalised at cost and amortised (depreciated) to the relevant revenue service over their economic lives. This amortisation is then reversed out in the Movement in Reserves Statement and a transfer is made to the Capital Adjustment Account.

An intangible asset is derecognised on disposal. The gains or losses arising from the disposal are recognised in the Surplus / Deficit on the Provision of Services.

17. 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 assigned using the First in First out (FIFO) or Average (AVCO) (for vehicle fuel) costing formulas.

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

18. 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 for Council's services delivery or is held for sale.

Investment properties are initially measured at cost. After initial recognition they are measured at fair value. The fair value reflects market conditions at the Balance Sheet date. A gain or loss arising from a change in the fair value of investment property is recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

Investment properties are not depreciated but are re-valued annually according to market conditions.

An investment property is derecognised on disposal. Gains or losses arising from the disposal are recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

Revaluation and disposal gains and losses are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

Accounting Policies

19. 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 administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

(i) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the Council will receive future economic benefits or service potential associated with the item. This excludes expenditure on routine repairs and maintenance of property, plant or equipment which is charged direct to service revenue accounts.

Capital expenditure is initially added to the value of an asset but if that is not considered to be the case it is classed as impairment. Expenditure under £20k is classed as deminimis and treated as revenue expenditure.

(ii) Measurement

Non-current assets are valued on the basis recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) and in accordance with the Valuation Standards 6th Edition issued by The Royal Institute of Chartered Surveyors (RICS). Non-current assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

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; and,
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is 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.

Land and buildings and other operational assets are valued at current value determined as the amount that would be paid for the asset in its existing use (existing use value – EUVs). Where sufficient market evidence is not available, fair value is estimated at depreciated replacement cost. Short life assets such as vehicles, are held at depreciated historical cost as a proxy for current value on the grounds of materiality.

Community assets and infrastructure are valued at historical cost net of depreciation.

Assets under construction are held at historical cost and are not depreciated until brought into use.

Surplus assets are valued at fair value based on market value, determined by the measurement of the highest and best use value of the asset. These are assets that are not in use by the Council but do not meet the definition of assets held for sale. Surplus assets mainly relate to land that may be available for regeneration purposes.

Increases in valuation are matched by credits to the Revaluation Reserve. In some cases when there is an increase in revaluation the increase will reverse out a previous impairment loss charged to the Surplus/Deficit on the Provision of Service or where the increase is reversing a previous revaluation decrease charged to the Surplus/Deficit on the Provision of Service the increase in valuation is credited to the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

Accounting Policies

When there are decreases in value and there is a balance on the Revaluation Reserve relating to the asset, the value is written down against that balance (up to the amount of accumulated gains). Where there is no or insufficient balance in the Revaluation Reserve the value of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement. When revaluation gains or losses are credited or charged to the Comprehensive Income and Expenditure Statement they are reversed out in the Movement in Reserves Statement to the Capital Adjustment Account.

Assets included in the Balance Sheet at fair value are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year end. Assets are revalued at a minimum of every five years.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

(iii) 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 the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

The amount of the impairment is charged to the Revaluation Reserve but only to the extent that the impairment does not exceed the amount in the Revaluation Reserve. Thereafter, the impairment is charged to the Surplus/Deficit on the Provision of Service. This charge is reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

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

(iv) Depreciation

Depreciation is provided for on all property, plant and equipment with a finite useful life. Useful life is estimated at the time of acquisition or revaluation. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset; and,
- Infrastructure – straight-line allocation as advised by a suitable qualified officer.

Where an item of property, plant and equipment has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately in accordance with the Council's componentisation policy.

A summary of the Council's componentisation policy is:

- the de minimis level for identifying property to be componentised will be 0.5% of the total property, plant & equipment value;
- the de minimis level for component size will be 20% of the asset value; and,
- similar component lives will be grouped together.

Components have been recognised in the financial year where:

Notes to the Core Financial Statements

Accounting Policies

- there has been a revaluation of an asset;
- there has been an acquisition of an asset; and,
- enhancement expenditure has been incurred.

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

Newly acquired assets are depreciated the year following acquisition, although assets in the course of construction are not depreciated until they are brought into use, thereafter an equal charge to revenue is made over the useful life of the assets.

20. Disposals and Non-Current Assets Held for Sale

When it becomes evident that the carrying amount of an asset will be recovered principally through a sale rather than its continued use, it can be reclassified as an asset held for sale. An asset can only be classed as held for sale if it is available for immediate sale in its present condition, the sale must be highly probable, it is being actively marketed and the sale should be expected to be completed within one year of its original classification. When events or circumstances extend the period beyond one year and there is sufficient evidence that the Council remains committed to the sale of the assets they are classified as long term assets held for sale.

Assets held for sale are held at the lower of the carrying amount and the fair value less cost to sell. If this results in a loss in value the loss is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous loss recognised in the Surplus/Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

If these assets no longer meet the classification of 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.

21. Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses attributable to the clear consumption of economic benefits on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and,
- amortisation (depreciation) of intangible non-current assets attributable to the service.

22. Revenue Expenditure Funded From Capital under Statute

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet. These are generally grants and expenditure on assets not owned by the Council.

Expenditure is charged to the Surplus/Deficit on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Grants receivable in relation to REFCUS are accounted for as revenue grants in the Comprehensive Income and Expenditure Statement, even if described as capital grants by the giver of the grant. Grant income is posted to the service(s) that the qualifying expenditure is charged to apart from levy income relating to Community Infrastructure Levy which is accounted for as a capital grant.

Notes to the Core Financial Statements

Accounting Policies

23. Leases

Leases are classified as either finance or operating leases based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee. 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. Land and building elements of a lease are considered separately for the purpose of lease classification.

The Authority as Lessee

i) Finance Leases

Property, plant and equipment held under finance leases is 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. Premiums paid on entry into a lease are applied to writing down the lease liability.

The lease payments are apportioned between a charge for the acquisition of the interest which is to write down the deferred liability and a finance charge which is recognised in the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement.

The leased property, plant and equipment are subject to depreciation and the MRP on these assets equals the amount of the lease payment that is applied to write down the deferred liability. The deferred liability is either classified as short or long term in line with the lease repayments.

ii) Operating Leases

Lessee

Rental income paid under operating leases is treated as a revenue transaction and is charged to the relevant service expenditure in the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

Lessor

Rental Income from operating leases is recognised on a straight line basis over the lease period and is shown in the Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Assets held for use as operating leases are recorded on the Council's Balance Sheet.

24. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

(i) Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprise:

- long-term loans from the Public Works Loan Board and commercial lenders;
- trade payables for goods and services received.

Notes to the Core Financial Statements

Accounting Policies

(ii) Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or another financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

- (i) Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:
 - cash in hand
 - bank current and deposit accounts
 - fixed term deposits with banks and building societies
 - loans to other local authorities
 - treasury bills and gilts issued by the UK government
 - debtors for goods and services provided
- (ii) Fair value through profit and loss (all other financial assets) comprising:
 - money market funds
 - pooled bond funds

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. Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

Financial assets that are measured at Fair Value through Profit or Loss 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 as they arrive in the Surplus or Deficit on the Provision of Services. Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of services in the CIES and will have a General Fund impact.

(iii) Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for debtors held by the Council.

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.

25. Fair Value

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

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

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

Notes to the Core Financial Statements

Accounting Policies

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

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns in line with the highest and best use definition within the accounting standard.

The inputs to valuations for fair value assets takes into account the three levels of categories for inputs to valuations for fair value assets:

- level 1 – quoted prices;
- level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- level 3 – unobservable inputs for the asset or liability.

26. Heritage Assets

The majority of the Council's Heritage Assets are held in the Harris Museum. The museum has three collections of Heritage Assets, fine art, decorative art and social history. These are held for their contribution to knowledge or culture and to support an understanding and appreciation of the Council's local and surrounding area. The remaining heritage assets are statues, war memorials and civic regalia. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, due to the nature of these assets, the measurement rules are more relaxed. The Council's collections of Heritage Assets are accounted for as follows:

(i) Fine Art

The fine art collection includes a number of prominent pieces from British artists relating to Preston and the North West region. The fine art valuations are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are updated on an annual basis.

The fine art collection has an indeterminate life and a high residual value therefore the Council does not consider it appropriate to charge depreciation.

Overall the fine art collection remains fairly constant and acquisitions and donations are rare. When the Council does acquire a piece of art work it is held on the Balance Sheet at cost and any donations will be held at insurance values with reference to an appropriate commercial market for the art work using the most relevant and recent information available from sales at auctions.

(ii) Decorative Art

The decorative art collection including ceramics and glass, scent bottles, card cases, enamels, clocks, watches and silver were all valued in the 1990s. The general fashion for collecting these items goes in peaks and troughs. The decorative art is valued externally and is reported in the Balance Sheet at the external valuation indexed up to a present day value. However, not all decorative art has been reported in the Balance Sheet, including costumes and textiles. This collection has in excess of 5,200 objects or pieces and it is the opinion of the Council that the collection cannot be valued because of the diverse and often unique nature of the collection. Therefore cost or valuation information is not available and conventional valuation approaches lack sufficient reliability. The cost of obtaining the valuations would be disproportionate in terms of the benefit derived.

Acquisitions are again initially recognised at cost or if bequeathed or donated are recognised at valuation ascertained by the museum's curators in accordance with the Council's policy on valuations. If information is available a reference to an appropriate commercial market for the art work using the most relevant and recent information available from sales at auctions will be used.

(iii) Social History

Included with the Council's social history collection is the archaeology and ethnography collection. In the opinion of the Council, the archaeological and ethnography collection of artefacts cannot be valued because of the diverse and often unique nature of the collection. Therefore, cost or valuation information

Notes to the Core Financial Statements

Accounting Policies

is not available and conventional valuation approaches lack sufficient reliability. The Council is of the opinion that the costs of obtaining the valuations for these items would be disproportionate in terms of the benefit derived. For the majority of the collection, neither cost nor valuation information can be provided and therefore reported in the Balance Sheet. Two social history collections, the Numismatics and Dolls, and Clocks and Watches were externally valued. The value disclosed in the Balance Sheet is the external valuation indexed up to the present day.

(iv) Civic Regalia

The Council's Civic Regalia is reported in the Balance Sheet at insurance valuation. The valuation is updated annually as part of the insurance renewal process. The Council's Civic Regalia comprises of a Mayor's chain and pendant, the collar of the Mayor of Preston and the Mayor's pendant and grand chain of the City of Preston.

(v) Memorials

Within the Council's Parks and Public Open Spaces there are a number of war memorials. These memorials have been previously held under property, plant & equipment and held at historical cost on the Balance Sheet at a nominal value. Therefore, these memorials have been transferred to heritage assets on the same valuation basis.

(vi) Heritage Assets – General

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, for example where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. The Council rarely disposes of Heritage Assets. However, if the Council did dispose of a Heritage Asset the proceeds would be accounted for in accordance with the Council's existing policies.

27. Tax Income (National Non-Domestic Rates (NNDR) and Council Tax)

NNDR and Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income and will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line.

As a Billing Authority, the difference between the NNDR and Council Tax 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 reported in the Movement in Reserves Statement.

NNDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

Revenue relating to NNDR and Council Tax is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

Notes to the Core Financial Statements

2. Accounting Standards Issued, but not yet Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the 2019/20 Code.

The Code also requires that changes in accounting policy are to be applied retrospectively unless transitional arrangements are specified, this would result in an impact on disclosures spanning two financial years.

Accounting changes that are introduced by the 2020/21 code are:

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

These changes are not expected to have a material impact on the Council's Financial Statements.

Future Accounting Changes

IFRS 16 Lease

IFRS 16 Leases will lead to a substantial change in accounting practice for lessees, the current distinction between finance and operating leases will be removed. Instead, lessees are required to recognise assets and liabilities for all leases i.e. the lessee will recognise a right-of-use asset representing its right to use the leased asset; and a lease liability representing the lessee's obligation to make lease payments for the asset.

Lessees will have a single accounting model for all leases with two exemptions:

- Low-value assets
- Short term leases (lease term of 12 months or less)

The implementation of IFRS 16 Leases has been deferred until 1 April 2021. The council is currently reviewing its leases to assess the impact of the change and, as such, the impact is not yet known.

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 judgement made in the Statement of Accounts is:

Funding

There is still a high degree of uncertainty about future levels of funding for Local Government. The 2020/21 Settlement is for one year only. Beyond that, the outcome of proposed spending review during 2020 and the impact of the changes to the Business Rate Retention scheme is unknown, and also the impact of the decision to leave the European Union remains unclear. Furthermore, the global coronavirus pandemic has increased the levels of uncertainty. The Council is recording and forecasting all additional expenditure incurred in its COVID-19 response and monitoring the resulting loss of income. Government funding has been provided but, as the pandemic continues to unfold, it is unclear whether this funding will be sufficient to cover all costs and income losses. However, the Council has determined that the uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The items on the Council's Balance Sheet for which there is a significant risk of material adjustment in the forthcoming financial year are:-

Pensions

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

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% per annum increase in the discount rate assumption would result in a decrease in the pension liability of £5.0m. Also, a one year addition to the members' life expectancy would result in an increase in the pension liability of £8.5m.

The coronavirus pandemic is impacting on global financial markets. Valuers are faced with an unprecedented set of circumstances this year, on which to base a judgment and as such it is not considered that valuers can rely upon previous comparable market evidence to fully inform opinions of value at the valuation date. This has resulted in the Lancashire County Pension Fund disclosing that there is 'material valuation uncertainty' of the Council's share of the Lancashire County Pension Fund's property investments as set out in VGPA 10 of the RICS Global Valuation Standards. Less certainty, and a higher degree of caution, should be attached to the valuation of investment property than would normally be the case.

Notes to the Core Financial Statements

Business Rates - NNDR

Since the introduction of the Business Rates Retention Scheme effective 1 April 2013, Local Authorities are liable for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. A provision has been recognised for these liabilities up to and including 31 March 2020. The estimate has been calculated using data provided by an external software provider who utilises the Valuation Office (VOA) ratings list of appeals, and historic rating information. The costs are shared between Central Government, Preston City Council, Lancashire County Council and Lancashire Combined Fire Authority. The Council's share of the business rate appeals provision is £6.185m, this has increased by £1.14m from the previous year. A 10% increase in the rate and / or success of appeals would require an addition to the provision at a cost to the Council of £0.619m.

Fixed Assets

The Council's fixed assets 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 (RICS). 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 five year cycle. All assets reviewed had a valuation date of 1 April 2019. Any material changes after the valuation date have been accounted for.

The outbreak of coronavirus has impacted global financial markets. The Council's fixed assets were valued as at 1st April 2019 and RICS considers that the valuations are therefore reported on the basis of 'material valuation uncertainty' and that, consequently, less certainty, and a higher degree of caution should be attached to them than would normally be the case. The Council's property assets that are vulnerable to uncertainty are those valued under Current Value and Fair Value. There is the possibility that these values may change and as an illustration a 1% variation in these valuations could affect the assets values by £0.89m. The Council will continue to review their current valuation programme and reflect any changes in future valuation reports.

5. Events after the Balance Sheet Date

The audited Statement of Accounts was authorised for issue by the Director of Resources (S151 Officer) on 16 December 2020. Subsequent events are not reflected in the financial statements or in the notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Events may occur between the balance sheet date and the date the accounts are authorised for issue which are indicative of conditions that arose after the reporting period. The Statement of Accounts is not adjusted to reflect such events, but disclosure is required of the nature of the events and their estimated financial effect, or that such an estimate cannot be made reliably.

The global coronavirus pandemic is such an event that must be disclosed as although global events began to unfold before the balance sheet date, as outlined in the Narrative Report to the Statement of Accounts, the financial impact of the Council's response to the coronavirus pandemic began to be incurred, and therefore will be reflected, in the 2020/21 financial year and accounts. As the pandemic is still ongoing, it is difficult to make a reliable estimate of the full impact on the 2020/21, or future, financial years.

6. Other Operating Expenditure

2018/19 £'000		2019/20 £'000
270	Payments of precepts to parishes	333
(150)	(Gain)/loss on the disposal of non-current (fixed) assets	(11)
120	Total	322

7. Financing and Investment Income and Expenditure

2018/19 £'000		2019/20 £'000
779	Interest payable and similar charges	627
2,204	Net interest on the net defined benefit liability	2,045
(422)	Interest receivable and similar income	(24)
(2,235)	Income and expenditure in relation to investment properties and changes in their fair value	(2,995)
326	Total	(347)

8. Taxation & Non-Specific Grant Income

2018/19 £'000		2019/20 £'000
(11,473)	Council Tax	(11,982)
(3,683)	Business Rate Retention Scheme	(3,867)
(3,734)	General Government Grants	(5,339)
(850)	Capital Grants & Contributions	(6,010)
(270)	Parish Precepts	(333)
(20,010)	Total	(27,531)

Notes to the Core Financial Statements

9. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2019/20	Movement in Unusable Reserves £'000	Usable Reserves		
		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
Adjustments Primarily involving the Capital Adjustment Account				
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES)				
Charges for depreciation and impairment of non current assets	(2,546)	2,546		
Revaluation losses on Property, Plant & Equipment	(26)	26		
Movements in the market value of Investment Properties	1,086	(1,086)		
Amortisation of intangible assets				
Capital grants and contributions unapplied	(673)	(1,342)		2,015
Revenue Expenditure funded from Capital under Statute	(620)	620		
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(113)	113		
Movement in the Donated Assets Account	-	-		
Other Income		(549)	549	
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	828	(828)		
Capital expenditure charged against the General Fund balance	146	(146)		
Transfer in respect of Community Infrastructure Levy Receipts		(3,082)		3,082
Adjustments Primarily involving the Capital Grants Unapplied Account				
Application of grants to capital financing transferred to the Capital Adjustment Account	1,566			(1,566)
Application of grants to the General Fund		(91)		91
Adjustments Primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES		(125)	125	
Use of the Capital Receipts Reserve to finance new capital expenditure	524		(524)	
Reversal of income classified as a Capital Receipt		100	(100)	
Transfer from Deferred Capital Receipts upon receipt of cash	(1)		1	
Adjustments Primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	10	(10)		
Adjustments Primarily involving the Pooled Investment Funds Adjustment Account				
Statutory override to mitigate the impact of fair value movements on pooled investment funds.	(531)	531		
Adjustments Primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the CI&ES	(8,577)	8,577		
Employer's pensions contributions and direct payments to pensioners payable in the year	4,253	(4,253)		
Adjustments Primarily involving the Collection Fund Adjustment Account				
Amount by which Council Tax/NNDR income credited to the CI&ES is different from Council Tax/NNDR income collected for the year in accordance with statutory requirements	952	(952)		
Adjustments Primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	(69)	69		
Total Adjustments	(3,791)	118	51	3,622

Notes to the Core Financial Statements

9. Adjustments between Accounting Basis and Funding Basis under Regulations (cont'd)

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

2018/19	Movement in Unusable Reserves £'000	Usable Reserves		
		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
Adjustments Primarily involving the Capital Adjustment Account				
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES)				
Charges for depreciation and impairment of non current assets	(2,261)	2,261	-	-
Revaluation losses on Property, Plant & Equipment	456	(456)	-	-
Movements in the market value of Investment Properties	183	(183)	-	-
Amortisation of intangible assets	-	-	-	-
Capital grants and contributions unapplied	(762)	(325)	-	1,087
Revenue Expenditure funded from Capital under Statute	(195)	195	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(586)	586	-	-
Movement in the Donated Assets Account	30	(30)	-	-
Other Income	-	(376)	376	-
Insertion of Items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	820	(820)	-	-
Capital expenditure charged against General Fund balance	296	(296)	-	-
Transfer in respect of Community Infrastructure Levy Receipts	-	2,195	-	(2,195)
Adjustments Primarily involving the Capital Grants Unapplied Account				
Application of grants to capital financing transferred to the Capital Adjustment Account	948	-	-	(948)
Adjustments Primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	-	(736)	736	-
Use of the Capital Receipts Reserve to finance new capital expenditure	898	-	(898)	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	-	1	(1)	-
Transfer from Deferred Capital Receipts upon receipt of cash	-	-	-	-
Adjustments Primarily involving the Financial Instruments Adjustment Account				
Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	8	(8)	-	-
Adjustments Primarily involving the Pooled Investment Funds Adjustment Account				
Statutory override to mitigate the impact of fair value movements on pooled investment funds.	(108)	108	-	-
Adjustments Primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the CI&ES	(8,552)	8,552	-	-
Employer's pensions contributions and direct payments to pensioners payable in the year	4,254	(4,254)	-	-
Adjustments Primarily involving the Collection Fund Adjustment Account				
Amount by which Council Tax/NNDR income credited to the CI&ES is different from Council Tax/NNDR income collected for the year in accordance with statutory requirements	(1,380)	1,380	-	-
Adjustments Primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	3	(3)	-	-
Total Adjustments	(5,948)	7,791	213	(2,056)

Notes to the Core Financial Statements

10. Grant Income

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

2018/19 £'000		2019/20 £'000
	Credited to Taxation and Non Specific Grant Income	
	<i>Non-ringfenced government grants</i>	
8	New Burdens Grant	8
665	Revenue Support Grant	-
17	General Section 31 Grants	133
1,207	New Homes Bonus Grant	1,683
1,837	Business Rates Section 31 Grants	3,515
3,734	Total non-ringfenced government grants	5,339
	<i>Capital grants and contributions</i>	
139	Disabled Facilities Grant	-
495	Community Infrastructure Levy	4,577
20	Lancashire County Council	202
107	National Lottery Distribution Fund	98
(93)	Section 106	91
76	Affordable Homes	928
-	Lancashire Environmental Fund	34
	Friends of Fishwick and St Matthews	45
106	Other	35
850	Total capital grants and contributions	6,010
4,584	Total Credited to Taxation and Non Specific Grant Income	11,349

Where capital grants and contributions appear in brackets above this is due to the capital expenditure in year being greater than the grants and contributions received in year. Accumulated capital grants and contributions have been received in previous years and held within Capital Grants Unapplied Note 20b and are used in 2019/20 to finance the capital expenditure.

2018/19 £'000		2019/20 £'000
	Credited to Services	
	<i>Grants Received for Capital Purposes</i>	
1,247	Disabled Facilities Grant	1,481
362	Other Capital Grants & Contributions	164
1,609	Total Grants Received for Capital Purposes	1,645
	<i>Grants received for Revenue Purposes</i>	
42,265	Department for Work & Pensions Housing Benefits	36,424
831	Ministry for Housing, Communities and Local Government	1,763
156	Department for Work & Pensions	109
320	Arts Council	207
36	Heritage Lottery Fund	62
51	Big Local	100
215	URBACT III	97
88	Other	102
43,962	Total Grants Received for Revenue Purposes	38,864
45,571	Total Credited to Services	40,509

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 could require the monies or property to be returned to the giver. The balances at year end are as follows:

2018/19 £'000		2019/20 £'000
	Capital Grants Receipts in Advance	
1,266	Heritage Lottery Fund	1,266
1,054	North West Development Agency	1,054
2,320	Total	2,320

Notes to the Core Financial Statements

11. Property, Plant & Equipment

Movements on Balances 2019/20							
	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Asset Under Construction £'000	Total £'000
Cost or Valuation as at 1 April 2019	64,538	14,824	9,284	14,083	3,174	1,225	107,128
Additions	848	720	56	77	-	908	2,609
Revaluation increase/(decrease) recognised in Revaluation Reserve	446	-	-	-	(451)	-	(5)
Revaluation increase/(decrease) recognised in the Surplus / Deficit on the Provision of Services	(1)	-	-	-	(26)	-	(27)
Derecognition - disposals	-	(499)	-	-	-	-	(499)
Reclassifications (including to/from Investment Properties)	(100)	-	-	-	(54)	-	(154)
Cost or Valuation 31 March 2020	65,731	15,045	9,340	14,160	2,643	2,133	109,052
Accumulated Depreciation and Impairment as at 1 April 2019							
Accumulated Depreciation as at 1 April 2019	(2,293)	(10,113)	(3,489)	-	(54)	-	(15,949)
Accumulated Impairment as at 1 April 2019	(15,928)	(1,273)	(11)	(122)	(319)	-	(17,653)
Accumulated Depreciation and Impairment as at 1 April 2019	(18,221)	(11,386)	(3,500)	(122)	(373)	-	(33,602)
Depreciation charge for the year	(740)	(1,001)	(324)	-	(9)	-	(2,074)
Depreciation written back to the Revaluation Reserve	26	-	-	-	23	-	49
Depreciation written back to the Surplus / Deficit on the Provision of Services	1	-	-	-	18	-	19
Impairment losses recognised in Revaluation Reserve	-	-	-	-	-	-	-
Impairment losses recognised in the Surplus / Deficit on the Provision of Services	(145)	-	-	-	(345)	-	(490)
Derecognition - disposals	-	445	-	-	-	-	445
Reclassifications (depreciation)	-	-	-	-	-	-	-
Accumulated Depreciation and Impairment as at 31 March 2020	(19,079)	(11,942)	(3,824)	(122)	(686)	-	(35,653)
Net book value as at 31 March 2020	46,652	3,103	5,516	14,038	1,957	2,133	73,399

Depreciation

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

Other Land and Buildings	Up to 95 years
Vehicles, Plant, Furniture and Equipment	3 -20 years
Infrastructure	Up to 45 years
Surplus Assets	Up to 65 years

Effects of Changes in Estimates

In 2019/20 the Council made no material changes in the way the accounting estimates for Property, Plant and Equipment were prepared.

Notes to the Core Financial Statements

11. Property, Plant & Equipment (cont'd)							
Movements on Balances 2018/19							
	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Asset Under Construction £'000	Total £'000
Cost or Valuation as at 1 April 2018	63,226	14,689	9,240	13,952	2,876	481	104,464
Additions	585	191	44	131	-	744	1,695
Revaluation increase/(decrease) recognised in Revaluation Reserve	470	-	-	-	343	-	813
Revaluation increase/(decrease) recognised in the Surplus / Deficit on the Provision of Services	295	-	-	-	(199)	-	96
Derecognition - disposals	-	(56)	-	-	(140)	-	(196)
Reclassifications	(38)	-	-	-	294	-	256
Cost or Valuation 31 March 2019	64,538	14,824	9,284	14,083	3,174	1,225	107,128
Accumulated Depreciation and Impairment as at 1 April 2018							
Accumulated Depreciation as at 1 April 2018	(1,922)	(9,159)	(3,169)	-	(36)	-	(14,286)
Accumulated Impairment as at 1 April 2018	(15,928)	(1,273)	(11)	(122)	(319)	-	(17,653)
Accumulated Depreciation and Impairment as at 1 April 2018	(17,850)	(10,432)	(3,180)	(122)	(355)	-	(31,939)
Depreciation charge for the year	(730)	(1,010)	(320)	-	(18)	-	(2,078)
Depreciation written back to the Revaluation Reserve	156	-	-	-	-	-	156
Depreciation written back to the Surplus / Deficit on the Provision of Services	186	-	-	-	17	-	203
Impairment losses recognised in Revaluation Reserve	-	-	-	-	-	-	-
Impairment losses recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	-
Derecognition - disposals	-	56	-	-	-	-	56
Reclassifications (depreciation)	17	-	-	-	(17)	-	-
Accumulated Depreciation and Impairment as at 31 March 2019	(18,221)	(11,386)	(3,500)	(122)	(373)	-	(33,602)
Net book value as at 31 March 2019	46,317	3,438	5,784	13,961	2,801	1,225	73,526

Depreciation

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

Other Land and Buildings	Up to 95 years
Vehicles, Plant, Furniture and Equipment	3 -20 years
Infrastructure	Up to 45 years
Surplus Assets	Up to 65 years

Effects of Changes in Estimates

In 2018/19 the Council made no material changes in the way the accounting estimates for Property, Plant and Equipment were prepared.

Notes to the Core Financial Statements

11. Property, Plant & Equipment (cont'd)

Information on Assets Held	Number at 31 March 2019	Number at 31 March 2020
Non-Current Assets owned by the Council include the following:-		
Operational Buildings		
Central Administration Buildings	1	1
Other Office Buildings	3	3
Markets	2	2
Public Conveniences	13	12
Depots	1	1
Sub-depots	7	7
Surface Car Parks	4	4
Multi-storey Car Parks	1	1
Cemetery	1	1
Crematorium	1	1
Operational Equipment		
Vehicles	118	115
Infrastructure Assets		
Lock Gates	4	4
Railway	1	1
Swing Bridge	1	1
Community Assets		
Allotment Sites	6	6
Community Centres	4	4
Harris Museum & Library	1	1
Parks and Recreation Grounds (acres)	524	524
Park and Recreational Buildings and Structures	27	27
Park Lodges/Houses	2	2
Heritage Assets		
War Memorial	7	7
Works of Art and Collections (value £100k and over)	42	44
Investment and Other Buildings and Properties		
Other Office Buildings	10	8
Sports Centres	2	2
Guild Hall / Theatre	1	1
Farms (Land and Buildings)	2	2
Garage Units	32	32
Industrial Units	96	96
Miscellaneous Land and Open Spaces (individual pieces of land)	205	204
Retail and Commercial Units	61	61
Surface Car Parks	22	22

Notes to the Core Financial Statements

11. Property, Plant & Equipment (cont'd)

Depreciation

Depreciation is charged on a straight line basis on all fixed and intangible assets with a finite useful life. Newly acquired assets are depreciated from the year following acquisition.

During the period a review of the estimate of useful lives and residual values has been undertaken on all significant assets.

Capital Commitments

As at 31st March 2020, the Council was contractually committed to a total of £0.536m. The individual capital schemes over the £0.025m individual threshold are as follows (2018/19 £2.084m): -

	As at 31 March 2020 £'000
New Burial Ground within Cemetery	172
Affordable Housing Scheme	199
Jubilee Park Play Area	31
City Centre Investment Fund	134
Total	536

Asset Valuation

The Council's property portfolio is valued by the Property Services Manager within the Property Services Department. 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 Institution of Chartered Surveyors. All valuations were carried out internally.

The Council carries out a revaluation programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years.

Properties regarded by the Council as operational are to be valued on the basis of existing use value or, where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost.

The following statement shows the progress of the Council's programme for the revaluation of Property, Plant and Equipment.

	Property, Plant & Equipment						Total
	Other Land and Buildings £'000	Vehicles, Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Surplus Assets Not Held for Sale £'000	Asset Under Construction £'000	£'000
Valued at historical cost	-	15,045	9,340	14,160	-	2,133	40,678
Valued at fair value as at;							
31 March 2016	34,492	-	-	-	1,223	-	35,715
31 March 2017	4,430	-	-	-	546	-	4,976
31 March 2018	17,455	-	-	-	(9)	-	17,446
31 March 2019	6,961	-	-	-	556	-	7,517
31 March 2020	2,393	-	-	-	327	-	2,720
Current Value 2019/20							
Total	65,731	15,045	9,340	14,160	2,643	2,133	109,052

All the Council's surplus assets have been assessed as Level 2 for valuation purposes (see Note 1 item 27 for explanation of fair value levels).

Notes to the Core Financial Statements

12. Heritage Assets

	Fine Art	Decorative Art	Social History	Civic Regalia	Total
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation as at 1 April 2018	31,351	3,331	314	208	35,204
Additions	30	-	-	-	30
Revaluation Gains	634	85	10	-	729
Revaluation Losses recognised in the Revaluation Reserve	-	-	-	-	-
31 March 2019	32,015	3,416	324	208	35,963
Cost or Valuation as at 1 April 2019	32,015	3,416	324	208	35,963
Additions	-	-	-	-	-
Revaluation Gains	2,376	86	10	-	2,472
Revaluation Losses recognised in the Revaluation Reserve	-	-	-	-	-
31 March 2020	34,391	3,502	334	208	38,435

Additions of Heritage Assets

The Heritage Assets held by the Council fall into four categories: Fine Art, Decorative Art, Social History and Civic Regalia. All these categories have been in the Council's ownership for a number of years and are held for their intrinsic worth as opposed to potential financial gain. As such, they are unlikely to be sold. The Council's Fine and Decorative Art collection is reported in the Balance Sheet at an indexed external valuation which is based on market value at the time of the valuation. Also, some items are held at an insurance valuation which is also based on market values. Where assets are donated for nil consideration they are valued at valuation. The Council's Social History Collection is disclosed in the accounts as at the valuation in 1996 indexed up to the 31st March 2020. The Civic Regalia as reported on the Balance Sheet is valued annually as part of the insurance renewal process. According to the Code there is no prescribed minimum period between valuations and so the Council does not intend to revalue its Heritage Assets in the near future.

Further Information on Collections, Heritage Assets of Particular Importance and Preservation and Management can be found in the Harris Museum and Art Gallery Collection Development Policy (<http://www.harrismuseum.org.uk/collections>).

Notes to the Core Financial Statements

13(a). Financial Instruments - Balances

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

Long Term 31/03/19 £'000	Short Term 31/03/19 £'000		Long Term 31/03/20 £'000	Short Term 31/03/20 £'000
<u>Financial Assets</u>				
Investments				
<i>At amortised cost</i>				
-	14,000	Principal	-	15,500
-	46	Accrued interest	-	17
<i>At fair value through profit & loss</i>				
23,302	-	Fair value	19,231	-
23,302	14,046	Total Investments	19,231	15,517
Cash and Cash Equivalents				
<i>At amortised cost</i>				
-	3,496	Principal	-	4,082
-	12	Accrued interest	-	21
<i>At fair value through profit & loss</i>				
-	6,000	Fair Value	-	7,303
-	9,508	Total Cash and Cash Equivalents	-	11,406
Debtors				
178	2,484	<i>At amortised cost</i>	144	5,822
178	2,484	Total Included in Debtors	144	5,822
-	3,391	Debtors that are not financial instruments	-	5,238
178	5,875	Total Debtors	144	11,060
Financial Liabilities				
Borrowings				
12,313	5,003	Financial Liabilities at amortised cost - Loans (Principal sum borrowed)	12,309	3
-	217	Financial Liabilities at amortised cost - Loans (Accrued Interest)	-	128
178	-	Financial Liabilities at amortised cost - Market Loans EIR Adjustment	175	-
12,491	5,220	Total Borrowing	12,484	131
Creditors				
-	3,773	Financial Liabilities at amortised cost	-	4,570
-	3,773	Total included in Creditors	-	4,570
-	12,629	Creditors that are not financial instruments	-	13,655
-	16,402	Total Creditors	-	18,225

The Council repaid £5m of PWLB Loans in 2019/20.

Notes to the Core Financial Statements

13(b). Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020 using the following methods and assumptions.

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2020.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including creditors and debtors is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

	Fair Value Level	31 March 2019 Carrying amount £'000	Fair value £'000	31 March 2020 Carrying amount £'000	Fair value £'000
Financial Assets held at fair value:					
Long Term Investments - Pooled Funds	1	19,940	19,940	16,236	16,236
Long Term Investments - Bond Funds	1	3,363	3,363	2,995	2,995
Cash & Cash Equivalents - Money Market Funds	1	6,000	6,000	7,303	7,303
Financial Assets held at amortised cost:					
Cash & Cash Equivalents - Bank Deposits	2	507	507	4,103	4,103
Cash & Cash Equivalents - Loans to Local Authorities	2	2,000	2,000	-	-
Cash & Cash Equivalents - Government Bond	1	1,000	1,000	-	-
Short-Term Investments - Loans to Local Authorities	2	14,046	14,046	15,517	15,517
Long-Term Debtors		178	178	144	144
Short-Term Debtors		2,484	2,484	5,822	5,822
Total Financial Assets		49,518	49,518	52,120	52,120
Financial Liabilities held at amortised cost:					
Long-term PWLB Loans	2	1,887	3,309	1,888	3,404
Long-term Market Loans	2	10,604	16,767	10,596	17,357
Short-term Creditors		3,773	3,773	4,570	4,570
Borrowing repayable within 12 months		5,220	5,306	131	131
Total Financial Liabilities		21,484	29,155	17,185	25,462

The Council repaid £5m of PWLB Loans in 2019/20.

* The fair value of short-term financial assets held at amortised cost, including Debtors, is assumed to approximate to the carrying amount.

The fair value of Financial Liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Notes to the Core Financial Statements

13(c). Financial Instruments - Risks

(i) Key Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are

- Credit risk – the possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council
- Liquidity risk – the possibility that the Council might not have the cash available to make contracted payments on time
- Market risk - the possibility that unplanned financial loss will materialise because of changes in market variables such as interest rates of equity prices

(ii) 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, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. The full investment strategy for 2019/20 was approved by Council on 28 February 2019 and is available on the Council's website.

The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of a minimum of Long Term A-
- UK or EU Member Banks domiciled in a country with a minimum sovereign long term rating of AA+.
- Limits on investments in certain sectors (eg. Money Market Funds, Building Societies, foreign countries).

Amounts Arising from Expected Credit Losses

The Council's short and long term investments have been assessed and the expected credit loss is not material therefore no allowances have been made.

Notes to the Core Financial Statements

13(c). Financial Instruments - Risks (cont'd)

(ii) Credit risk (cont'd)

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

Credit Rating	As at 31 March 2020		As at 31 March 2019	
	Long-Term	Short-Term	Long-Term	Short-Term
	£'000	£'000	£'000	£'000
AA-				-
Unrated Local Authorities		15,517		14,046
Total	-	15,517	-	14,046
Credit risk not applicable *	19,231		23,302	
Total Investments	19,231	15,517	23,302	14,046

* Credit risk is not applicable to pooled funds where the Council has no contractual right to receive any sum of money.

At 31 March 2020, there were no loss allowances related to treasury investments.

Credit Risk - Debtors

The following analysis summarises the Council's potential maximum exposure to credit risk from trade debtors. Only trade debtors meeting the definition of a financial asset are included.

	31/03/2020	Historical experience of default	Adjustment for market conditions at 31/03/20	Estimated maximum exposure to default
	£'000	%	%	£'000
	a	b	b	a * b
Debtors	5,822	3.88%	3.88%	226
	5,822			226

The Council does not generally allow credit for its debtors. Of the £5.822m (£2.484m 2018/19) outstanding for debtors, £0.329m (£0.327m 2018/19) is overdue. The impaired amount for Debtors for 2019/20 is £0.151m (2018/19 £0.152m). The overdue but not impaired amount can be analysed by age as follows:

2018/19		2019/20
£'000		£'000
122	Less than three months	137
42	Three months to one year	34
11	More than one year	8
175		179

Loss allowances on Debtors has been calculated by reference to the Council's historic experience of default. Debtors are collectively assessed for credit risk as one group.

(iii) Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow requirements, and access to the Public Works Loans Board and money markets for longer term funds. The Council is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

The maturity analysis of financial liabilities is as follows:

2018/19		2019/20
£'000		£'000
8,993	Less than one year	4,701
3	Between one and two years	3
9	Between two and five years	9
12	Between five and ten years	9
12,467	More than ten years	12,463
21,484		17,185

Notes to the Core Financial Statements

13(c). Financial Instruments - Risks (cont'd)

(iii) Liquidity risk (cont'd)

Amounts payable relating to statutory debts, eg. council tax, non-domestic rates are not included in the analysis above as they are outside the scope of the Financial Instrument provisions.

The maturity analysis of financial assets is as follows:

2018/19 £'000		2019/20 £'000
49,341	Less than one year	51,976
15	Between one and two years	15
15	Between two and three years	15
147	More than three years	114
49,518		52,120

(iv) Market risk (Interest Rate Risk)

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income will rise
- investments at fixed rates - the fair value of the assets will fall

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Increase in interest receivable on variable rate investments	£'000
Decrease in fair value of investments held for trading	(539)
Impact on Surplus or Deficit on the Provision of Services	(539)
Decrease in fair value of available for sale financial assets	151
Impact on Comprehensive Income and Expenditure	151
Decrease in fair value of fixed rate borrowings liabilities (no impact on Comprehensive Income & Expenditure Statement)	(3,956)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

(v) Market risk (Price risk)

The market price's of the Council's units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

14. Provisions

	NNDR Provision for Appeals (a) £'000	Other Provisions (b) £'000	Total £'000
As at 1 April 2019	5,046	206	5,252
Additional provisions made	2,045	-	2,045
Amounts used in 2019/20	(906)	(114)	(1,020)
Unused amounts reversed	-	-	-
As at 31 March 2020	6,185	92	6,277

Purpose of Provisions

- NNDR Provision for Appeals - this is to cover future losses in income as a result of refunding ratepayers who successfully appeal against the rateable value of their properties.
- (a) appeal against the rateable value of their properties.
- (b) Other Provisions comprising redundancy and lease cars.

Notes to the Core Financial Statements

15. Investment Properties

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

2018/19 £'000		2019/20 £'000
38,928	Balance as at 1 April	39,346
(1)	Disposals	(59)
386	Acquisitions/Enhancements	28
183	Net gains/(losses) from fair value adjustments	1,087
(150)	Transfers (to)/from Surplus Assets not Held for Sale	154
39,346	Balance as at 31 March	40,556

15(a). Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2020 and 2019 are as follows:

<i>Recurring fair value measurements using:</i>	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2020
	£'000	£'000	£'000	£'000
Advert Hoarding	-	101	-	101
Agricultural	-	1,081	-	1,081
Car Parks	-	572	-	572
Garages	-	116	-	116
Ground Rents - Industrial	-	10,333	-	10,333
Ground Rents - Office	-	6,133	-	6,133
Ground Rents - Other	-	10,101	-	10,101
Ground Rents - Retail	-	4,270	-	4,270
Industrial	-	6,071	-	6,071
Licenced Property	-	-	-	-
Offices	-	199	-	199
Retail	-	1,198	-	1,198
Retail Housing Shops	-	381	-	381
Total	0	40,556	0	40,556

2019 Comparative Figures - restated 2019/20

<i>Recurring fair value measurements using:</i>	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2019
	£'000	£'000	£'000	£'000
Advert Hoarding	-	124	-	124
Agricultural	-	1,115	-	1,115
Car Parks	-	572	-	572
Garages	-	116	-	116
Ground Rents - Industrial	-	9,583	-	9,583
Ground Rents - Office	-	6,129	-	6,129
Ground Rents - Other	-	9,753	-	9,753
Ground Rents - Retail	-	4,843	-	4,843
Industrial	-	5,217	-	5,217
Licenced Property	-	-	-	0
Offices	-	206	-	206
Retail	-	1,307	-	1,307
Retail Housing Shops	-	381	-	381
Total	0	39,346	0	39,346

Transfers between Levels of the Fair Value Hierarchy

The Fair Value Levels used by Preston City Council have been reclassified in 2019/20 which has resulted in our 2019 Comparative Fair Value Levels being restated to provide a consistent comparison.

Notes to the Core Financial Statements

16. Short-term Debtors

As at 31 March 2019 £'000		As at 31 March 2020 £'000
1,028	Trade Receivables*	4,798
259	Prepayments	841
4,588	Other Receivable Amounts	5,421
5,875	Total	11,060

* The 2019/20 figure includes £3.3m (2018/19 £0.542m) relating to CIL invoices being paid on an agreed instalment plan.

17. Capital Grants Receipts in Advance

2018/19 £'000		2019/20 £'000
2,320	Balance as at 1 April	2,320
-	Received during the year	-
-	Conditions met and released during the year	-
2,320	Balance as at 31 March	2,320

18. Cash & Cash Equivalents

The balance of cash and cash equivalents is made up of the following:

As at 31 March 2019 £'000		As at 31 March 2020 £'000
2	Cash held by the Council	3
880	Bank Current Accounts	150
9,013	Short-term Deposits under 3 months	11,324
(387)	Bank Overdraft	(71)
9,508	Total Cash & Cash Equivalents	11,406

19. Creditors

As at 31 March 2019 £'000		As at 31 March 2020 £'000
134	Trade Payables	307
16,268	Other Payables	17,918
16,402	Total	18,225

Notes to the Core Financial Statements

20. Usable Reserves

The overall movements in the Council's Usable Reserves can be seen in the Movement in Reserves Statement. Further details on the movements in the individual Earmarked Reserves can be found below, along with an explanation of the purpose of each reserve.

20(a). Transfers to/from Earmarked Reserves

	Balance as at			Balance as at
	01/04/19	Transfers Out	Transfers In	31/03/20
	£'000	£'000	£'000	£'000
(a) Capital Reserves	265	(9)	9	265
(b) Building Control	66	(38)	41	69
(c) Voluntary Set Aside for Debt Repayment	3,975	-	473	4,448
(d) IT Fund General Reserve	461	(118)	100	443
(e) Legal & Insurance Matters Reserve	756	(40)	220	936
(f) Land Charges	302	-	34	336
(g) Land Charges New Legislation Reserve	7	-	-	7
(h) City Centre Regeneration	76	-	-	76
(i) Housing Benefit & Council Tax Reserve	415	(67)	105	453
(j) Investment Properties Dilapidations Reserve	51	-	-	51
(k) Alleygate Maintenance Reserve	15	-	-	15
(l) Municipal Mutual Insurance Reserve	274	-	-	274
(m) General Commuted Sums	659	-	-	659
(n) Community Related Assets Reserve	5,626	-	-	5,626
(o) Localising Council Tax Support	73	(13)	-	60
(p) Business Rates Equalisation Reserve	1,776	-	655	2,431
(q) Guild Reserve	1,000	-	-	1,000
(r) Counter Fraud Fund Reserve	100	(60)	-	40
(s) Arts & Cultural Strategy Reserve	26	(3)	-	23
(t) Individual Electoral Registration Reserve	119	(12)	-	107
(u) City Deal Reserve	2,878	-	365	3,243
(v) Vehicle Maintenance Reserve	50	-	-	50
(w) Cemetery & Crematorium Reserve	325	(7)	105	423
(x) Public Health Initiative	6	(4)	-	2
(y) Riversway Maintenance Reserve	25	-	-	25
(z) Community Infrastructure Levy Admin	417	(91)	312	638
(aa) Efficiency Planning Reserve	1,043	(91)	-	952
(ab) Housing Zone Reserve	47	(5)	-	42
(ac) Planning Appeals/Inquiry Reserve	150	-	50	200
(ad) Self Insurance Reserve	234	-	-	234
(ae) Triennial Review Reserve	82	-	60	142
(af) Guild Hall Reserve	-	-	230	230
Total	21,299	(558)	2,759	23,500

Purpose of Earmarked Reserves

(a) Capital Reserves	Revenue funds set aside to help finance future capital projects.
(b) Building Control	Surpluses generated on Building Control Trading services set aside to support continuing service delivery.
(c) Voluntary Set Aside for Debt Repayment	Voluntary set aside for the repayment of debt in respect of the replacement and purchase of vehicles.
(d) IT Fund General Reserve	Funding of new IT initiatives and development of IT systems.
(e) Legal & Insurance Matters Reserve	Voluntary set aside for future legal fees and insurance matters that may arise.
(f) Land Charges	Surpluses generated on Land Charges set aside for reinvestment into the service.
(g) Land Charges New Legislation Reserve	Voluntary set aside for potential claims of Land Charge refunds.
(h) City Centre Regeneration	Voluntary set aside available for financing development/regeneration costs.
(i) Housing Benefit & Council Tax Reserve	Voluntary set aside for completion of Department for Work & Pensions benefit assessment and reform projects.
(j) Investment Properties Dilapidations Reserve	Voluntary set aside for dilapidation works.

Notes to the Core Financial Statements

20(a). Transfers to/from Earmarked Reserves (cont'd)

(k)	Alleygate Maintenance Reserve	Voluntary set aside for maintenance of alleygates.
(l)	Municipal Mutual Insurance Reserve	Voluntary set aside to cover the risk of claw back under the Municipal Mutual Insurance (MMI) Scheme of Arrangement.
(m)	General Commuted Sums	Committed sums set aside to cover the future expenditure on assets which have been adopted by the Council.
(n)	Community Related Assets Reserve	Sums set aside for financing future expenditure associated with the transfer of Community Related Assets.
(o)	Localising Council Tax Support	Voluntary set aside to support the Localised Council Tax Support scheme.
(p)	Business Rates Equalisation Reserve	Voluntary set aside to cover the timing differences when accounting for business rates income.
(q)	Guild Reserve	Voluntary set aside for the Preston Guild, an important and historic event held every 20 years dating back to the granting of Preston's first Charter in 1179. The next Preston Guild is 2032.
(r)	Counter Fraud Fund Reserve	Set aside of Department for Work & Pensions ring-fenced grant for fraud prevention including the funding of the Corporate Enquiry (Fraud) Team.
(s)	Arts & Cultural Strategy Reserve	Voluntary set aside to fund investment in the Arts & Cultural offer of the City.
(t)	Individual Electoral Registration Reserve	Set aside of Government Grant to fund Individual Electoral Register.
(u)	City Deal Reserve	Set aside of Community Provision relating to City Deal.
(v)	Vehicle Maintenance Reserve	Voluntary set aside to fund future vehicle maintenance costs.
(w)	Cemetery & Crematorium Reserve	Voluntary set aside to fund future capital costs.
(x)	Public Health Initiatives	Income received in advance for Public Health Initiatives & Welfare Reforms.
(y)	Riversway Maintenance Reserve	Voluntary set aside to fund future maintenance on the dock gates.
(z)	Community Infrastructure Levy Admin	Set aside of the 5% admin fee allowable under the CIL regulation 123 to fund activities concerned with monitoring and reporting on CIL activity.
(aa)	Efficiency Planning Reserve	Set aside towards funding one-off costs of the implementation of the savings plans.
(ab)	Housing Zone Reserve	Set aside of Government Grant to support house building on large designated sites within the City.
(ac)	Planning Appeals/Public Inquiry Reserve	Voluntary set aside to fund future Planning Appeals and Public Inquiries.
(ad)	Self Insurance Fund Reserve	Self insurance fund to cover risks that the Council haven't externally insured for.
(ae)	Triennial Review Reserve	Set aside until the next triennial review in anticipation of future pension fund fluctuations due to the Leisure Transfer.
(af)	Guild Hall Reserve	Voluntary set aside to cover essential maintenance costs.

20(b). Capital Grants Unapplied

	Balance as at 01/04/18	Receipts in Year	Payments in Year	Transfer	Balance as at 01/04/19	Receipts in Year	Payments in Year	Transfer	Balance as at 31/03/20
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Section 106 Unapplied Capital	538	-	(117)		421		(27)	91	485
(b) Unapplied Capital Grants & Contributions	835	899	(718)	-	1,016	1,087	(1,353)		750
(c) Community Infrastructure Levy	2,667	730	(2,691)	(234)	472	5,061	(1,776)	(203)	3,554
(d) Affordable Homes	642	187	(112)	-	717	928	(186)		1,459
Total	4,682	1,816	(3,638)	(234)	2,626	7,076	(3,342)	(112)	6,248

Notes to the Core Financial Statements

21. Unusable Reserves

31 March 2019 £'000		31 March 2020 £'000
59,238	Revaluation Reserve	61,444
(456)	Financial Instruments Adjustment Account	(446)
67,101	Capital Adjustment Account	67,584
(89,480)	Pensions Reserve	(78,064)
1	Deferred Capital Receipts Reserve	-
(444)	Collection Fund Adjustment Account	508
(145)	Accumulated Absences Account	(213)
(197)	Pooled Investment Funds Adjustment Account	(728)
35,618	Total Unusable Reserves	50,085

21(a). Revaluation Reserve

2018/19 £'000		2019/20 £'000
58,010	Balance as at 1 April	59,238
1,931	Upward revaluation of assets	3,028
(14)	Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	(511)
1,917	Surplus or deficit on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services	2,517
(329)	Difference between fair value depreciation and historical cost depreciation	(311)
(360)	Accumulated gains on assets sold or scrapped	-
59,238	Balance as at 31 March	61,444

The Revaluation Reserve represents the gains on revaluation of fixed assets not yet realised through sales.

The Revaluation Reserve contains gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when 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; and,
- disposed of and the gains realised.

21(b). Financial Instruments Adjustment Account

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 per statutory provisions.

2018/19 £'000		2019/20 £'000
(464)	Balance as at 1 April	(456)
8	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	10
(456)	Balance as at 31 March	(446)

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are written down to the Comprehensive Income and Expenditure Statement over the term remaining on the loan.

Notes to the Core Financial Statements

21(c). Capital Adjustment Account

2018/19		2019/20
£'000		£'000
66,585	Balance as at 1 April	67,101
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES):	
(1,804)	Charges for depreciation and impairment of non-current assets	(2,546)
-	Revaluation losses on Property, Plant & Equipment	(26)
(195)	Revenue Expenditure funded from Capital under Statute	(620)
(226)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(113)
<u>(2,225)</u>		<u>(3,305)</u>
330	Adjusting amounts written out of the Revaluation Reserve	311
<u>(1,895)</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>(2,994)</u>
	Capital financing applied in the year:	
898	Use of the Capital Receipts Reserve to finance new capital expenditure	524
(762)	Capital grants and contributions credited to the CI&ES that have been applied to capital financing	(673)
947	Application of grants to capital financing from the Capital Grants Unapplied Account	1,566
820	Statutory provision for the financing of capital investment charged against the General Fund Balance	828
295	Capital Expenditure charged against the General Fund balance	146
<u>2,198</u>		<u>2,391</u>
183	Movements in the market value of Investment Properties debited or credited to the CI&ES	1,086
30	Value of donated asset credited to the CI&ES	-
<u>67,101</u>	Balance as at 31 March	<u>67,584</u>

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 and 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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

21(d). Pensions Reserve

2018/19		2019/20
£'000		£'000
(89,030)	Balance as at 1 April	(89,480)
3,285	Remeasurements of the net defined benefit liability	15,740
(7,989)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	(8,577)
4,254	Employer's pensions contributions and direct payments to pensioners payable in the year	4,253
<u>(89,480)</u>	Balance as at 31 March	<u>(78,064)</u>

Notes to the Core Financial Statements

21(e). Deferred Capital Receipts Reserve

2018/19 £'000		2019/20 £'000
1	Balance as at 1 April	1
-	Transfer to the Capital Reserve upon receipt of cash	(1)
1	Balance as at 31 March	-

Deferred capital receipts represent capital income still to be received from earlier disposals of Council assets where deferred payments had been agreed. Income still to be received is also accounted for within long-term debtors. As repayments are received into the Capital Receipts Reserve the deferred capital receipts reserve and long-term debtors are updated accordingly.

21(f). Collection Fund Adjustment Account

2018/19 £'000		2019/20 £'000
	Council Tax	
257	Balance as at 1 April	130
113	Share of Council Tax surplus / (deficit) for the year	(120)
(240)	(Surplus) / deficit transferred to the General Fund as determined by regulation	(192)
130	Balance as at 31 March	(182)
	Business Rates	
678	Balance as at 1 April	(574)
(262)	Share of Business Rates surplus / (deficit) for the year	833
-	Share of renewable energy schemes surplus / (deficit) for the year	(3)
(990)	(Surplus) / deficit transferred to the General Fund as determined by regulation	434
(574)	Balance as at 31 March	690
(444)	Total Balance as at 31 March	508

The Collection Fund Adjustment Account allows for differences between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund. The balance on the account represents the Council's share of the Collection Fund surplus or deficit.

21(g). Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. As a result of the implementation of IFRS 9 the Available for Sale Reserve has been decommissioned and the balance transferred to the Pooled Investment Funds Adjustment Account.

2018/19 £'000		2019/20 £'000
(116)	Balance as at 1 April	-
-	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
27	Remeasurement of UK Gilt to amortised cost under IFRS 9	-
89	Transfer of Available for Sale Reserve to Pooled Investment Funds Adjustment Account under IFRS 9	-
-	Movement in Year charged to CI&E	-
-	Balance as at 31 March	-

Notes to the Core Financial Statements

21(h). Accumulated Absences Account

2018/19 £'000	2019/20 £'000
(148) Balance as at 1 April	(145)
148 Settlement or cancellation of accrual made at the end of the preceding year	145
(145) Amounts accrued at the end of the current year	(213)
Amount by which officer remuneration charged to the Comprehensive Income and	
3 Expenditure Statement on an accruals basis is different from remuneration chargeable	
	(69)
(145) Balance as at 31 March	(214)

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, eg annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

21(i). Pooled Investment Funds Adjustment Account

2018/19 £'000	2019/20 £'000
- Balance as at 1 April	(197)
(108) Statutory override to mitigate the impact of fair value movements on pooled investment funds	(531)
(89) Transfer from Available for Sale Reserve	-
(197) Balance as at 31 March	(728)

There was significant volatility in the financial money markets in March 2020 following the outbreak of the Coronavirus and this led to a fall in the fair value of pooled investment funds of £531k. As a result of the implementation of IFRS 9, the Ministry for Housing, Communities and Local Government (MHCLG) have introduced a statutory override for accounting for the changes in the fair value of pooled fund investments so that there is no overall impact on the Council's funds. The statutory override is time limited and the final year is 2022/23.

22. Cash Flow Statement - Operating Activities

The cash flows for operating activities included the following items

2018/19 £'000	2019/20 £'000
(12) Interest Received	44
(2) Interest Paid	(93)

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

2018/19 £'000	2019/20 £'000
1,805 Depreciation	2,546
- Impairment and downward valuations	26
- Amortisation	-
1,173 Increase/(decrease) in creditors	3,533
2,894 (Increase)/decrease in debtors	(3,232)
(39) (Increase)/decrease in inventories	(17)
5,698 Movement in pension liability	5,723
586 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	113
929 Other non-cash items charged to the net surplus or deficit on the provision of services	464
13,046 Adjusted net surplus or deficit on the provision of services for non-cash movements	9,156

The Surplus or deficit on the provision of service has been adjusted for the following items that are investing and financing activities:

2018/19 £'000	2019/20 £'000
(14) Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	3,542
(1,112) Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(574)
(1,056) Any other items for which the cash effects are investing or financing cash flows	(6,638)
(2,182)	(3,670)

Notes to the Core Financial Statements

23. Cash Flow Statement - Investing Activities

2018/19 £'000		2019/20 £'000
(2,167)	Purchase of property, plant and equipment, investment property and intangible assets	(3,438)
(16,000)	Purchase of short-term and long-term investments	(15,500)
(3)	Other payments for investing activities	-
1,112	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	575
7,765	Proceeds from short -term and long-term investments	14,000
1,341	Other receipts from investing activities	6,450
(7,952)	Net cash flows from investing activities	2,087

24. Cash Flow Statement - Financing Activities

2018/19 £'000		2019/20 £'000
(922)	Council tax and NNDR adjustments	(2,700)
(3)	Repayments of short-term and long-term borrowing	(5,003)
(925)	Net cash flows from financing activities	(7,703)

25. Cash Flow Statement - Reconciliation of Liabilities arising from Financing Activities

The changes in the Authority's liabilities arising from financing activities can be classified as follows:

	Long Term Borrowings	Short Term Borrowings	Total
	£'000	£'000	£'000
Balance as at 1 April 2019	12,491	5,220	17,711
Cash Flows			
Repayment	(3)	(5,000)	(5,003)
Non-Cash			
Fair Value	(4)	(89)	(93)
Reclassification	-	-	-
Balance as at 31 March 2020	12,484	131	12,615
	Long Term Borrowings	Short Term Borrowings	Total
	£'000	£'000	£'000
Balance as at 1 April 2018	17,497	219	17,716
Cash Flows			
Repayment	(4)	-	(4)
Non-Cash			
Fair Value	(2)	1	(1)
Reclassification	(5,000)	5,000	-
Balance as at 31 March 2019	12,491	5,220	17,711

Notes to the Core Financial Statements

26. Expenditure Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (Government Grants, Council Tax, Business Rates and rents) 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 service areas. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19				2019/20			
Net Expenditure Chargeable to the General Fund	Transfers (to)/from Earmarked Reserves	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Transfers (to)/from Earmarked Reserves	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Service Segments							
663	(80)	-	583	620	-	-	620
4,133	(22)	-	4,111	4,635	(136)	-	4,499
7,319	(322)	-	6,997	8,196	(624)	-	7,572
1,231	(315)	-	916	1,850	(280)	-	1,570
21	-	-	21	-	-	-	-
5,796	(265)	6,373	11,904	6,511	(77)	5,270	11,704
19,163	(1,004)	6,373	24,532	21,812	(1,117)	5,270	25,965
(19,738)	(1,945)	1,418	(20,265)	(21,757)	(1,084)	(5,152)	(27,993)
-	-	-	-	-	-	-	-
(575)	(2,949)	7,791	4,267	55	(2,201)	118	(2,028)
8,344	18,350			8,878	21,299		
(41)							
8,303				-			
575	2,949			(55)	2,201		
8,878	21,299			8,823	23,500		

* Central Services contains the centrally managed budgets which include Housing Benefits, utilities, depreciation and pensions

Notes to the Core Financial Statements

26(a). Note to the Expenditure and Funding Analysis

This note explains the main adjustments from the Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement

2019/20	Net Expenditure Chargeable to the General Fund	Transfers (to)/from Earmarked Reserves	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Adjustments	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	620	-	-	-	-	620
Corporate Services	4,635	(136)	-	-	-	4,499
Customer Services	8,196	(624)	-	-	-	7,572
Development	1,850	(280)	-	-	-	1,570
Environment	-	-	-	-	-	-
Central Services	6,511	(77)	877	4,324	69	11,704
Net Cost of Services	21,812	(1,117)	877	4,324	69	25,965
Other Income and Expenditure	(21,757)	(1,084)	(4,172)	-	(980)	(27,993)
(Surplus)/Deficit	55	(2,201)	(3,295)	4,324	(911)	(2,028)

2018/19	Net Expenditure Chargeable to the General Fund	Transfers (to)/from Earmarked Reserves	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Adjustments	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	663	(80)	-	-	-	583
Corporate Services	4,133	(22)	-	-	-	4,111
Customer Services	7,319	(322)	-	-	-	6,997
Development	1,231	(315)	-	-	-	916
Environment	21	-	-	-	-	21
Central Services	5,796	(265)	2,078	4,298	(3)	11,904
Net Cost of Services	19,163	(1,004)	2,078	4,298	(3)	24,532
Other Income and Expenditure	(19,738)	(1,945)	344	-	1,074	(20,265)
(Surplus)/Deficit	(575)	(2,949)	2,422	4,298	1,071	4,267

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 ie Minimum Revenue Position 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 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 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 Council 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 Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

26(a). Note to the Expenditure and Funding Analysis (cont'd)

Other Adjustments

Other adjustments 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 adjustments column recognises 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 forward in future Surpluses or Deficits on the Collection Fund.

26(b). Expenditure and Income Analysed by Nature

2018/19 £'000		2019/20 £'000
	Expenditure	
23,094	Employee benefits expenses	23,774
53,263	Other service expenses	49,251
6,131	Depreciation, amortisation, impairment	5,167
2,983	Interest payments	2,672
270	Precepts and levies	333
(150)	(Gain)/loss on disposal of assets	(11)
85,591	Total Expenditure	81,186
	Income	
(13,568)	Fees, charges and other service income	(13,819)
(2,474)	Interest and investment income	(1,932)
(11,743)	Income from council tax, non-domestic rates, district rate income	(12,315)
(53,539)	Government grants and contributions	(55,148)
(81,324)	Total Income	(83,214)
4,267	(Surplus) or Deficit on the Provision of Services	(2,028)

27. Members' Allowances

2018/19 £'000		2019/20 £'000
	Allowances	
218	Basic	191
67	Special Responsibility	77
7	Mayoral Duties	7
2	Co-opted Members	2
294		277
	Expenses	
3	Travel & Subsistence	5
297	Total	282

Notes to the Core Financial Statements

28. Officers' Remuneration

The numbers of employees whose remuneration (excluding employer's pension contributions) for the year exceeded £50,000 are as follows:

	Restated 2018/19 No.	2019/20 No.
£50,000 - £54,999	1	3 *
£55,000 - £59,999	-	-
£60,000 - £64,999	2	1
£65,000 - £69,999	2	1
£70,000 - £74,999	-	1
£75,000 - £79,999	2	2
£80,000 - £84,999	1	1
£85,000 - £89,999	-	-
£90,000 - £94,999	1	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	1
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-

* bands affected by a total of 2 termination payments made during 2019/20.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:-

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	No.	No.	No.	No.	No.	No.	£'000	£'000
£0 - £20,000	-	-	1	1	1	1	20	14
£20,001 - £40,000	-	-	-	1	-	1	-	36
£40,001 - £60,000	-	-	1	-	1	-	45	-
£60,001 - £80,000	-	-	1	-	1	-	71	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	2	-	2	-	240
£150,001 - £200,000	-	-	-	-	-	-	-	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
£250,001 - £300,000	-	-	-	-	-	-	-	-
Total cost included in bandings							136	290
Add: Amounts provided for in CI&ES not included in bandings - under/over provisions relating to previous years							-1	-
Add: Provisions in CI&ES not included in bandings - exit packages payable to following year leavers							114	-
Less: Reversal of provision for exit packages paid in year and now included in bandings, but provided for in prior year							(71)	(114)
Total cost included in CI&ES							178	176

The Council's 2019/20 Comprehensive Income and Expenditure Statement includes a reversal of a provision made in 2018/19 of £0.114m relating to 1 exit package agreed for 2019/20, but for which no payments were made in 2018/19. The actual payments have now been made and are included within the relevant banding in 2019/20.

Notes to the Core Financial Statements

28. Officers' Remuneration (cont'd)

Further details for those Senior Officers whose Salary is £50,000 or more per year are also tabled below:

Senior Officers - salary is between £50,000 and £150,000 per year - 2018/19 & 2019/20

			Salary (including fees & allowances) £'000	Compensation for loss of office £'000	Benefits in Kind £'000	Total Remuneration excluding pension contributions £'000	Pension contributions £'000	Total Remuneration including pension contributions £'000
Chief Executive	2019/20	Note 1	107	-	-	107	15	122
	2018/19		102	-	-	102	14	116
Director Corporate Services	2019/20		77	-	-	77	12	89
	2018/19		76	-	-	76	11	87
Director Customer Services & Deputy Chief Executive	2019/20		81	-	-	81	12	93
	2018/19		79	-	4	83	12	95
Director Development	2019/20		77	-	-	77	12	89
	2018/19		76	-	-	76	11	87
Assistant Chief Executive Officer Policy & Social Justice	2019/20	Note 2	19	35	-	54	4	58
	2018/19		61	-	-	61	9	70
Chief Environmental Health Officer / Deputy Director	2019/20		62	-	-	62	9	71
	2018/19		61	-	-	61	9	70
Head of Shared Service & Deputy Director Customer Services	2019/20	Note 3	71	-	-	71	11	82
	2018/19		69	-	-	69	10	79
City Treasurer	2019/20		68	-	-	68	10	78
	2018/19		66	-	-	66	10	76
Head of Legal & Democratic Services - Monitoring Officer	2019/20		52	-	-	52	8	60
	2018/19		51	-	-	51	8	59
	2019/20		614	35	-	649	93	742
	2018/19		641	-	4	645	94	739

Note 1: The Chief Executive retired on 18th May 2018 on an annualised salary of £113,507. The position was replaced with an Interim Chief Executive from 19th May 2018 on an annualised salary of £91,800. This position was made permanent from 19th April 2019. Salary includes Returning Officer payments for the Preston City Council Elections in 2018/19 and 2019/20, an interim Returning Officer payment for the European Elections 2019/20 and an interim Acting Returning Officer payment for the UK Parliamentary Elections 2019/20.

Note 2: The Assistant Chief Executive Officer Policy & Social Justice was made redundant on 19th July 2019. The post was then deleted.

Note 3: The Head of Shared Services & Deputy Director Customer Services provides services for both Preston City Council and Lancaster City Council as part of a shared service arrangement. He is formally employed by Preston City Council and Lancaster City Council is recharged 50% of his total remuneration.

29. Termination Benefits

The Council terminated 3 contracts of employment in 2019/20, incurring costs of £175,959 (£178,430 in 2018/19).

The 2019/20 total includes accrued costs of £14,114 for compensation for loss of office relating to 1 of the 3 mentioned officers.

In 2019/20, £35,956.89 was paid for the Assistant Chief Executive Officer Policy & Social Justice (£35,000 for compensation for loss of office and £956.89 for enhanced pension benefits), as disclosed in note 28.

Notes to the Core Financial Statements

30. 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.

(i) Central Government

Central government has significant influence 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 (eg council tax bills, housing benefits).

(ii) Members of the Council

Members of the Council have direct control over the Council's financial and operating policies. Details of Members' interests are recorded in the Notification of Members' Financial and Other Interests file which is open to public inspection at the Town Hall, Preston.

Members have not disclosed any material transactions with related parties.

Grants paid by the Council to organisations with Member interest include:

- The Council as an independent body paid grants totalling £0.095m (2018/19 £0.112m) to voluntary organisations and local community groups in which one or more Members had an interest. The grants were made in proper consideration of declarations of interest, where relevant. Those Members with a declared interest did not take part in any discussion or decision relating to the grant.
- The Council as an Accountable Body paid grants totalling £0.078m (2018/19/ £0.031m) on behalf of Friends of Fishwick & St Matthew's (FOFS) in which one or more Members had an interest. The grants were made in proper consideration of declarations of interest, where relevant.

(iii) Officers of the Council

Officers of the Council also hold positions in other organisations or companies as a consequence of being appointed by the Council, however no officer has disclosed any material transactions with related parties.

(iv) Other public bodies

Precepts in relation to the Police and Crime Commissioner for Lancashire, Lancashire Combined Fire Authority and Lancashire County Council. Details of these are contained in the Collection Fund. The Council participates in one major pension scheme, the Local Pensions Partnership (LPP).

(v) Shared Services:

• Revenues and Benefits Shared Service

Preston and Lancaster City Councils have a combined Revenues and Benefits Shared Service. A Joint Committee discharges the functions of the Shared Service which are detailed in the Shared Services Agreement. The Host Authority of the Shared Service is Preston City Council.

The Shared Service 2019/20 gross expenditure was £3.670m (2018/19 £3.567m) with receipts from Lancaster City Council of £1.835m (2018/19 £1.784m).

• Corporate Enquiry Team Shared Service

Preston and Lancaster City Councils together with Fylde Borough Council have a combined Corporate Enquiry Team to protect the public purse and prevent, detect and deter fraud. The Host Authority of the shared service is Preston City Council. The 2019/20 gross expenditure was £0.150m (2018/19 £0.160m) with receipts from Lancaster City Council of £0.060m (2018/19 £0.064m) and Fylde Borough Council of £0.030m (2018/19 £0.031m).

(vi) Partnership working

During 2019/20 the Council continued to work both formally and informally in partnership with neighbouring authorities. The main partnership operation is the Preston and Lancashire City Deal between the Council, Lancashire County Council and South Ribble Borough Council. The Leader of the City Council and one further Member of the Council is also on the City Deal Executive. Senior Officers are members of boards setup to deliver the City Deal. During 2019/20 the Council received £0.953m (2018/19 £0.842m) from the City Deal and paid £3.421m (2018/19 £3.941m) to the City Deal.

Notes to the Core Financial Statements

31. External Audit Costs

2018/19		2019/20
£'000	Preston City Council incurred the following fees relating to external audit and inspection:	£'000
47	Fees payable to Grant Thornton LLP with regard to external audit services carried out by the appointed auditor	54
-	Fees payable to Grant Thornton LLP with regard to prior year audits	15
-	Fees payable to Grant Thornton LLP for the certification of grant claims & returns - current year	17
15	Fees payable to Grant Thornton LLP for the certification of grant claims & returns - prior year	13
-	Public Sector Audit Appointments Refund	(6)
62		93

32. Agency Services

On 1st June 2015 a Corporate Enquiry Team Shared Service was established between Preston and Lancaster City Councils together with Fylde Borough Council. Its purpose was to protect the public purse and prevent, detect and deter fraud. The host authority of the shared service is Preston City Council. The 2019/20 gross expenditure was £0.150m (2018/19 £0.160m).

The Revenues and Benefits Shared Service was formed on 1st July 2011. It is a Jointly Controlled Operation between Preston City Council and Lancaster City Council to collect Local Taxation and the administration of Housing Benefit and Council Tax Support. Lancaster's Revenues and Benefits employees transferred to Preston City Council at the start of the partnership. The total expenditure incurred is split 50/50 between the Councils. A copy of the Shared Service Statement of Accounts can be found on the Council's website. The 50% fee received from Lancaster City Council for the service is detailed below:

2018/19		2019/20
£'000		£'000
1,784	Revenues & Benefits Shared Service	1,835
1,784		1,835

33. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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.

2018/19		2019/20
£'000		£'000
20,094	Opening Capital Financing Requirement	20,175
	Capital Investment:	
1,696	Property, Plant & Equipment	2,609
-	Heritage Assets	-
386	Investment Properties	28
4,494	Revenue Expenditure Funded from Capital Under Statute	3,732
	Sources of finance:	
(898)	Capital receipts	(524)
(3,768)	Government grants and other contributions	(2,943)
	Sums set aside from revenue:	
(799)	Voluntary set aside from Earmarked Reserves	(1,172)
(210)	Direct Revenue contributions	(35)
(820)	MRP (Minimum Revenue Provision)	(828)
20,175	Closing Capital Financing Requirement	21,042
	Explanation of movements in year	
(820)	Sums set aside from Revenue (MRP)	(828)
-	Voluntary set aside from Revenue	-
901	Increase in underlying need to borrow (unsupported by government financial assistance)	1,695
81	Increase/(Decrease) in Capital Financing Requirement	867

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme

(a) Retirement Benefit Obligations

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 that employees earn their future entitlement.

At 31st March 2020 the Council's principal pension arrangement for its employees was the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund as a whole was carried out at 31st March 2019, and at that date showed a funding level of 100% (assets of £8.4bn against accrued liabilities of about £8.4bn). At this actuarial valuation the average deficit recovery period adopted is 16 years for this Council. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

The next valuation of the Fund will take place with an effective date of 31st March 2022 with any revised contributions rates being applied to the Council with effect from 1st April 2023.

(b) Early payment of 3 years pension deficit lump sum in April 2017

At each valuation of the Fund the employer's deficit in respect of previous years is calculated and the time period over which this is to be repaid is determined. Each employer within the Fund pays the Fund a rate of "interest" for allowing payment over a longer period (19 years) to compensate the Fund for investment opportunities which it has forgone. Repaying the deficit in advance enables a saving due to the avoidance of these "interest payments". This is then netted off against the interest that could have been earned by the Council placing this money on deposit.

The value of the benefit from paying the deficit lump sum early is significant because the pension fund return on its investments is much greater than the returns the Council can make on its own deposits. For the Council, the primary driver for investments is capital preservation which is dictated by the Prudential Code. For the Pension Fund, the time horizon is longer and the risk tolerance is higher and the drivers are return and diversification. In addition, by paying the pension deficit early, this reduces the level of the Council's short-term cash deposits for which there is counter party (lending) risk.

(c) Impact of the McCloud Judgement

The "McCloud judgement" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all pension schemes. This was included in the Statement of Accounts for 2018/19 as a past service liability of £1.7m.

(d) Impact of Covid-19

The pension actuarial valuation and employer contributions were last assessed by the pension actuary as at 31 March 2019. In March 2020 there have been significant falls in equity markets around the world in relation to the COVID-19 pandemic. This has potentially far reaching consequences in terms of funding and risk which will need to be kept under review. The Pension Fund view is that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. The Pension Fund has a risk management framework in place and in particular the investment strategy is reviewed on a regular basis. The Pension Fund view is that employer contributions should not be revisited, but the position should be kept under review by Lancashire County Council as the Administering Authority, who will monitor the development of the situation and keep all stakeholders informed of any potential implications, so that the outcome can be managed effectively.

(e) Governance and Risk Management

The liability associated with the Council's pension arrangements is material to the Council, as is the cash funding required. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

Nature of Fund

The Fund targets a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31st March 2014 and on revalued average salary (a "career average" scheme) for service from 1st April 2014 onwards.

Governance

Management of the Fund is vested in Lancashire County Council as Administering Authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

Funding the Liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31st March 2019 which showed a funding level of 100%.

Risks and Investment Strategy

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors.

Currency Risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity Risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments, and the Fund has immediate access to its cash holdings.

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

Other Risks

Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the Council's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis in Note 34 (m) indicates the change in the defined benefit obligation for changes in the key assumptions.

Curtailments and Discretionary Benefits

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

(f) Transactions Relating to Retirement Benefits

We recognise 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 we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

(g) 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 schemes is as follows:

2018/19		2019/20
£'000		£'000
323,682	Present Value of Funded Liabilities	304,633
9,377	Present Value of Discretionary Benefit Arrangements	7,222
(244,979)	Fair Value of Employer Assets	(233,791)
<u>88,080</u>	Net Pension Deficit	<u>78,064</u>

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

(h) Comprehensive Income and Expenditure 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:

Lancashire County Pension Fund

Total Local Government Pension Scheme	Of which Discretionary Benefits Arrangements		Total Local Government Pension Scheme	Of which Discretionary Benefits Arrangements
2018/19 £'000	2018/19 £'000		2019/20 £'000	2019/20 £'000
		Service Cost:		
(4,464)	-	- Current service cost	(4,918)	-
(136)	-	- Curtailments	(246)	-
(1,729)	-	- Past service cost	(1,354)	-
(71)	-	- Administration expenses of the Pension Fund	(85)	-
52	-	- Payments to pension fund (higher)/lower than Pension Fund estimated amount	71	-
		Financing and Investment Income and Expenditure		
(2,204)	(238)	Net interest expense	(2,045)	(218)
(8,552)	(238)	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	(8,577)	(218)
		Remeasurement of the Net Defined Liability Comprising:		
(16,409)	(313)	Actuarial gains / (losses) arising on changes in financial assumptions	5,213	99
-	-	- Change in Demographic assumptions gain /(loss)	11,099	210
-	-	- Experience gain /(loss)	11,402	1,493
20,257	-	- Remeasurement gain on assets	(11,974)	-
3,848	(313)	Total remeasurements recognised in other comprehensive income	15,740	1,802
(4,704)	(551)	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	7,163	1,584
		Movement in Reserves Statement:		
8,552	238	Reversal of net charges made to the surplus or deficit on the provision of services	8,577	218
		Actual amount charged against the General Fund		
		Balance for pensions in the year:		
(3,672)	-	- Employers' contributions payable to scheme	(3,682)	-
-	(582)	- Retirement benefits payable to pensioners	-	(571)

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

(i) Reconciliation of the Movements in the Fair Value of Scheme Assets

Total Local Government Pension Scheme	Of which Discretionary Benefits Arrangements		Total Local Government Pension Scheme	Of which Discretionary Benefits Arrangements
2018/19	2018/19		2019/20	2019/20
£'000	£'000		£'000	£'000
223,503	-	Opening fair value of scheme assets	244,979	-
5,807	-	Interest income	5,869	-
20,257	-	Remeasurements	(11,974)	-
4,306	582	Contributions from employer	4,324	571
917	-	Contributions from employees into the scheme	934	-
(9,740)	(582)	Benefits/transfers paid	(10,256)	(571)
(71)	-	Administration Expenses	(85)	-
244,979	-	Closing Fair Value of Scheme Assets	233,791	-

(j) Reconciliation of Present Value of the Scheme Liabilities

Total Local Government Pension Scheme	Of which Discretionary Benefits Arrangements		Total Local Government Pension Scheme	Of which Discretionary Benefits Arrangements
2018/19	2018/19		2019/20	2019/20
£'000	£'000		£'000	£'000
309,734	9,408	Opening fair value of scheme liabilities	333,059	9,377
4,464	-	Current Service Cost	4,918	-
8,011	238	Interest Cost	7,914	218
917	-	Contributions from scheme participants	934	-
		Remeasurement (gains) and losses:		
16,409	313	Actuarial (gains)/losses arising from changes in financial assumptions	(5,213)	(99)
-	-	Experience (gain) / loss	(11,402)	(1,493)
-	-	(Gain) / loss on demographic assumptions	(11,099)	(210)
1,729	-	Past service cost	1,354	-
136	-	Curtailments	246	-
(9,740)	(582)	Benefits/transfers paid	(10,256)	(571)
1,399	-	Deficit Lump Sum repayment	1,400	-
333,059	9,377	Closing Fair Value of Scheme Liabilities	311,855	7,222

As detailed in the Narrative Report, the Council has prepaid the pension deficit due for three years by way of a lump sum payment in April 2017. £1.4m represents the value of the prepayment that relates to 2019/20.

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

(k) Pension Scheme Assets Comprised:

Asset Category	Period Ended 31 March 2019			Period Ended 31 March 2020		
	Quoted prices in active markets £'000	Prices not quoted in active markets £'000	Total £'000	Quoted prices in active markets £'000	Prices not quoted in active markets £'000	Total £'000
Cash						
- Cash Accounts	-	1,250	1,250	-	6,546	6,546
- Net Current Assets	-	177	177	-	(3,974)	(3,974)
Bonds						
- UK Corporate	1,662	-	1,662	2,806	-	2,806
- Overseas Corporate	-	1,210	1,210	-	3,039	3,039
- UK Index Linked	8,611	-	8,611	-	-	-
Property						
- Offices	-	4,789	4,789	-	-	-
- Offices / Warehouse	-	633	633	-	-	-
- Industrial / Warehouse	-	7,400	7,400	-	935	935
- Shops	-	1,769	1,769	-	-	-
- Retail Warehouse	-	3,298	3,298	-	234	234
- Shopping Centre	-	830	830	-	-	-
- Multi let Commercial Building	-	4,113	4,113	-	2,104	2,104
Alternatives						
- Overseas Private Equity	-	18,828	18,828	-	18,703	18,703
- Infrastructure	-	34,631	34,631	-	32,263	32,263
- Credit funds	-	17,394	17,394	-	36,939	36,939
- Indirect Property Funds	-	3,749	3,749	-	16,599	16,599
- Pooled Fixed Income	-	26,647	26,647	-	12,391	12,391
- Overseas Pooled Equity Funds	-	107,988	107,988	-	105,206	105,206
Total Assets	10,273	234,706	244,979	2,806	230,985	233,791

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

(l) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method of valuation, which is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The pension fund has been assessed by Mercer Limited, an independent actuary, estimates for the pension fund being based on the last valuation of the scheme as at 31st March 2019.

The main assumptions used by the actuary have been:

31 March 2019		31 March 2020
%		%
2.2	Rate of CPI Inflation	2.1
3.7	Rate of increase in salaries	3.6
2.3	Rate of increase in pensions	2.2
2.4	Rate for discounting scheme liabilities	2.4
	Life expectancy at 65 for current pensioners:	
22.8 years	Men	22.3 years
25.5 years	Women	25 years
	Life expectancy for future pensioners (aged 65 in 20 years' time):	
25.1 years	Men	23.8 years
28.2 years	Women	26.8 years

The estimate of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The table below is an analysis of the sensitivity of the pension fund deficit to changes in the actuarial assumptions used.

(m) Sensitivity Analysis

Change in Assumptions at 31 March 2020	Impact on the Defined Benefit Obligation Increase / (Decrease) £'000
1 year increase in life expectancy	8,534
Increase of 0.1% in salaries	608
Increase of 0.1% in inflation	5,054
Increase of 0.1% in discount rate	(4,974)
Increase of 1% in 2019/20 Investment returns	(2,334)
Decrease of 1% in 2019/20 Investment returns	2,334

(n) Impact on the Council's Future Cash Flows

The Council has agreed a funding strategy with the pension fund for the next year. Future employer pension contributions from 1st April 2020 will be at a rate of 18.4% of pay (£2.8m) together with a pre-paid cash deficit recovery contribution, which will be £0.5m in total for three years, and discretionary post-retirement benefits of £0.6m. The next valuation of the Fund will take place with an effective date of 31st March 2022 with any revised contribution rates being applied to the Council with effect from 1st April 2023.

Notes to the Core Financial Statements

35. Contingent Liabilities

(i) Employee Industrial Disease Claims

The Council has an exposure to Employers Liability Claims occurring before it took out external insurance cover in October 1989. There is just one outstanding claim reported to the Council alleging Asbestosis. This claim has only very recently been made and as yet there is not enough financial information to adequately place a reserve on the eventual value of the claim. For claims incurred but not reported prior to October 1989, it is impractical to estimate the financial impact, as such a reserve has been established and is regularly reviewed to ensure its adequacy to pay claims presented in the future.

(ii) Section 106 (S106) Agreements

S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter in to a legally binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a S106 Agreement and S106 monies received by the Council are used to fund the provision of infrastructure, such as highways, recreational facilities, education, health and affordable housing, which is necessary as part of the development or to mitigate its impact. Planning obligations under S106 of the Act are subject to statutory tests concerning their necessity, their relationship to the development concerned and their fairness and reasonableness in terms of what is being requested. The tests are set out in Regulation 122 of the Community Infrastructure Levy Regulations 2010 (as amended). Such agreements or obligations may lay down conditions that monies must be spent by a specified date and on specified items, if these conditions are not met then monies may be returnable and in some cases with interest applied. The Council has a number of S106 agreements in place with an outstanding balance of £0.485m in 2019-20 (£0.421m in 2018/19).

(iii) Gateway Stock Transfer

The stock transfer to Community Gateway Association (CGA) took place on the 28th November 2005. There remains a number of Contingent Liabilities.

(a) Asbestos Warranties

The Council was required as standard practice to provide an Asbestos Warranty. On the first £4.2m of these warranties, any expenditure would be met by the Community Gateway Association (CGA). The next £5.8m would be shared 50/50 between CGA and the Council. Any expenditure above £10m would be met in full by the Council. CGA have agreed an Asbestos Management Policy with the Council and the Council is monitoring their progress with asbestos removal from their properties, which is therefore not currently giving the Council cause for concern.

(b) Disposals Clawback Agreement

The disposal agreement provides that CGA has a full warranty for land transferred in respect of ground conditions should redevelopment for social housing occur at some future date. If redevelopment was to occur the Council would negotiate with CGA on a case by case basis.

(iv) Accountable Body Issues

The Council has Accountable Body status for a number of schemes operated by the Government and related agencies. Accountable Bodies have to operate within extremely rigorous and stringent Government regulations, giving wide ranging rights for grants to be clawed back if specific output targets are not met by the partner organisations. These accounts have been prepared on the basis that none of the grants involved will either be clawed back or withheld. The Council as an Accountable Body paid grants totalling £0.078m (2018/19 £0.031m).

(v) Pension Guarantor

Preston City Council has entered into agreements to act as guarantor in respect of the pension fund in perpetuity for former Council employees who transferred to other organisations:

- Preston Bus (1993)
- Preston Guild Hall (2014)
- Leisure Services (2017)

This guarantee means that if an admitted body fails to pay its pensions obligations to the Local Pensions Partnership (LPP) then the Council will be responsible for meeting those obligations. As at 31 March 2020 the Council understands that the pension contributions are being made in line with the actuaries' requirements.

Notes to the Core Financial Statements

35. Contingent Liabilities (cont'd)

(vi) Municipal Mutual Insurance (MMI)

Municipal Mutual Insurance was the predominant insurer of public sector bodies prior to its cessation of underwriting operations in September 1992. A Scheme of Arrangement was implemented in 1993 which, due to an unfavourable ruling from the Supreme Court, has been triggered. Two payments have been made totalling £0.158m. £0.274m is set aside in an earmarked reserve. This reserve is available to fund payments in the event of a further levy on the outstanding Municipal Mutual liabilities of £0.524m in 2019/20 (£0.524m in 2018/19).

(vii) The Guild Hall Legal Challenge

The Council is currently the subject of a claim which arose from the forfeiture by the Council of a long commercial lease held by its tenant Preston Guild Hall Limited, a company now in administration.

(viii) Judicial Review

The Council has recently published a Memorandum of Understanding setting out its 5 year housing supply. This has been done in conjunction with Chorley BC and South Ribble BC. This is now subject to a judicial review which is both lengthy and costly. The outcome of the review will also have a direct impact on planning decisions which in turn may lead to more planning appeals involving the use of Counsel.

36. Contingent Assets

(i) Right to Buy Receipts (RTB)

The Council continues to share in 'Right to Buy' receipts generated by the Community Gateway Association (CGA). The amount the Council received was £0.549m in 2019/20 (2018/19 £0.376m). The amount the Council receives in future years is dependent on future market conditions.

Collection Fund

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

2018/19		2019/20		
£'000		National Non Domestic Rates £'000	Council Tax £'000	Total £'000
	Income			
71,399	Council Tax	-	76,981	76,981
63,023	National Non-Domestic Rates	60,166	-	60,166
	Apportionment of Previous Year Deficit			
-	Central Government	543	-	543
-	Preston City Council	434	-	434
-	Lancashire County Council	97	-	97
-	Police and Crime Commissioner for Lancashire	-	-	-
-	Lancashire Combined Fire Authority	11	-	11
134,422	Total Income	61,251	76,981	138,232
	Expenditure			
	Precepts, Demands and Shares			
26,580	Central Government	13,465	-	13,465
32,624	Preston City Council	30,162	12,103	42,265
52,958	Lancashire County Council	9,426	51,819	61,245
6,602	Police and Crime Commissioner for Lancashire	-	7,752	7,752
3,042	Lancashire Combined Fire Authority	808	2,674	3,482
269	Parish Councils	-	333	333
122,075		53,861	74,681	128,542
	Apportionment of Previous Year Surplus			
1,188	Central Government	-	-	-
1,191	Preston City Council	-	191	191
1,181	Lancashire County Council	-	799	799
131	Police and Crime Commissioner for Lancashire	-	109	109
76	Lancashire Combined Fire Authority	-	42	42
3,767		-	1,141	1,141
	Charges to the Collection Fund			
578	Write-offs of uncollectable amounts	1,372	572	1,944
2,956	Increase in Bad and Doubtful Debts Impairment Allowance	1,257	2,465	3,722
3,178	Increase / (Decrease) in Provision for Appeals	(1,571)	-	(1,571)
225	Cost of Collection Allowance	225	-	225
	National Non-Domestic Rates Transitional Protection			
5,339	Payments	3,511	-	3,511
68	Renewable Energy amounts	23	-	23
12,344		4,817	3,037	7,854
138,186	Total Expenditure	58,678	78,859	137,537
3,764	Movement on fund balance (Surplus) / Deficit	(2,573)	1,878	(695)
(3,095)	Balance on Collection Fund Brought Forward	1,435	(766)	669
669	(Surplus) / Deficit on Collection Fund Carried Forward	(1,138)	1,112	(26)

Notes to the Collection Fund

Index of Explanatory Notes to Collection Fund

Note

CF1	General
CF2	Council Tax
CF3	National Non-Domestic Rates (NNDR)
CF4	Distribution of Surpluses and Deficits
CF5	Council Tax/NNDR Bad Debts Impairment Allowance and NNDR Provision for Appeals

CF1. General

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NNDR) and its distribution to local government bodies and the Government.

The Council has a statutory requirement to operate the Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and NNDR. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses or deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Preston's Council Tax precepting bodies are Lancashire County Council (LCC), the Police and Crime Commissioner for Lancashire (PCCL) and Lancashire Combined Fire Authority (LCFA).

In 2013/14 Central Government revised how local government was financed by introducing the retained business rate scheme. The aim of the scheme is to give Councils a greater incentive to grow businesses in their area. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

In 2019/20 the Council was a member the Lancashire Business Rates Pilot Pool. Pilots are able to retain 75% of the growth in income raised through business rates. Under the scheme Preston City Council retains 56% of the NNDR collected, with the remainder being paid to precepting bodies, Central Government (25%), LCC (17.5%) and LCFA (1.5%).

Collection Fund surpluses or deficits declared by the billing authority in relation to the NNDR are apportioned to the relevant precepting bodies in the subsequent financial year.

The CIPFA code of practice stipulates that a Collection Fund Income and Expenditure account is included in the Council's annual accounts. Meanwhile, the Collection Fund Balance Sheet is incorporated into the Council's Consolidated Balance Sheet.

CF2. Council Tax

Council Tax derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the Council Tax base i.e. the equivalent number of Band D dwellings.

Number of Chargeable Dwellings per Band at 31st March	31 March 2019 No.	31 March 2020 No.
Band A	27,199	27,558
Band B	11,750	11,908
Band C	9,335	9,518
Band D	6,402	6,516
Band E	2,747	2,853
Band F	1,445	1,546
Band G	897	913
Band H	40	42
Total	59,815	60,854
Band 'D' Equivalent Properties (Tax Base for the calculation of Council Tax)	38,482	39,114

Chargeable dwellings takes into account disabled relief, exemptions and the effect of estimated successful outstanding appeals reducing properties by one band. The increase in chargeable dwellings between 31st March 2019 and 31st March 2020 is largely due to new properties built during the year.

Notes to the Collection Fund

CF3. National Non-Domestic Rates (NNDR)

The Council collects NNDR for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government.

	31 March 2019	31 March 2020
NNDR Rateable Value at 31st March	£151,395,899	£151,254,380
NNDR Multiplier	0.493	0.504

In previous financial years the total amount due, less certain allowances, was paid to a central pool administered by Central Government, who then distributed the pool to local authorities based on a standard amount per head of the local adult population as part of the formula grant.

Under the new retained business rate scheme introduced 1st April 2013, instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due.

In 2019/20, Preston City Council joined with 13 of the other 14 councils across Lancashire to form a 75% Business Rates Retention Pool Pilot (the "Pool"). The pilot model resulted in an increase in the level of NNDR retained locally from 50% to 75% - the local share being split between Lancashire County Council (17.5%), Lancashire Combined Fire Authority (1.5%), and the Council as Billing Authority (56%).

When the retained business rates scheme was introduced Central Government set a baseline level for each billing authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their funding baseline amount. Tariffs are due from authorities who exceed their funding baseline amount, these are payable to Central Government and used to finance top ups to those authorities who do not achieve their targeted baseline funding. In 2019/20 Preston City Council paid a tariff of £27.182m to Ribbles Valley Borough Council as the administrator of the Pool, who then paid the tariff over to Central Government. The 2019/20 tariff was higher than 2018/19 (£17.453m) because as a member of the Pool the retained NNDR was higher in 2019/20.

In addition, a 'safety net' figure is calculated at 92.5% of baseline amount which ensures that authorities are protected to this level of NNDR income. 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 the revision to Small Business Rate Relief (announced in the Autumn Statement 2013) and other reliefs not allowed for when the safety net was set. Members of the Lancashire Pool did not qualify for any safety net payments in 2019/20. Instead, Pool members contributed 5% of any additional growth to a resilience reserve to mitigate against any losses arising from being a Pool member. The Council did not receive any payments to protect against losses in 2018/19 or 2019/20.

Conversely, if income exceeds the baseline amount, the Council must pay 50% of this growth as a levy to Central Government. However, pilots have a zero levy rate, so as a member of the Lancashire Business Rates Pilot Pool, the Council did not pay a levy in 2019/20.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the VOA, and business rates outstanding as at 31 March 2020. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in the same proportion as the precepting shares. The total provision required as at 31 March 2020 has been calculated at £11.045m (Preston City Council's share is £6.185m) to mitigate against the expected impact of these appeals on NNDR income in future years.

CF4. Distribution of Surpluses and Deficits

Any year end surpluses or deficits relating to Council Tax and NNDR collection are returned to, or recovered from, the relevant precepting authorities in the following years. The amount to be distributed is based on the forecast surplus or deficit on the fund estimated in January each year.

The closing surplus balance on the Collection Fund of £0.026m represents:

- (i) a surplus of £1.138m on NNDR (Preston City Council's share is £0.690m) mainly due to a reduction in the provision for appeals.
- (ii) a deficit of £1.112m on Council Tax (Preston City Council's share is £0.182m) because the collection rate was lower than forecast.

CF5. Council Tax / NNDR Bad Debts Impairment Allowance and NNDR Provision for Appeals

The Collection Fund account provides for bad and doubtful debts on Council Tax arrears based on prior years experience and current year collection rates. All overdue debt is considered for impairment.

2018/19		2019/20
£'000		£'000
10,044	Balance at 1 April	11,389
(480)	Write-offs during the year for previous years	(572)
1,825	Contributions to provisions during year	3,038
1,345	Net increase / (decrease) in provision	2,466
11,389	Balance at 31 March	13,855

Notes to the Collection Fund

CF5. Council Tax / NNDR Bad Debts Impairment Allowance and NNDR Provision for Appeals

The Council's proportion of these write-offs and increase in provision is shown below.

2018/19 £'000		2019/20 £'000
1,695	Balance at 1 April	1,897
(80)	Write-offs during the year for previous years	(95)
282	Contributions to provisions during year	469
202	Net increase / (decrease) in provision	374
1,897	Balance at 31 March	2,271

The Collection Fund account also provides for bad and doubtful debts on NNDR arrears on the same basis.

2018/19 £'000		2019/20 £'000
4,446	Balance at 1 April	6,056
(98)	Write-offs during the year for previous years	(1,372)
1,708	Contributions to provisions during year	2,629
1,610	Net increase / (decrease) in provision	1,257
6,056	Balance at 31 March	7,313

The Council's proportion of these write-offs and increase in provision is shown below.

2018/19 £'000		2019/20 £'000
1,779	Balance at 1 April	2,423
-	Increased share under the Lancashire Pilot Pool	969
(39)	Write-offs during the year for previous years	(768)
683	Contributions to provisions during year	1,472
644	Net increase / (decrease) in provision	1,673
2,423	Balance at 31 March	4,096

The Collection Fund account also provides for appeals against the rateable value set by the Valuation Office Agency (VOA) not yet settled as at 31 March 2020.

2018/19 £'000		2019/20 £'000
9,437	Balance at 1 April	12,616
(2,110)	Amounts charged to provision	(1,617)
5,289	Contributions to provisions during year	46
3,179	Net increase / (decrease) in provision	(1,571)
12,616	Balance at 31 March	11,045

The Council's proportion of this provision is shown below.

2018/19 £'000		2019/20 £'000
3,775	Balance at 1 April	5,046
-	Increased share under the Lancashire Pilot Pool	2,019
(844)	Amounts charged to provision	(906)
2,115	Contributions to provisions during year	26
1,271	Net increase / (decrease) in provision	1,139
5,046	Balance at 31 March	6,185

Bequests and Trust Funds (Unconsolidated)

	Balance as at 1 April 2019	Expenditure/ Transfers	Income/ Transfers	Gains/ (Losses) on Investments*	Balance as at 31 March 2020
	£	£	£	£	£
Preston Relief in Need					
Restricted Endowment Fund	82,298			(19,477)	62,821
Unrestricted Endowment Fund	179,584			(27,800)	151,784
Restricted Grant Fund	9,451	(1,962)	4,214		11,703
Unrestricted Grant Fund	4,166	(7,328)	7,964		4,802
Dr Shepherd's Library Trust Fund					
Endowment Fund	3,491			71	3,562
Grant Fund	757	(45)	96		808

Preston Relief in Need Charity

Preston Relief in Need Charity was established and registered in 1977 following the consolidation of twenty-five small local charities. It is registered with the Charity Commission no. 224848 and has now merged again with other similar local charities, the latest being the former associated Preston and District Relief in Sickness Fund with whom they had common trustees.

The Charity is managed by a Board of Trustees with day to day management entrusted to the City Treasurer of Preston City Council with the support of relevant colleagues. Meeting every ten weeks, the Trustees always ensure before making a grant that applicants have exhausted all statutory services and benefits available.

The objectives and activities of the Charity are managed by investing Endowments and the income arising may be utilised in relieving persons resident in the City of Preston or, in exceptional cases, in the immediate locality, who are in conditions of need, hardship or distress by making grants of money or providing or paying for items, services or facilities calculated to reduce the need, hardship or distress of such persons.

Other Funds (Unconsolidated)

	Balance as at 1 April 2019	(Expenditure) /Transfers	Income/ Transfers	Gains/ (Losses) on Investments	Balance as at 31 March 2020
	£	£	£	£	£
Mayors Fund Raising Account					
Grant Fund	1	-	-	-	1

2019/20

**Annual
Governance
Statement**



Annual Governance Statement

Introduction

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council has put in place arrangements for the governance of its affairs, facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

This Annual Governance Statement provides an overview of the Council's key governance systems and explains how they are tested and the assurance that can be relied upon to show that those systems are working effectively. The statement comprises an overview of the key elements of its governance framework and what evidence has been received in order to determine the effectiveness of the Council's governance arrangements. In addition the statement contains an update on areas for improvement which were identified last year together with proposed areas for improvement for the coming year.

What is Corporate Governance?

Corporate governance refers to the processes by which organisations are directed, controlled, led and held to account.

The Council has adopted a Code of Corporate Governance which is consistent not only with the seven core principles of the new CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*" but the general principles of openness, transparency and accountability.

The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

The framework comprises a multitude of systems and processes designed to regulate, monitor and control the various activities of the Council in its pursuit of its vision and objectives. The key elements of the Council's Corporate Governance Framework are set out in the Council's Code of Corporate Governance which can be found on the website entitled [Local Code of Corporate Governance | Preston City Council](#). The Council's local Code of Corporate Governance is reviewed annually.

The table overleaf provides a summary:

The Principles

PRINCIPLE	THE COUNCIL ACHIEVES THIS BY
<p>PRINCIPLE A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law</p>	<ul style="list-style-type: none"> • Having formal Codes of Conduct defining standards of behaviour expected of Members and Officers • Maintaining a framework which addresses the risks of fraud and corruption including an Anti-Fraud & Corruption Strategy and Policy and a Whistleblowing Policy • Maintaining effective systems to protect the rights of staff, including whistleblowing policies
<p>PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement</p>	<ul style="list-style-type: none"> • Seeking the views of its stakeholders and responding appropriately • Public attendance at Council meetings • Budget consultation and service led consultation
<p>PRINCIPLE C: Defining outcomes in terms of sustainable economic, social and environmental benefits</p>	<ul style="list-style-type: none"> • Making a clear statement of the Council's purpose and vision which forms the basis for corporate and service planning • Communicating the Council's activities and achievements, including its financial position and performance • Making a clear statement committing to the Fairness for You, Your City and Your Council Priorities
<p>PRINCIPLE D: Determining the interventions necessary to optimise the achievement of intended outcomes</p>	<ul style="list-style-type: none"> • Making a clear statement of the Council's purpose and aims and using this as a basis for corporate and service planning • Ensuring there is a sound risk management framework to support the achievement of the Council's intended outcomes
<p>PRINCIPLE E: Developing the entity's capacity, including the capability of its leadership and the individuals within it</p>	<ul style="list-style-type: none"> • Developing the capabilities of both Members and Officers through appropriate training • Maintaining an effective workforce plan to enhance the strategic allocation of resources • Working through effective partnerships
<p>PRINCIPLE F: Managing risks and performance through robust internal control and strong public and financial management</p>	<ul style="list-style-type: none"> • Maintaining both independent Audit and Scrutiny functions • Maintaining a robust regulatory framework • Ensuring financial management supports decision making and provides sufficient information to support the delivery of the Council's objectives.
<p>Principle G: Implementing good practices in transparency, reporting and audit, to deliver effective accountability</p>	<ul style="list-style-type: none"> • Maintaining compliance with the Local Government Transparency Code • Maintaining effective and accessible arrangements for dealing with complaints • Maintaining an effective Scrutiny function which encourages constructive challenge

See website for the local code of governance [Local Code of Corporate Governance | Preston City Council](#) which provides a more detailed description of how the Council's governance arrangements complies with the seven main principles including how this is evidenced.

The Council's Objectives

The Council is always striving to be more responsive to what the community needs. It does so by means of openness and transparency in its decision making, enabling the views of the community to be heard as much as possible. It achieves this through specific consultation exercises which help to formulate its objectives. The vision and objectives for the Council are agreed by Cabinet as the decision making body, working with the Council's Corporate Management Team. The Council's vision is to see Preston as a growing, vibrant City.

To achieve the Council's vision and medium to long term objectives for the City, the Council has set out three priority areas. These are **Your City;**

Your Council, and Fairness For You. Underpinning the Corporate Priorities is the Medium Term Financial Strategy (MTFS) which sets out the revenue and capital resources available to the Council and how they are used to deliver essential services and objectives to priority areas. The Council's vision, priorities and MTFS are all encapsulated in the document Achieving Preston's Priorities approved by Council in February 2020. This can be found on the Council's website. Each of the three priority areas has a number of corporate projects associated with them which are designed to progress the priorities. In addition, each Service Delivery Plan includes key work areas which reflect individual service area contributions to the priorities.

Values of Good Governance

The Council promotes and demonstrates the values of good governance by upholding high standards of conduct and behaviour. This is achieved by the following means:

Codes of Conduct/Protocols

- for Officers
- for Members
- Professional Ethics codes

The Council has Codes of Conduct for both Officers and Members plus a Member/Officer Protocol in order to ensure appropriate standards of behaviour are maintained.

Governance Assurance Reviews (GARS)

- Signed Statements of Senior Officers
- Section 151 Officer
- Monitoring Officer
- Head of Workforce
- Emergency Planning Officer (Health & Safety Manager)
- Chief Internal Auditor

Accountability for good governance is evidenced at senior officer level by means an annual self-assessment system of reporting.

Council Policies

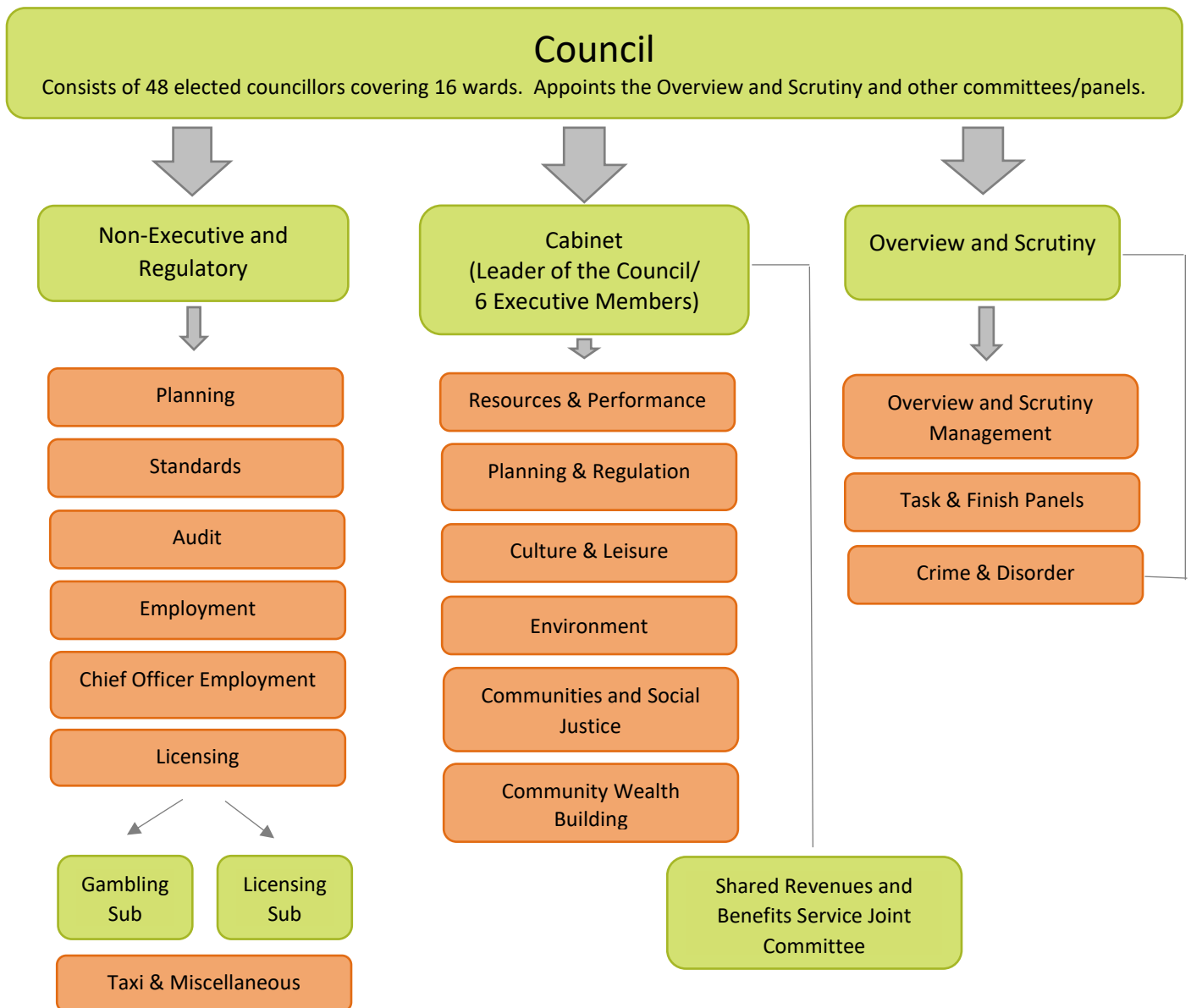
- Anti-Fraud Corruption Statement/Strategy
- Whistleblowing Policy
- Anti Money Laundering Policy
- Anti Bribery Policy / Response Plan
- Fraud Response Plan

The Council has a number of policies in place which promote high standards of conduct and behaviour throughout the Council.

Annual Governance Statement

How the Council works

All Members meet together as “The Council”. Meetings are normally open to the public. The conduct of the Council’s business is defined by formal procedures and rules which are set out in the Council’s Constitution. This explains the roles and responsibilities of the Cabinet, the non-executive, Scrutiny and Officer functions together with the delegation arrangements that are in place. It also contains the Procedure Rules and the Code of Conduct for Members. The diagram below shows the Council’s structure and its Committees.



The above reflects the structure of the Council during 2019/20. In accordance with The Preston (Electoral Changes) Order 2018 and following an electoral boundary review the Council has reduced its number of Members from 57 to 48 and number of wards from 22 to 16. All out elections were held on 2 May 2019.

The Council has made a further change at the Annual Council meeting in May 2019. Members appointed an additional Cabinet Member with responsibilities for Community Wealth Building.

Annual Governance Statement

How the Council Gains Assurance/Review of Effectiveness

A key feature of the Statement is how the Council gains assurance as to the effectiveness of its governance arrangements. In the first place it needs to identify the areas where assurance is required, be clear about where that assurance comes from and then consider the effectiveness of the assurance it receives. This is shown in the table below:

Assurance required upon	Sources of Assurance	Assurances received
<ul style="list-style-type: none"> Delivery of Council’s aims and objectives Services are delivered economically, efficiently and effectively Management of risk Effectiveness of internal controls Public accountability Budget & financial management arrangements Roles & responsibilities of Members & Officers Standards of conduct and behaviour Compliance with legislation & regulations, internal policies and procedures Action Plans dealing with significant issues approved, actioned and reported on 	<ul style="list-style-type: none"> Constitution <ul style="list-style-type: none"> • Members • Statutory Officers • Scheme of Delegation • Financial Procedure Rules • Contract Procedure Rules Corporate Governance Group Internal and External Audit Independent external sources Scrutiny function Council, Cabinet and Panels Medium Term Financial Strategy Complaints Procedure HR policies & procedures Whistleblowing & counter fraud arrangements Risk Management Framework Performance Management Framework Codes of Conduct/Protocols Corporate Management Team 	<ul style="list-style-type: none"> Governance Assurance Reviews (GARs) Statement of Accounts External Audit Reports Internal Audit Reports External Inspection Reports Scrutiny Reviews Effectiveness reviews of Internal Audit and Audit Committee External testing of ICT network Public Service Network accreditation Audit Committee review of Corporate risks

Corporate Governance Group

One of the key ways of facilitating assurance gathering is through the Council’s **Corporate Governance Group** of senior officers whose role is to plan and co-ordinate improvements to the Council’s Governance Framework. The group meet monthly and during the last year some of their work has involved reviewing risk management including risk owners attendance to review their risk registers and monitoring outstanding risks. The group also review the corporate risk register prior to going to CMT. Other work especially with the involvement of the Chief Internal Auditor includes recommending to Corporate Management Team improvements. These include additional risk training and improvements to the existing Grace risk system, improvement to the existing GARS process, all of these implemented during 2019/20. Other items tabled at the meeting include outcome of audits, updates on GDPR and information governance, updates on the

Annual Governance Statement

governance actions included in last year’s Annual Governance Statement, 7 minute briefings on governance, risk and fraud, fraud updates and updates on the cyber security risks.

Audit Committee

The Council’s Audit Committee, monitors the performance of the Council’s assurance and governance framework. This is a committee which is independent of the Cabinet and reports directly to Council. The committee has the responsibility to ensure that the monitoring and probity of the Council’s Governance Framework is undertaken to the highest standard and in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidelines.

The Council’s Audit Committee, as those charged with governance, have prepared a response to the questions raised by Grant Thornton which cover important areas of risk assessment. As part of the External Audit assessment procedures and in line with the auditing standards, Grant Thornton are required to obtain an understanding of management processes and the Audit Committee’s oversight of the following areas:

- Fraud, Laws and Regulations and Going Concern

During 2019/20, an assessment was undertaken and this confirmed that the Audit Committee are largely operating in line with CIPFA’s Audit Committees – Practical Guidance for Local Authorities and Police 2018. An action plan to address any gaps in the arrangements has been agreed with the Audit Committee and comprehensive Audit Committee training is planned. The Audit Committee are considering the appointment of an independent member for the audit of the Committee’s work. In addition Members attended an Audit Committee development day in June 2019 hosted by CIPFA at the Council office.

Table: Examples of Audit Committee Key Business during 2019/20

<ul style="list-style-type: none"> • 2018/19 Annual Governance Statement approved • Unaudited 2018/19 SOA reviewed • Statement of Accounts 2018/19 approved • External Audit Plan received • Annual Audit Letter and the External Auditors Certification Report received • Internal Audit Plan approved • Internal Audit and Audit Committee reviews approved • Internal Audit Progress reports received • Chief Internal Auditors Annual report approved 	<ul style="list-style-type: none"> • Chief Internal Auditors Annual report approved • Corporate Enquiry Team Business Plan received • Annual fraud report received • Corporate Risk Register reviewed • Governance Improvement Plan noted • Code of Corporate Governance received • Treasury Management report reviewed • Waivers under the Contract Procedure Rules noted • Debtor write offs received • Changes to constitution noted
--	---

Internal Control

The system of internal control is a significant part of the framework and is designed to manage risk. It is the processes in place that manage risks and increase the likelihood of the Council achieving its service objectives and Corporate Priorities.

Responsible Financial Officer

The Council has incorporated the requirements of the CIPFA Statement on the Role of the Chief Financial Officer into its governance framework and has produced evidence to demonstrate its compliance with these

Annual Governance Statement

criteria as set out in the Council's Good Governance Framework. The Section 151 Officer is a permanent member of the Council's Corporate Management Team and can report directly to the Chief Executive on any matter where she feels it appropriate.

Internal Audit and the Audit Opinion

The Internal Audit Service provides an independent opinion on the adequacy of the internal control system. During 2019/20, 71% of the reviews undertaken were awarded either a Full or Substantial assurance rating. This confirms that the Council's control arrangements continue to operate to a good standard. Any identified areas for improvement are agreed with senior management and are monitored to ensure they are effectively implemented.

The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of control, risk management and governance. They have been given the responsibility to annually review the effectiveness of the Council's governance arrangements and any identified areas for improvement are included within the Annual Governance Statement Action Plan. This review has confirmed that the Council's Governance Framework remains effective.

In line with the Public Sector Internal Audit Standards the Chief Internal Auditor has carried out an internal review of the internal audit service and is reporting compliance to the July 2020 Audit Committee. The Council has a shared arrangement with Fylde Borough Council for the Chief Internal Auditor (CIA) post.

Statutory Regulations

The principal statutory obligations and functions of the Council are identified in the Constitution and reflected in the Budget and Policy Framework which is approved by Council. The Council carries out an annual review of the effectiveness of the system of internal control in line with the Accounts and Audit Regulations.

Senior Officers

Directors are required to respond to the questions raised by Grant Thornton which cover important areas of risk assessment acknowledging their responsibility for internal control, countering fraud and corruption, identification of significant risks and ensuring risk mitigation controls are in place.

Members

All existing Members undergo MiPod training on the Code of Conduct for Members. This is an interactive 24/7 e-learning package and links have been provided to all Parish Clerks/Parish Councillors to enable participation in the exercise if they wish. In response to Covid-19 all Members have received training in the use of Skype and Microsoft Teams along with major upgrades to iPads to enable the Members to undertake virtual committee meetings.

Standards Committee

The Standards Committee is responsible for promoting and maintaining high standards of conduct of Members. An Annual Report sets out the work of the Committee including training provided to Members and the number of complaints that have been received. The Committee has devised Code of Conduct and General Data Protection Regulations (GDPR) compulsory training programmes through the Council's MiPod system. Members can access information on the Council's website on the Data Protection Act 2018 and how to protect and process personal data. An advice surgery is provided to Members prior to every Council meeting, where Members have the ability to discuss potential conflicts of interest etc in respect of items on the agenda.

Annual Governance Statement

The Committee on Standards in Public Life’s report into Local Government Ethical Standards recommended that the Local Government Association (LGA) review the current Member Code of Conduct. The impact of Covid-19 has delayed this review but on 8 June 2020 the LGA launched a 10 week consultation exercise which the Monitoring Officer has completed. Feedback will develop a draft which will be reviewed by the LGA’s Executive Advisory Board and which will be presented to the next LGA General in the autumn of 2020. The Standards Committee will be heavily involved in considering any recommendations or proposed changes to the current Code of Conduct and cascading awareness and organising training for all Members.

Information Governance

The Council has information governance policies and procedures in place including having a General Data Protection Officer and an Information Governance Officer.

The **General Data Protection Regulation (GDPR)** and the **Data Protection Act 2018** were introduced in May 2018. Staff awareness was raised via a 7-minute briefing; a MiPod course, management updates and the Council’s intranet was updated to include information on the new legislation. The Council has also introduced a data breach incident form. The Council has Corporate Clear out days with results being reported to the Corporate Governance Group

Freedom of Information (FOI) The Council has 20 working days to respond to a request under FOI and this deadline was complied with in 91% of cases. An appeal has been made to the Information Commissioner (IC) by an applicant which is currently ongoing.

Counter Fraud

The Corporate Enquiry Team works in partnership with Lancaster City Council and Fylde Borough Council. During 2019/20 the team focused on Business Rates, Council Tax and Social Housing fraud. The team participated in a pilot National Fraud Initiative data match for Housing Benefit and Council Tax data to HMRC data and worked on ongoing pro-active data matches on small business rate relief. The team investigated allegations of fraud from members of the public, staff and external agencies.

The team acts as single point of contact for the Department for Work and Pensions (DWP) investigators and associated work. From 29 April 2019 the Council has been participating in joint investigations with the DWP that involve Council Tax Support and national benefits. The team continues to work with other organisations to tackle fraud and participates in operation GENGA, a multi-agency initiative to tackle organised crime.

Table: 2019/20 Outcomes:

<p>Counter Fraud</p> <ul style="list-style-type: none"> • Single point of contact for the DWP • identified overpayments of £456,067.39 with estimated future savings of £197,998.32, three social housing properties were recovered 	<p>Business Continuity</p> <ul style="list-style-type: none"> • Full exercise undertaken November 2019 • Raised awareness and assurance that processes are in place in the event of a major interruption • Major BC incident during 2019/20 in response to Covid-19, no serious impact on service
<p>2019/20</p>	
<p>Health & Safety</p> <ul style="list-style-type: none"> • 2019/20 - 66 accidents, no serious accidents • Accident rate 0.76 (target 0.4) • No of RIDDOR reportable accidents remains at 6 • Events on Council owned land - no serious issues 	<p>Information Governance & GDPR</p> <ul style="list-style-type: none"> • 762 Freedom of Information (FOI) requests rec'd • 14 data breaches, none required reporting to IC • 24 subject access requests made under Data Protection legislation

Annual Governance Statement

Response to Covid-19

As a result of the emerging pandemic the Lancashire Resilience Forum met in March 2010 to agree a Lancashire-wide emergency response. This resulted in the Lancashire Resilience Forum establishing a command structure for Lancashire to target key crisis areas. The Council's senior managers played a key role within the respective areas ensuring that a local response was put in place.

The Council swiftly implemented its Business Continuity plan. This involved Covid-19 Corporate Management Team response meetings and all departments having a Service Area Co-ordinator. These were fundamental in leading the Council through actions such as mobilising the Council's workforce to begin to move from 'business as usual activity' to emerging new priorities such as the humanitarian response through the establishment of a Community Food Hub to a system of administering grants to local business. Whilst the financial year was nearing an end by the time this work was instigated, much was achieved by year-end including the establishment of a Community Hub, which was established to support those on the NHS shielding list and the vulnerable.

The Council provided sound leadership during the crisis with the ability to move resources around to ensure that it had the capacity to respond. Teams whose usual work had ceased were moved into new areas of activity, with much achieved through agile working, for example, a dedicated call centre for the Food Hub was operated remotely by staff working from home, with IT solutions put into place to enable this to happen. This was operated not only in usual business hours, but also during the evenings and weekends. The ICT department provided an excellent service in enabling staff to work from home. Furthermore all the Council's activities were risk assessed and additional control measures were put in place such as social distancing in offices, extra PPE, hand sanitizers, screens, and implementing new changes to work patterns.

To enable decisions to be made during the crisis delegated powers were given to the Chief Executive in consultation with the Leader and Group Leaders. This meant that the Council was able to respond to urgent issues swiftly.

Annual Governance Statement

Risk Management

Strengthening the risk management arrangements was included in the AGS 2019/20 action plan. This action has been achieved by bespoke compulsory refresher risk management training sessions to all risk owners and significant improvements to the GRACE risk management system enabling the risk owner to effectively record and manage their risks. All Council's strategic and operational risks are evaluated on the likelihood of risks materialising and impact if realised. Internal Audit carries out an annual review of the Risk Management Framework in accordance with the terms of the Risk Management Policy.

Business Continuity (BC)

The Council has a Business Continuity Recovery Group (BCRG) who regularly meet in line with the disaster recovery/business continuity processes of the Council. This includes reviewing the BC Policy Statement, the Corporate BC Plan and the individual service BC Plans. These documents are all available on the Council's intranet (Cityspace). The Council's system data is backed up on a virtual server at a remote location.

The Council implemented its BC plan at the start of the Covid-19 pandemic.

Performance Management

The overall aim of the Performance Management Framework is to ensure a culture of continuous performance and improvement. An AGS action for 2019/20 was to make improvements to the Council's Performance Management System. Progress has included rationalising the existing PIs, implementing new PIs and identifying each PI as strategic or operational in order to link in to the Council's Achieving Preston's Priorities. Improvements to the Council's performance management recording system have been delayed due to the Covid-19 pandemic and a new target date is planned for December 2020.

External Audit

In July 2019 the external auditors, Grant Thornton, gave an unqualified opinion on the Council's 2018/19 accounts together with an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness for securing economy, efficiency and effectiveness in its use of resources.

The Service Improvement Board (SIB)

The SIB has continued to provide strategic leadership and governance in further delivery of the Council's Digital Customer Access Strategy. Most recently this has included the migration to a new Content Management system provider and the launch of our newly branded website at www.preston.gov.uk. Upcoming projects include the rebrand of the VisitPreston website and the introduction of MyScan which will allow customers to scan proofs using their own smart device and send securely to the Council.

Information Communication Technology (ICT)

ICT have continued with the corporate roll-out of virtual desktop computing. This platform has enabled many priority services staff to work from home during the Covid pandemic.

Office 365 Research and Development also commenced during 2019. Due to the Covid pandemic, roll-out of some functionality (e.g. MS Teams) was escalated to some officers and Members to enable remote, collaborative working. This has been very successful. In addition, there has been an extremely quick turnaround on equipment setup and training for officers and Members to enable them to attend virtual meetings.

Cyber security awareness and training continues to maintain awareness and vigilance amongst the user base.

Health & Safety

The Council has a corporate Health and Safety team, although line managers manage health and safety in their own areas seeking advice from the corporate health and safety section when necessary. A new electronic accident reporting system has been in place for over a year. All policies and guidance notes have been reviewed.

A major piece of work is nearly complete to measure the vibration levels of all equipment and tools used in the authority which will allow exposure levels to be monitored in the future. This has led to a programme of replacing equipment which produces higher levels of vibration, thus reducing exposure. Another major piece of work to be completed is noise exposure measurements. Documents are being developed which will guide a line manager through a series of questions, asking them to provide evidence of compliance to enable individual inspections to be carried out as necessary.

Annual Governance Statement

Dealing with last year's Key Improvement Areas

In last year's Annual Governance Statement the Council set itself six major areas for improvement. The following shows the progress that was made against the Areas for Improvement reported in last year's Annual Governance Statement:

Employees	Review and update People Strategy.
Progress Update	Work has been ongoing in updating the People Strategy however Covid-19 has meant management resources working on the strategy had to be redirected to the emergency response as a result of the pandemic during March 2020. Research has been undertaken during 2019/20 however further reviews will be undertaken as a result of the pandemic. A draft strategy is estimated for December 2020. The People Strategy will be carried forward as an action in 2020/21.
Partnerships	Identify key partnerships and develop Partnership Protocol incorporating governance arrangements. Formal monitoring and reporting to Members on Partnership governance will be carried out annually.
Progress Update	The Council's existing partnerships were identified to have governance arrangements in place, e.g. the Revenues and Benefits shared service which has strong governance arrangements. However, there is no formal document setting out these governance arrangements. A document setting out the existing partnership arrangements protocol will be presented to Audit Committee during 2020/21.
Communication	Communication Strategy to be developed.
Progress Update	The Communication strategy has been prepared and is in draft format. It is planned to be presented to CMT for adoption in the next few months. Therefore this action will be carried forward into 2020/21.
Performance Management	(i) A review of all performance indicators to be undertaken in order to rationalise and streamline reported figures so that they are meaningful and demonstrate achievement of objectives. (ii) The Council's Performance Hub to be reviewed to ensure PI trends are being reported accurately and are meeting the needs of service users.
Progress Update	A review of performance indicators was carried out during 2019/20 which looked at all existing performance indicators assessing them if they are meaningful and demonstrate achievement of objectives. As a result a large number of PI's have been removed and other more meaningful ones introduced. These are identified as corporate or operational indicators; the corporate PI's linking to the Council's Corporate Priorities. A review of the Performance Hub system was carried out to review whether fit for purpose. The outcome was the system would be fit for purpose subject to a number of IT updates and a streamline to the process of uploading the data. This work had planned to be complete by June 2020 however the Covid-19 pandemic has delayed progress and therefore this will be carried forward as an action into 2020/21 with an estimated completion date of December 2020.
Risk Management	Refresher training to ensure that emerging, current risks and further actions are recorded and reviewed in a timely manner and are reflective of the risks to the service.
Progress Update	External Risk management training was provided to all risk owners and Corporate Management Team during 2019. Significant improvements have been made to the Council's GRACE risk management system to assist the user.
Ethical Standards	Review the Councils arrangements against the best practice recommendations.
Progress Update	The review was undertaken and was due to be presented to the Standards Committee in March 2020, which was cancelled due to the Covid pandemic. This will appear on the next Standards Committee agenda.

Annual Governance Statement

Key Areas for Improvement

Building on the improvements in 2019/20 the Council has undertaken an in-depth review of all the governance arrangements and identified the following areas where it wishes to see stepped improvements in 2020/21:-

Table: Key Improvement Areas for 2020/21

Area	Actions for inclusion within the AGS	Target Date	Responsible
Employees	Review and update People Strategy.		Director of Communities and Environment
	Action b/f from 2019 and in progress: As highlighted above, this review is in progress and should be completed by December 2020.	December 2020	
Partnerships	Develop Partnership Protocol incorporating governance arrangements. Formal monitoring and reporting to Members on Partnership governance is carried out annually. A document setting out the arrangements will be presented to Audit Committee during 2020/21.	December 2020	CMT
Communication	Communication Strategy to be developed.	December 2020	Deputy Chief Executive/ Director of Customer Services
	Action b/f from 2019 and in progress A Communication Strategy covering both internal and external communication has been drafted and is awaiting approval and roll-out.		
	To review and refresh feedback mechanisms to ensure that views of service users, partners and stakeholders are taken into account.	March 2021	
Performance Management	Implementation of the performance indicators following the review undertaken during 2019/20 to rationalise and streamline reported figures so that they are meaningful and demonstrate achievement of objectives. The Council's Performance Hub to be updated following a review undertaken during 2019/20 to ensure PI trends are being reported accurately and are meeting the needs of service users.	December 2020	Chief Executive / Director of Resources
	New PIs have been identified and agreed by CMT. Reporting arrangements were being put in place prior to lockdown; this included updating of PIs on website and reporting to members.		
Strategic Planning	To further embed the Project Management Framework through staff training and awareness of guidance/templates to be used.	March 2021	CMT

Annual Governance Statement

People Management	Review and update staff appraisal process.		
	Review and update of staff appraisal process is currently underway however, completion has been delayed due to Covid-19 pandemic.	March 2021	Director of Communities and Environment
Financial Management	To undertake training in relation to grant funding processes thereby ensuring that where grant funding has been obtained all conditions are adhered to.	November 2020	Director of Resources
Transparency	<p>Following review of compliance with Local Government Transparency Code 2015 additional information is to be published this includes:</p> <ul style="list-style-type: none"> • merchant category for all items of expenditure; • all invitations to tender where contract exceeds £5k; • every contract which exceeds £5k on the contracts register; • list or register of grants to voluntary, community and social enterprise organisations (include beneficiary's registration number and purpose of grant); • parking account information. 	March 2021	Director of Resources

In addition to the above the Council is intending to continue with the programme of 7 minute briefings on governance, risk management and fraud.

Annual Governance Statement

Conclusion

On the basis of the work carried out, which has been reviewed by the Audit Committee, we are satisfied that the Governance Framework is effective and continues to be fit for purpose. We will continue to progress implementing improvements to further enhance our governance arrangements. We are satisfied that these measures will address the stepped improvements required following the in-depth review of all governance arrangements, and we will monitor their implementation as part of our next annual review.

COVID 19

The Covid-19 pandemic is having a significant impact and it is paramount that the Council's governance arrangements remain robust and effective. The impact of Covid-19 will be considered in all governance arrangements. All risks reviews will be reviewed taking into account the impact of Covid-19 on services and processes. Both Members and officers will need to be vigilant to ensure that our governance arrangements remain robust and sustainable and remain effective during this period of uncertainty and high risk. The sustained period of funding reductions has already impacted on capacity and the provision of services

Alongside the impact of Covid-19 and the ongoing reductions in funding there are also a number of contingent liabilities which may have a significant financial impact on the Council's resources if they materialise. These include guarantees and legal challenges such as a Planning Judicial Review, and a civil action for unlawful forfeiture.

Signed:

M Brown

Leader of the Council

A Phillips

Chief Executive

C Parmenter

Monitoring Officer

J Wilding

Section 151 Officer

Glossary of Terms

This Glossary of Terms is designed to aid interpretation of the Council's Statement of Accounts.

Accounting Policies - The rules and practices adopted that determine how transactions and other events are reflected in financial statements.

Accruals - The concept is that income is recorded when it is earned rather than when it is received and expenses are recorded when goods or services are received rather than when the payment is made.

Accumulated Absences Account - The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March.

Actuary - An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Authorised Limit - This represents the legislative limit on the Council's external debt under the Local Government Act 2003.

Balances - The total level of funds the Council has accumulated over the years, available to support revenue expenditure within the year (also known as reserves).

Bequest and Trust Funds - Funds administered by the Council on behalf of charitable organisations and/or specific organisations.

Budget - A statement of the Council's spending plans for revenue and capital expenditure over a specified period of time.

Business Improvement District (BID) - BIDs are provided for under Part 4 of the Local Government Act 2003 (England & Wales) whereby a levy is collected from Business Ratepayers to provide agreed additional services.

Capital Expenditure - Expenditure on the acquisition, creation or enhancement of a non-current asset e.g. property, plant and equipment that have a long term value to the Council.

Cash Equivalents - Cash Equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Chartered Institute of Public Finance and Accountancy (CIPFA) - The Chartered Institute of Public Finance and Accountancy (CIPFA) is the leading accountancy body for the public sector. The statement of accounts is prepared in accordance with the code of practice published by CIPFA.

Collection Fund - The Collection Fund is a separate statutory fund which Billing Authorities have to maintain. It shows the transactions in relation to collection from taxpayers of National Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to Precepting Authorities and the General Fund.

Community Assets - A class of asset within property, plant and equipment that the Local Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Community Infrastructure Levy (CIL) - CIL is a planning charge available to Local Authorities for new types of development in their areas.

Contingent Liability - A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- a present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Glossary of Terms

Council Tax - This is a banded property tax which is levied on domestic properties throughout the country. The banding is based on estimated property values as at 1 April 1991. The level of tax is set annually by each Local Authority for the properties in its area.

Council Tax Requirement - This is the estimated revenue expenditure on General Fund services that need to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

Council Tax Support Scheme - This is the assistance provided by Billing Authorities to households on low incomes to help them pay their Council Tax bill. This scheme replaced Council Tax benefit in April 2013 and is a locally based scheme.

Creditors - Amounts owed by the Council for work done, services rendered or goods received for which payment has not been made by the Balance Sheet date.

Debtors - Amounts owed to the Council for work carried out, services rendered or goods provided by the Council for which income has not been received by the Balance Sheet date.

Depreciation - This is the measure of the wearing out, consumption, or other reduction in the useful economic life of a property, plant and equipment, whether arising from use, passage of time or obsolescence through technological or other change.

Direct Revenue Financing - Resources provided from an Authority's revenue budget to finance the cost of capital projects.

Events after the Balance Sheet Date - These are events, favourable or adverse, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

External Audit - The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

Finance Lease - This is a lease that substantially transfers all of the risks and rewards of ownership of a non-current asset to the lessee.

Financial Instruments - A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables (debtors) and trade payables (creditors) and complex ones such as derivatives and embedded derivatives.

General Fund - This is the main revenue account of the Council covering day to day spending on services other than the provision of housing. Credited to the fund are charges made by the Council, specific Government and other grants and receipts from the Collection Fund.

Heritage Assets - These assets are held due to their historical, artistic, scientific, technological, geophysical or environmental qualities. They are intended to be preserved in trust for future generations, which are held and maintained for its contribution to knowledge and culture.

Housing Benefit - This is financial help to persons on low income to meet, in whole or part, their rent. Benefit is paid by Local Councils but Central Government refunds part of the cost of these benefits and of the running costs of the services to Local Councils.

International Financial Reporting Standards (IFRS) - Defined Accounting Standards that must be applied by all reporting organisation's to their financial statements, in order to provide a true and fair view of the organisation's financial position.

Impairment - This is a reduction in the value of a non-current asset below its carrying amount on the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a non-current assets market value and evidence of obsolescence or physical damage to the asset.

Glossary of Terms

Infrastructure Assets - A category of property, plant and equipment that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Materiality - The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by the reader.

Medium Term Financial Strategy (MTFS) - This is a financial planning document that sets out the future years financial forecasts for the Council. It considers local and national policy influences and projects their impact on the general fund revenue budget and capital programme.

Minimum Revenue Provision (MRP) - The minimum amount (as laid down in Statute) that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

Ministry of Housing, Communities & Local Government (MHCLG) - A Department of Central Government with an overriding responsibility for determining the allocation of general resources to Local Authorities.

National Non-Domestic Rates (NNDR) - NNDR is a tax levied on business properties and sometimes known as Business Rates. This tax is set nationally by the Government. Sums based on rateable values are collected by billing authorities and shared between major preceptors (10%), central Government (50%) and themselves (40%).

Net Book Value - The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

Net Realisable Value - The open market value of an asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non-current Assets - Assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Operating Leases - An operating lease is a lease other than a finance lease. This is a method of financing assets which allows the Council to use, but not own an asset. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Precept - This is a charge levied by one Authority which is collected on its behalf by another by adding the precept to its own Council Tax and paying over the appropriate cash collected.

Property / Plant & Equipment - Assets that are held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility. Examples include council dwellings, other land and buildings, vehicles, plant, equipment, infrastructure assets and community assets.

Provision - These are monies set aside for liabilities or losses which are likely or certain to be incurred but the exact amount and dates are not currently known.

Prudence - Prudence is the inclusion of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Prudential Code for Capital Finance - The basic principle of the Code is that Local Authorities will be free to invest in capital expenditure so long as their capital spending plans are affordable, prudent and sustainable. The Code sets out indicators that the Authority must use and factors that they must take into account to demonstrate that they have fulfilled this objective.

Public Works Loan Board (PWLB) - PWLB is a government agency which provides loans to Local Authorities.

Glossary of Terms

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

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has 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 interest; or
- 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.

Related Party Transactions - 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.

Reserves - Amounts set aside in one year's accounts which can be spent in later years. Reserves are often earmarked for specific purposes, including the financing of future capital expenditure, replacement or renewals and the funding of future defined Council initiatives.

Residual Value - This is the estimated amount which can be obtained from selling an asset after deducting disposal costs.

Revaluation Reserve - The Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

Revenue Expenditure Funded from Capital under Statute (REFCUS) - Expenditure that does not result in creation of a non-current asset, but can be classified as capital for funding purposes. Such expenditure is charged to the Comprehensive Income and Expenditure Statement and an adjustment made in the Movement in Reserves Statement to enable the expenditure to be funded from capital resources rather than impact on the Council Tax. Examples include works on property owned by other parties, renovation grants and capital grants to other organisations.

Revenue Support Grant (RSG) - This is a general grant received from Central Government to contribute towards the cost of providing services.

Treasury Management - This is the process by which the Council controls its cash flow and its borrowing and lending activities.

Treasury Management Strategy - A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.

Unusable Reserves - Unusable Reserves are not available to use to support services and are in the main used to hold unrealised gains and losses.

Usable Reserves - Usable Reserves can be applied to fund expenditure or reduce local taxation.

Useful Life - The period over which the Local Authority will derive benefits from the use of an asset.