



Preston City Council

Statement of Accounts

2017-18



Preston
City Council



CHRISTIAN
SCIENCE CHURCH

CHURCH STREET

FISHERGATE

COUNTY HALL/TRAINS

TOWN HALL & BUSES

GUILD HALL & BUSES

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1 Councillor Preface

Introduction to the 2017/18 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 2017/18. The accounts have been produced against a backdrop of rapidly reducing resources from Central Government.



Looking ahead, Preston's Revenue Support Grant from Government will be phased out by 2019/20 and the future distribution of National Non-Domestic Rates (Business Rates) still remains unknown. The difficulties that these policies create extend to the provision of even basic statutory Council functions. In addition the uncertainty of our financial landscape is magnified by the as yet unquantifiable impact of Brexit.

Despite the Government's 'Austerity' policy, 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.

During 2017/18 Officers and Members continued working on the Four Year Efficiency Plan and savings proposals agreed at Budget Council February 2017. We have successfully transferred the leisure centres to Greenwich Leisure Limited (GLL) on 1 May 2017 securing significant ongoing savings of circa £700k and implemented efficiency savings of circa £300k which has included the introduction of new technology in the Contact Centre.

At the same time, significant progress has been made on a number of projects which are improving the City for residents, visitors and businesses alike. The new Market Hall was opened in February 2018 and significant progress has been made on the City Deal. Preston continues to be a growing vibrant City.

Throughout the year we have continued to make good progress across all our priorities and with regard to our Fairness Agenda have attracted interest from other Council's and at national level. Significant progress has been made on a number of projects which are improving the City for residents, visitors and businesses alike. Preston continues to be a growing vibrant City.

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 earlier statutory deadline.

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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 2018.



*Jackie Wilding
City Treasurer*

The narrative report adopts the following structure:

- An Introduction to Preston;
- Information about the Council;
- The Council's Non-Financial Performance in 2017/18;
- Financial Performance of the Council in 2017/18;
- Economic Climate and Financial Outlook for the Future;
- Principal Risks and Uncertainties affecting the Council;
- Explanation of Financial Statements

2. An Introduction to Preston



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

Preston is approximately 27 miles (43 km) north west of Manchester, 26 miles (42 km) north east of Liverpool, and 15 miles (24 km) east of the coastal town Blackpool.

Preston is a City in Lancashire, situated in the heart of the North West of England, on the north bank of the River Ribble. The southern section of Preston is mostly urbanised and is one of the most networked Cities in the country, whilst north Preston is quite rural.

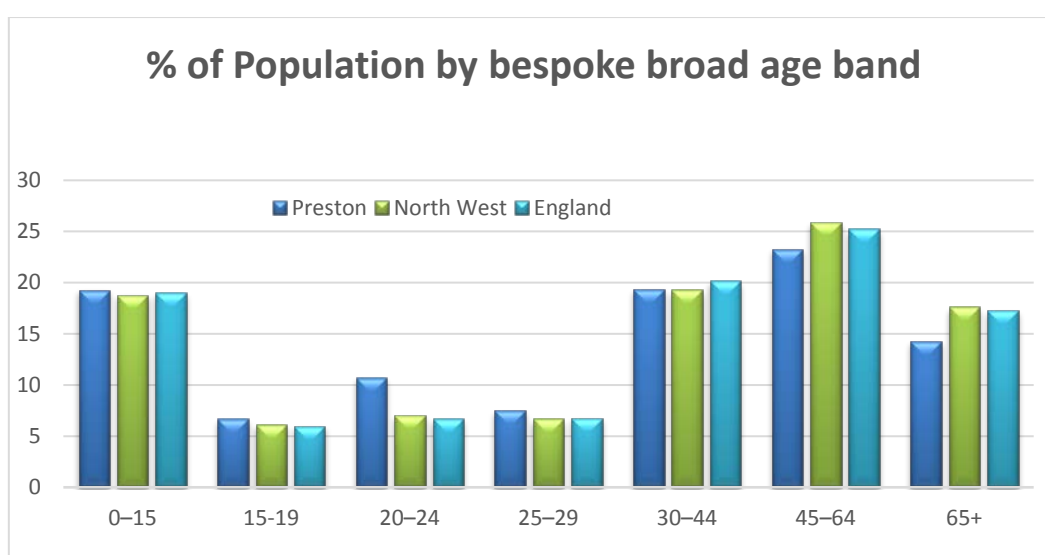


Preston is one of twelve lower tier district Councils in the county of Lancashire and shares borders with Wyre, Fylde, South Ribble and Ribble Valley.

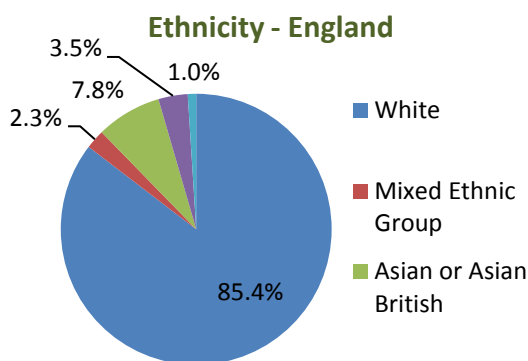
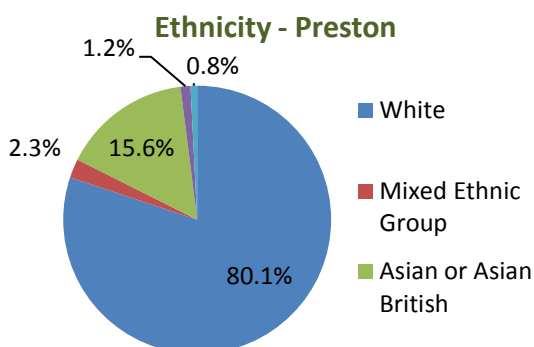
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Population

- Preston has a population of around 141,800.
- The population of Preston is projected to increase to 145,500 by 2039.
- 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 city, the ethnic makeup based on the 2011 census is shown in the comparative graphs below:-



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Local Economy and Business Information

The City of Preston is an important retail centre whilst to the north of the town centre is the Deepdale retail park, consequently employment in the retail sector is high. The City is also a significant night time destination offering the Guild Hall and theatre, restaurants, pubs and clubs.

In 2017, there were 5,155 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.

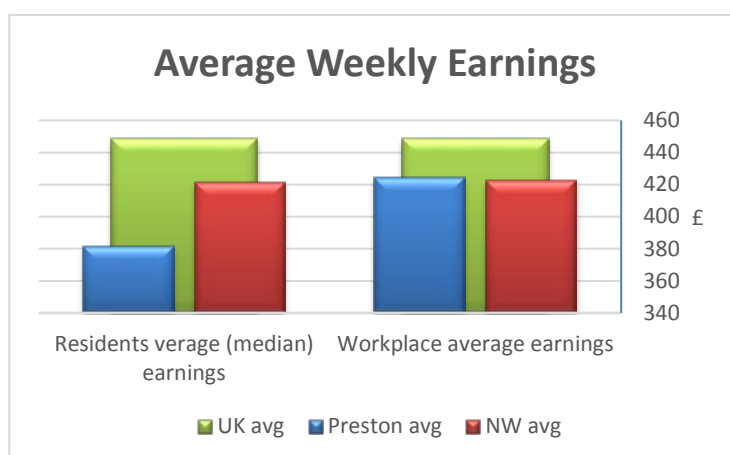
In Preston as in most places, the manufacturing sector has shed jobs over the years whilst the service sector has grown to become a far greater source of employee jobs. Preston has a lower rate of employee jobs in the manufacturing sector than is the norm in Lancashire and nationally and conversely a 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 the Preston City Council and Lancashire County Councils presence in the centre of Preston, public sector employment in the authority 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 over the next ten years.

Housing and Earnings

Preston has 61,993 dwellings, 46.6% are in lowest category 'A' Council tax band, possibly due to the high number of terraced houses within the city. Since 2016/17 the authority has recorded a large increase in net additional dwellings.

The average (median) weekly earnings for residents in Preston is £381.60 compared to the North West average of £421.60 and UK average of £448.60. However when considered by workplace the average weekly earnings for Preston increase to £424.20 compared to the North West average of £422.80 and UK average of £448.60. 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 £20.3k, is 86.5% of the average for the UK.

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14% of households were in fuel poverty in 2015 (28th highest rate out of 326 authorities in England, compared to 12.4% in 2014) as determined by the energy efficiency status of the property, the cost of energy, and household income. The 2015 Indices of Deprivation reveals that Preston was the 72nd most deprived area out of 326 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

We have 22 wards and 57 elected Councillors who are responsible for taking decisions about the future of Preston and important public services such as planning, housing, leisure and culture, and rubbish and recycling.

As well as representing the public, Councillors also represent political parties. After the local election on 5 May 2016 (there were no Council elections in 2017) the political make-up of the Council was:

Political Make-up
33 Labour Councillors
19 Conservative Councillors
5 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.

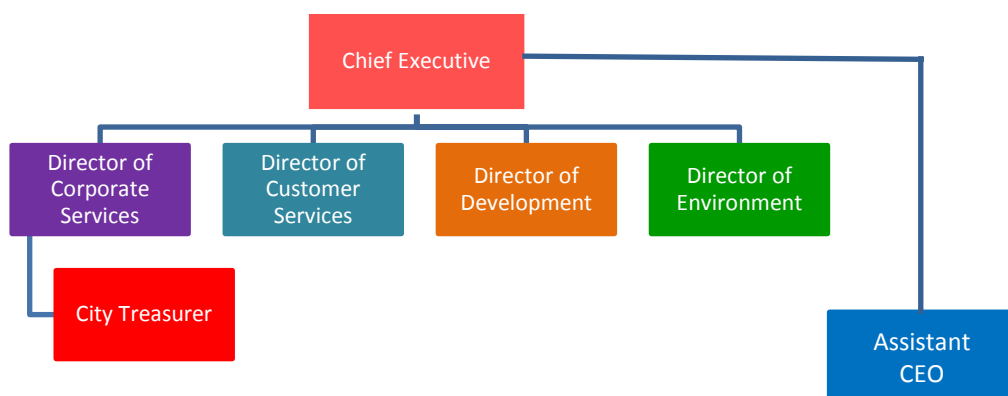
There were local elections held in May 2018 after which the Labour party remained in control of the Council, with the political make-up changing to Labour 35, Conservative 17 and Liberal Democrat 5, following these elections a new leader of the Council has been appointed.

Following a boundary review all out elections will take place in 2019 and the number of Members will reduce from 57 to 48.

Management Structure

Supporting the work of Councillors is the organisational structure of the Council headed by the Corporate Management Team, which in 2017/18 was led by the Chief Executive Lorraine Norris. During 2017/18 the Corporate Management Team (CMT) comprised the Chief Executive, four Directors and the City Treasurer.

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Lorraine Norris retired in May 2018 and the Director of Environment (Adrian Phillips) has been appointed interim Chief Executive for one year, this has necessitated interim changes to Directorates for 2018/19.

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 Authority's effectiveness. The team works together to achieve the most effective services possible for the City's diverse communities.

Council Employees

The Council is one of the largest employers in the area with 638 (595 FTE) employees. This figure has reduced from 967 (647 FTE) in 2016/17, following the Leisure Transfer to Greenwich Leisure Limited (GLL). The figure includes a number of apprentices employed in a wide variety of roles. From April 2017, the Council is 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 £85 million a year providing a range of public services from waste collection to planning.

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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.

The Council continues to promote recycling, although the recycling rate has reduced to 31.2% following the introduction of charges for garden waste collections. This still represents 16,070 tonnes of waste which has been recycled in 2017/18.

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4. The Council's Non- Financial Performance in 2017/18

There have been a number of key issues that influenced the Council and its Financial Position in 2017/18:

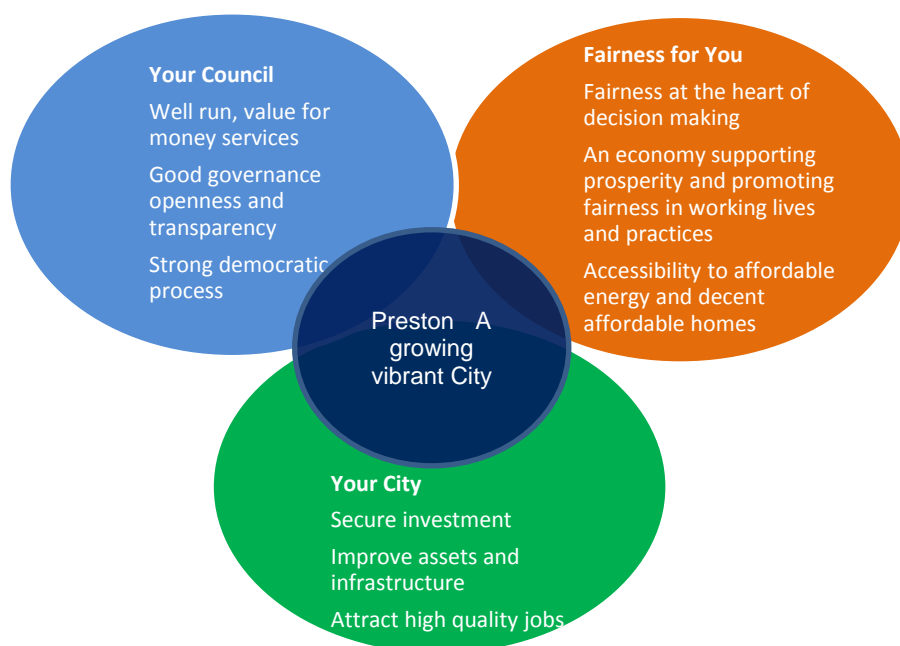
- Implementation of the Four Year Efficiency Plan (2016/17 to 2019/20) in response to the Government's continued austerity measures
- Achieving the Council's Strategic Priority Areas
- Major plans for City Centre Development
- Preston, South Ribble and Lancashire City Deal

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**:-

- Your Council
- Your City
- Fairness for You



The current priority areas are explained in the Achieving Preston's Priorities document agreed at Budget Council February 2018 which can be found at:

<http://preston.moderngov.co.uk/documents/s40924/APP2018-19%20final.pdf>

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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 Leader of the Council acted as the lead spokesperson on housing for the Lancashire Leaders and was their representative on the Lancashire Economic Partnership Performance Committee. In addition we have been engaged and are active partners in the Central Lancashire Health & Wellbeing Partnership and the Preston, South Ribble and Lancashire City Deal.

How we Performed in 2017/18 – Achieving Preston’s Priorities



During 2017/18 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 attracted 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 2017/18 and the next steps.

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Your Council

•How we performed

- The **Service Improvement Board** has successfully overseen the implementation of a number of projects including:
- The **Digital and Customer access Strategy**
- New systems including:
 - Free Public Wi-Fi** in the Council's One-Stop-Shop, the Harris Museum and Art Gallery and the New Market Hall
- Cyber risk awareness training** for staff and Council Members
- Disaster recovery** - We have an established 'second site' and an ability to recover the Council's systems in the event of a disaster.

Your City

How we performed

- City Centre Plan** - adoption of the City Centre Plan
- Revitalised Market/New Cinema & Restaurant Development** - The New Market Hall opened in February 18 - the Shankley Hotel (former Post Office) is now under redevelopment
- **Preston, South Ribble and Lancashire City Deal** - significant progress
- **Moor Park Restoration** - significant progress Heritage Lottery Fund scheme £2.3m
- Winckley Square (Townscape Heritage Initiative and Gardens)** - restoration of gardens complete.

Fairness for You

•How we performed

- Embedded fairness in the Council's strategic Planning in response to the **Lancashire Fairness Commission recommendations**
- Social Value Policy** - we have been working with other Preston "anchor" institutions to encourage the sharing of best practice;
- Partner in a **EU funding transnational urban project**
- Continues to promote affordable warmth - joint working with other Authorities - **Cosy Homes in Lancashire scheme (CHIL)**.

Your Council

•What's next

- Work is underway to introduce self-service scanning stations into our One-Stop-Shop.
- Plans to roll out **Interactive Voice Recognition Software** to more services are being considered.

Your City

•What's next

- Continuing with the **City Centre Development** plans
- Winckley Square (Townscape Heritage Initiative and Gardens)** - continuation of the Public Realm and conservation area improvements.

Fairness for You

•What's next

- Continuing with **Community Wealth Building**
- Work towards increasing the flow of **affordable housing units**
- Continue to **deliver financial outreach measures**.

Four Year Efficiency Plan

During 2016/17 Officers and Members formulated a Four Year Efficiency Plan. 2017/18 was year two of the plan. The latest details of the Four Year Efficiency Plan can be found within the Achieving Preston's Priorities document presented to Budget Council in February 2018 <http://preston.moderngov.co.uk/documents/s40924/APP2018-19%20final.pdf>

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. The major savings achieved during 2017/18 include transferring the leisure service

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to Greenwich Leisure Limited (GLL) on 1 May 2017, securing significant ongoing savings of c£700k and implementing efficiency savings c£300k mainly from the introduction of new technology in the Contact Centre.

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.

During 2017 we have been reviewing our process to help monitor the outcomes of the priority areas. The impact we hope to make is set out in the Achieving Preston's Priorities – Review of 2017/18 Report, which can be found at:

<http://preston.moderngov.co.uk/documents/s41513/APP%20OUTTURN.pdf>.

Reporting on these targets will commence during 2018. This is in addition to the embedded performance monitoring the Council already has in place.

The Council has a proactive approach to financial forecasting and budget management with extensive systems and procedures in place. In 2017/18 the Council has in overall terms achieved its financial targets and aspirations and has worked successfully within reduced budgets to deliver services. However, the Council continues to face a turbulent future in respect of its finances. The uncertainty and complexity of the Council's financial landscape is magnified by the as yet unquantifiable impact of Brexit on both local government funding and future legislation. 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 2017/18

The Council set an original revenue net budget of £20.775m (February 2017 Budget Council) for 2017/18. This was revised to £20.722m (February 2018 Budget Council) as a result of known forecast issues and reported to Budget Council in February 2018. The Council finances its net budget through Council Tax, General Government Grants and Retained Business Rates income.

The 2017/18 original budget included a number of savings targets which have been achieved as planned in year with some of the income targets achieving in excess of target e.g. the collection of garden waste. The main savings targets were:

- Transfer of the Leisure Service to GLL in May 2017;
- Increased savings from further management efficiencies and restructures;
- Waste Collection efficiencies; and
- Rightsizing of the support services.

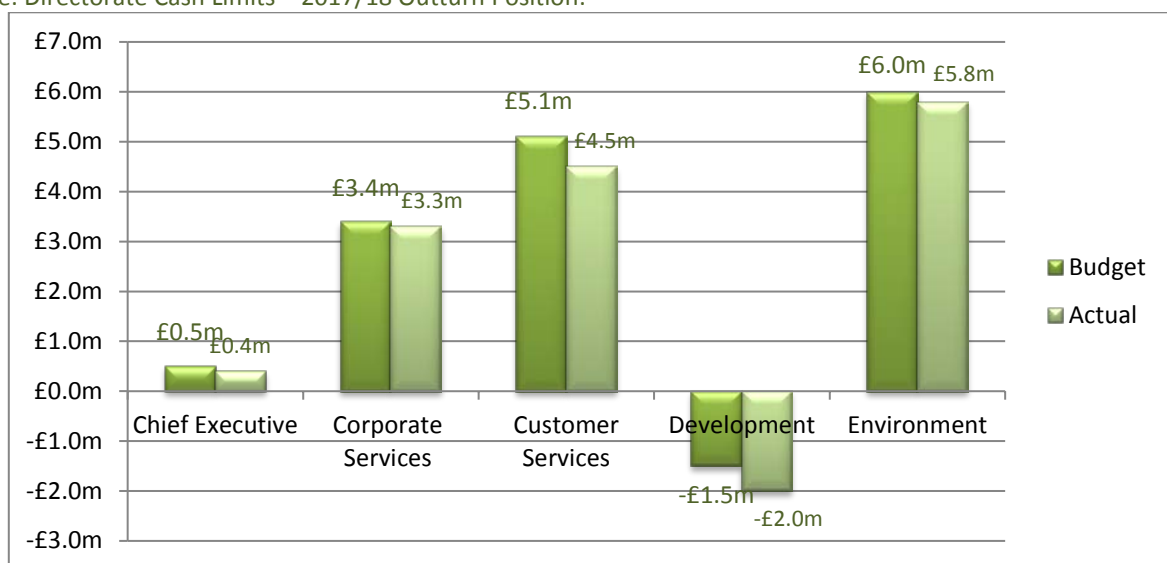
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Service Financial Performance

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 30 May 2018. Full details of expenditure, income and budget variances are set out within the report which is available on the Council’s website:

<http://preston.moderngov.co.uk/documents/s41513/APP%20OUTTURN.pdf>

Table: Directorate Cash Limits – 2017/18 Outturn Position:



The outturn position for 2017/18 resulted in an underspend of £1.079m 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 £0.756m into 2018/19 the underlying underspend is £0.363m. 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 2017/18 £1.127m has been transferred from the NNDR equalisation reserve into the General Fund.

The Council has a policy to avoid compulsory redundancy where possible, seeking volunteers and identifying redeployment opportunities. There have been 15 posts affected during 2017/18. The Medium Term Financial Strategy (MTFS) included a budget provision to fund the costs of redundancy.

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 2018 and will reflect the impact on balances from the outturn position.

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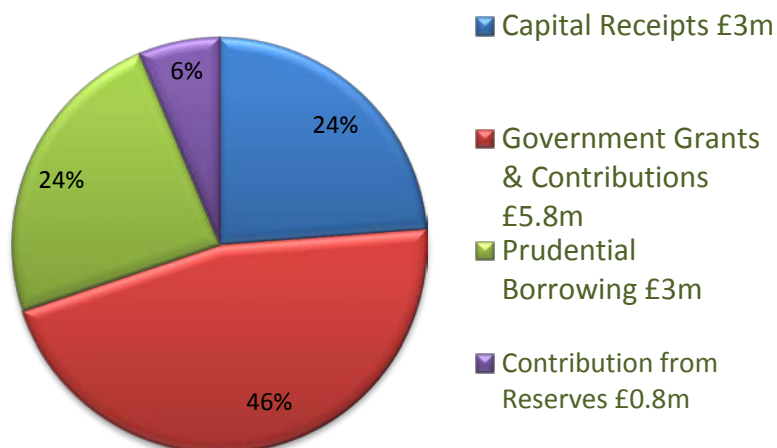
The table below shows the summary revenue budget outturn for 2017/18:

Summary of Revenue Expenditure in 2017/18	Budget £m	Actual £m	Variance £m
Service Directorate – Cash Limit Net Expenditure <i>(see chart above)</i>	13.5	12.0	-1.4
Centrally Managed Budgets	1.6	0.9	-0.7
Corporate Items	1.9	1.9	0.0
Financing & Investment Income & Expenditure	0.5	0.5	0.0
Minimum Revenue Provision	0.7	0.7	0.0
Direct Revenue Financing	0.4	0.3	-0.1
Net transfer to/(-)from earmarked reserves	1.1	2.4	1.3
Total Net Expenditure	19.6	18.7	-0.9
Financing:			
Government Grants	-2.8	-2.8	0.0
Non-Domestic Rate Distribution	-5.2	-5.3	-0.1
Council Tax Requirement	-10.7	-10.7	0.0
Sub total	-18.7	-18.9	-0.1
Net Call on General Fund Balance	0.9	-0.2	-1.1

Capital Investment in 2017/18

During 2017/18 the Council spent £12.568m on capital projects against a target estimate of £12.071m. 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 May 30 2018.*

Financing of 2017/18 Capital Expenditure



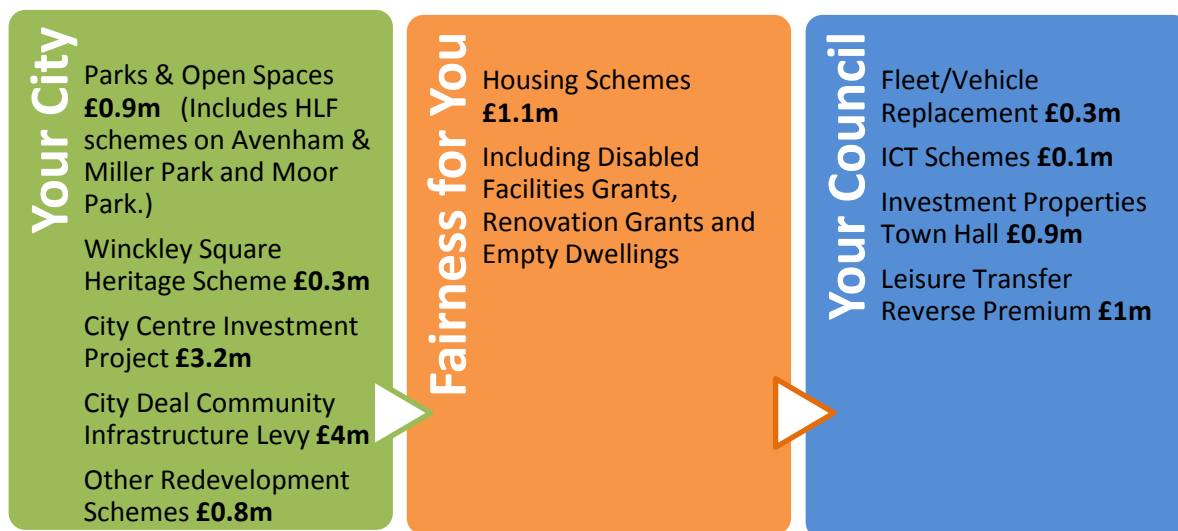
Flexible Use of Capital Receipts

In line with the Government's 'flexible use of capital receipts' scheme, Budget Council February 2018 agreed that one-off expenditure of the £1m reverse premium in relation to the transfer of the Leisure Service to GLL, be financed from the use of flexible capital receipts. The key criteria to

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use when deciding whether expenditure can be funded by the capital receipts flexibility is; is it forecast to generate ongoing significant savings to an authorities' net service expenditure? The leisure transfer meets this criteria by delivering the aims of the efficiency plan and generating c£0.700m per annum in revenue savings.

Examples of capital schemes by Council Priority:



Future Capital Spending Plans

The Council has an ambitious five year capital programme of £37.6m which includes key schemes aiming to create regeneration of the City Centre, investment in major infrastructure via the City Deal Partnership and external funding investment towards restoration of Moor Park. The table below shows the predicted spend over the period to 2021/22.

(a) Table: Capital Investment Programme Summary 2017/18 to 2021/22:

Priority Area	2017/18	2018/19	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m	£m	£m
Your Council	2.4	4.2	0.3	1.8	2.6	11.3
Your City	8.5	5.6	2.4	2.9	2.3	21.7
Fairness for You	1.1	1.6	0.8	0.7	0.4	4.6
Estimated Expenditure	12.0	11.4	3.5	5.4	5.3	37.6

The capital programme, approved at the Budget Council meeting in February 2018, 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

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



Balance Sheet

The Council's net assets have decreased by £1.7m from end of March 2017 to end of March 2018. The decrease is due to several different factors including a decrease in value of the Council's non-current assets (following the transfer of the Leisure Centres to GLL), a reduction in the short term debtors and cash balances held these are offset by an improved pension deficit position. 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. These will reduce over the life of the latest forecast to minimum recommended levels i.e. £1.1m. 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 2017	At 31 March 2018
	£m	£m
Non-current assets	181.3	168.6
Net current assets – debtors, stock and cash less short term creditors and total liabilities	(108.5)	(97.5)
Net Assets	72.8	71.1
Represented by: Useable reserves	36.5	35.3
Represented by: Unusable reserves	36.3	35.8

Non-Current Assets - In 2017/18, the Council spent £12.568m on capital schemes which includes £5.9m invested in developing or acquiring capital assets (see May 2018 Cabinet report). 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. The main changes in asset values during 2017/18 have resulted from the transfer of the Leisure Centres as part of the Leisure transfer to GLL.

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.

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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 long-term borrowing need as at 31 March 2018 was met by a combination of long term actual debt of £17.3m 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 £0.8m in 2017/18.

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 2018 was £20.1m.

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 2017/18 was £26.9m. The Council's actual total debt was £17.3m which is well below the Authorised Limit.

Long Term Debt:

- £17.3m (£17.3m 2016/17)

The Council's investments are exposed to interest rate risk and volatility in the money markets. This has led to investment returns remaining at low levels. The security of capital remains the Council's main investment objective. In April 2017 £5m of the longer term investments were diversified into pooled investment funds and UK Government Gilts.

The investments held as at 31 March 2018 were:

Long Term Investments:

- £21.5m (£22.0m 2016/17)

Pension Fund Liabilities

The Council has net pension liabilities of £86.2m in the Balance Sheet as at 31 March 2018 (£100.3m as at 31 March 2017). 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 during 2016/17 with changes to the pension fund being effective from 1 April 2017.

Analysis of the £14.1m decrease to the Net Pension Liability:

- £14.3m actuarial re-measurement
- £2.8m pension deficit lump sum prepayment
- (£3.0m) arising from employer contributions being less than the pension obligations.

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For 2017/18 there is a difference between the net Pensions Liability on the Balance Sheet and the Pensions Reserve. In previous years the value has been the same as the liability position is matched by the pension reserve position on the Balance Sheet.

The difference in 2017/18 reflects the impact of the early repayment of three years of pension deficit lump sum (£4.2m) by the Council to the Lancashire County Pension Fund in April 2017. Although the early repayment has already happened accounting standards require the Council to account for the payment of the deficit lump sum in the year that it falls due as assessed by the actuary. For 2017/18 the value was assessed to be £1.4m. The net Pensions Liability is therefore £2.8m lower than the value reported in the Pensions Reserve reflecting the requirement to account for the value of the prepayment in 2018/19 and 2019/20. By undertaking the early repayment and therefore paying in advance monies to the Pension Fund the Council has reduced the overall cost of repaying its employer's deficit to the Pension Fund by £0.2m over the three years. This saving has been reflected in the Council's revenue budget and financial forecast.

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 surplus on the Collection Fund for Council Tax as at 31 March 2018 was £1.498m and will be shared between the City Council (billing authority), the County Council, the Police Authority and the Fire Authority in the following years. The City Council's share of the surplus is £0.257m. The actual rate of in year collection of Council Tax for 2017/18 was 93.9% (94.2% for 2016/17). 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.

From April 2014 government introduced a new business rates scheme. Under the new system the Council retains a 40% share of its NNDR. In the year ended 31 March 2018 the collection of NNDR was below the Government target. The Council's share of the in-year shortfall was £0.166m. However as at 31 March 2018 there was an accumulated surplus on the Collection Fund for NNDR of £1.597m. This is due to the fact that the deficit distributed during 2017/18 was based on the estimated deficit for the previous year, however the actual deficit was lower than the estimate leaving a surplus on the fund. The Council's share of the surplus is £0.639m which will be accounted for in 2018/19 and 2019/20 in line with legislation.

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

Narrative Report

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 prevent or detect significant acts of fraud/cyber fraud
Failure to have a skilled and motivated workforce to deliver its services and priorities
Failure to achieve ambitious City building plans
Failure to adequately resource Council services
Communities lack confidence in the Council's ability to respond

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
Further reductions in Government funding
Changes in Government Policy
Pension Fund Deficit
Contingent liabilities materialising e.g. pension guarantee being called upon
Universal Credit
Estimated Sale of Council owned assets not being achieved
Unexpected movements in cashflow
Unexpected movements in interest rates
Security of monies invested with counterparties

The Achieving Preston's Priorities report to Budget Council February 2018 sets out the above and details the risks, potential impact and mitigations/controls in place.

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

The latest MTFs reported to Budget Council in February 2018 set out the capital and revenue resources available to the Council and how we use them to deliver 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 especially the unknown impact of the anticipated Business Rates retention scheme.

Narrative Report

The Council formulated a Four Year Efficiency Plan during 2016/17 and submitted this to government in order to secure a four year grant settlement. Whilst the four year settlement greatly assists in forward planning it is still unknown how the new business rates system 2020/21 onwards, will impact on the financial forecast. In addition the uncertainty of the Council's finances is magnified by the yet unquantifiable impact of Brexit.

The Efficiency Plan contains proposals which are very ambitious and whilst a number of major savings have been achieved during 2017/18, close monitoring will need to be undertaken to ensure the remaining plan stays on track. If the remaining savings proposals and the additional savings highlighted do not achieve the required level of savings, and alternative savings cannot be found, Budget Working Group may need to swiftly implement the contingency plan of alternative savings.

The Council has a significant level of non-earmarked reserves, however these are shown to reduce to minimum recommended levels over the life of the latest forecast. The Council will still hold significant earmarked reserves which may be used as a last resort to phase in future saving requirements. 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 2017/18 (the Code) and the Service Reporting Code of Practice 2017/18(SeRCOP) and comprises core and supplementary statements.

The Core Financial Statements:	The Supplementary Statements:
<p>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.</p> <p>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).</p> <p>Balance Sheet – this sets out the Council's assets and liabilities as at 31st March 2018 and how these are funded (by reserves, borrowing, provisions and other balances).</p> <p>Cash Flow Statement - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.</p> <p>Notes to the Core Financial Statements - assist in the interpretation of the Accounts by summarising significant accounting policies and other explanatory information.</p>	<p>Statement of Responsibilities for the Statement of Accounts - identifies the officer who is responsible for the proper administration of the Council's financial affairs.</p> <p>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.</p> <p>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.</p> <p>Glossary – an explanation of some of the key technical terms used in these accounts.</p>

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 City Treasurer;
- 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 City Treasurer 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) 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the City Treasurer 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 2018

Signed

Date

Jackie Wilding
City Treasurer
(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 Statement of Accounts was approved by the Audit Committee on 30 July 2018.

Signed

Date

Councillor Woollam
Chair of Audit Committee

Independent auditor's report to the members of 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 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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.

Who we are reporting to

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.

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.

Other information

The City Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 105, the Narrative Report, 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 course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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)' 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:

- we have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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 set out on page 22, 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 2017/18, which 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 the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

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 November 2017, 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 2018.

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 November 2017, 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 2018.

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 - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

John Farrar

John Farrar
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

31 July 2018

Preston
City Council

Core
Financial
Statements

2017/18

Comprehensive Income & Expenditure Statement

The Comprehensive Income and Expenditure Statement (CI&E)

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.

Restated 2016/17			2017/18				
Gross Expend £'000	Gross Income £'000	Net Expend £'000		Gross Expend £'000	Gross Income £'000	Net Expend £'000	
			Service Segments	Note			
483	50	433	Chief Executive		660	219	441
3,851	654	3,197	Corporate Services		3,934	625	3,309
12,119	7,528	4,591	Customer Services		8,817	4,651	4,166
3,533	5,744	(2,211)	Development		3,835	5,787	(1,952)
12,647	6,522	6,125	Environment		12,547	6,768	5,779
54,655	45,847	8,808	Central Services*		54,772	46,409	8,363
87,288	66,345	20,943	Cost of Services	26	84,565	64,459	20,106
		189	Other Operating Expenditure	6			(682)
		880	Financing and Investment Income and Expenditure	7			2,118
		(768)	Other Income				
			Other Income	36			(637)
		-	(Surplus)/Deficit of Discontinued Operations	9			10,931
		(25,066)	Taxation and Non-Specific Grant Income	8			(19,270)
		(3,822)	(Surplus)/Deficit on Provision of Services				12,566
		(4,090)	(Surplus)/Deficit on revaluation of non-current assets	22(a)			3,300
		4	(Surplus)/Deficit on revaluation of available-for-sale financial assets	22(g)			127
		15,597	Remeasurements of the net defined (benefit)/liability	34(f)			(14,266)
		11,511	Other Comprehensive Income and Expenditure				(10,839)
		7,689	Total Comprehensive Income and Expenditure				1,727

* 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	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance as at 1 April 2016	7,685	14,730	4,930	3,609	30,954	49,554	80,508
Total Comprehensive Income and Expenditure	3,822	-	-	-	3,822	(11,511)	(7,689)
Adjustments between accounting basis and funding basis under regulations	10 (1,017)	-	(833)	3,619	1,769	(1,769)	-
Net Increase or Decrease before Transfers to Earmarked Reserves	2,805	-	(833)	3,619	5,591	(13,280)	(7,689)
Transfers (to)/from Earmarked Reserves	(2,343)	2,343	-	-	-	-	-
Increase/Decrease (movement) in year	462	2,343	(833)	3,619	5,591	(13,280)	(7,689)
Balance as at 31 March 2017 carried forward	8,147	17,073	4,097	7,228	36,545	36,274	72,819
Total Comprehensive Income and Expenditure	(12,566)	-	-	-	(12,566)	10,839	(1,727)
Adjustments between accounting basis and funding basis under regulations	10 14,040	-	(517)	(2,185)	11,338	(11,338)	-
Net Increase or Decrease before Transfers to Earmarked Reserves	1,474	-	(517)	(2,185)	(1,228)	(499)	(1,727)
Transfers (to)/from Earmarked Reserves	21(a) (1,277)	1,277	-	-	-	-	-
Increase/Decrease (movement) in year	197	1,277	(517)	(2,185)	(1,228)	(499)	(1,727)
Balance as at 31 March 2018 carried forward	8,344	18,350	3,580	5,043	35,317	35,775	71,092

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 2017		Note		As at 31 March 2018
£'000				£'000
83,580	Property, Plant & Equipment	12	72,525	
34,261	Heritage Assets	13	35,204	
40,210	Investment Properties	16	38,928	
986	Assets Held for Sale (more than 1 year)		356	
3	Intangible Assets		-	
22,048	Long-term Investments	14(a)	21,411	
209	Long-term Debtors	14(a)	195	
181,297	Total Long Term Assets			168,619
-	Short-term Investments	14(a)	7,784	
226	Inventories		197	
10,028	Short-term Debtors	17	8,362	
21,099	Cash and Cash Equivalents	19	11,788	
31,353	Total Current Assets			28,131
(187)	Short-term Borrowing	14(a)	(219)	
(14,413)	Short-term Creditors	20	(15,174)	
(14,600)	Total Current Liabilities			(15,393)
(3,579)	Provisions	15	(4,217)	
(17,501)	Long-term Borrowing	14(a)	(17,497)	
(100,331)	Pension Liability	34(d)	(86,231)	
(3,820)	Capital Grants Receipts in Advance	18	(2,320)	
(125,231)	Total Long-term Liabilities			(110,265)
72,819	Net Assets			71,092
	Represented by			
36,545	Usable Reserves	21 & MIRS	35,317	
36,274	Unusable Reserves	22 & MIRS	35,775	
72,819	Total Reserves			71,092

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.

2016/17			2017/18
£'000		Note	£'000
3,822	Net surplus or (deficit) on the provision of services		(12,566)
1,799	Adjustment to surplus or deficit on the provision of services for non-cash movements	23	13,931
<u>(3,814)</u>	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	<u>(6,762)</u>
1,807	Net cash flows from operating activities		(5,397)
907	Net cash flows from investing activities	24	(5,115)
<u>465</u>	Net cash flows from financing activities	25	<u>1,201</u>
3,179	Net increase or decrease in cash and cash equivalents		(9,311)
<u>17,920</u>	Cash and cash equivalents at the beginning of the reporting period		<u>21,099</u>
<u>21,099</u>	Cash and cash equivalents at the end of the reporting period	19	<u>11,788</u>

Notes to the

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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 2017/18 financial year and its position at 31 March 2018. 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 2017/18 (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.

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.

In particular:

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

Notes to the Core Financial Statements

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

(iv) 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:

2016/17 £'000		2017/18 £'000
50,794	Less than one year	46,328
30	Between one and two years	21
20	Between two and three years	16
150	More than three years	157
50,994		46,522

(v) 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 (475)
Decrease in fair value of investments held for trading	-
Impact on Surplus or Deficit on the Provision of Services	(475)
Decrease in fair value of available for sale financial assets	169
Impact on Comprehensive Income and Expenditure	169
Decrease in fair value of fixed rate borrowings liabilities (no impact on Comprehensive Income & Expenditure Statement)	(4,011)

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

15. Provisions

	Out of Date Cheques (a) £'000	Insurance Fund (b) £'000	Accumulated Absences (c) £'000	NNDR Provision for Appeals (d) £'000	Redundancy (e) £'000	Lease Cars (f) £'000	Total £'000
As at 1 April 2017	15	249	137	3,178	-	-	3,579
Additional provisions made in 2017/18	-	-	148	2,470	71	208	2,897
Amounts used in 2017/18	-	-	-	(1,873)	-	-	(1,873)
Unused amounts reversed in 2017/18	-	(249)	(137)	-	-	-	(386)
As at 31 March 2018	15	-	148	3,775	71	208	4,217

Purpose of Provisions

- (a) Out of Date Cheques - for re-issue of cheques which have not been presented and have become out of date.
- (b) Insurance Fund - set up to meet certain risks, which would not be covered by the external insurers.
- (c) Accumulated Absences - to meet accumulated benefits such as annual leave untaken at year end.
- (d) 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.
- (e) Redundancy - to cover redundancy costs for employees that have written notice but have not left the Council.
- (f) Lease Cars - to meet future costs associated with the termination of the Council's Leased Car Scheme.

Notes to the Core Financial Statements

16. Investment Properties

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

2016/17 £'000		2017/18 £'000
39,826	Balance as at 1 April	40,210
-	Disposals	(522)
76	Acquisitions/Enhancements	822
368	Net gains/(losses) from fair value adjustments	(1,582)
(60)	Transfers (to)/from Property, Plant & Equipment	-
40,210	Balance as at 31 March	38,928

16(a). Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2018 and 2017 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 2018
	£'000	£'000	£'000	£'000
Advert Hoarding	124	-	-	124
Agricultural	1,138	-	-	1,138
Car Parks	565	-	-	565
Garages	116	-	-	116
Ground Rents - Industrial	976	8,585	-	9,561
Ground Rents - Office	-	6,136	-	6,136
Ground Rents - Other	268	9,597	-	9,865
Ground Rents - Retail	68	4,775	-	4,843
Industrial	4,504	-	-	4,504
Licenced Property	40	-	-	40
Offices	208	-	-	208
Retail	1,293	-	-	1,293
Retail Housing Shops	535	-	-	535
Total	9,835	29,093	0	38,928

2017 Comparative Figures

<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 2017
	£'000	£'000	£'000	£'000
Advert Hoarding	124	-	-	124
Agricultural	1,125	-	-	1,125
Car Parks	566	-	-	566
Garages	121	-	-	121
Ground Rents - Industrial	-	9,620	-	9,620
Ground Rents - Office	-	6,852	-	6,852
Ground Rents - Other	-	9,889	-	9,889
Ground Rents - Retail	-	4,843	-	4,843
Industrial	5,022	-	-	5,022
Licenced Property	40	-	-	40
Offices	207	-	-	207
Retail	1,252	-	-	1,252
Retail Housing Shops	549	-	-	549
Total	9,006	31,204	0	40,210

Transfers between Levels of the Fair Value Hierarchy

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

Notes to the Core Financial Statements

17. Short-term Debtors

As at 31 March 2017		As at 31 March 2018
£'000		£'000
199	Central Government Bodies	940
520	Other Local Authorities	609
3	NHS Bodies	1
818	Public Corporations and Trading Funds	650
8,160	Other Entities and Individuals*	5,944
328	Payments in Advance	218
10,028	Total	8,362

* The 2017/18 figure includes £3.0m (2016/17 £5.5m) relating to CIL invoices being paid on an agreed instalment plan

18. Capital Grants Receipts in Advance

2016/17		2017/18
£'000		£'000
3,827	Balance as at 1 April	3,820
-	Received during the year	-
(7)	Conditions met and released during the year	(1,500)
3,820	Balance as at 31 March	2,320

19. Cash & Cash Equivalents

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

As at 31 March 2017		As at 31 March 2018
£'000		£'000
6	Cash held by the Council	2
721	Bank Current Accounts	2,372
21,015	Short-term Deposits under 3 months	10,107
(643)	Bank Overdraft	(693)
21,099	Total Cash & Cash Equivalents	11,788

20. Creditors

As at 31 March 2017		As at 31 March 2018
£'000		£'000
4,746	Central Government Bodies	5,592
1,486	Other Local Authorities	2,497
6	NHS Bodies	-
550	Public Corporations and Trading Funds	232
2,309	Other Entities and Individuals	1,501
5,316	Income Received in Advance	5,352
14,413	Total	15,174

Notes to the Core Financial Statements

21. 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.

21(a). Transfers to/from Earmarked Reserves

	Balance as at			Balance as at
	01/04/17	Transfers Out	Transfers In	31/03/18
	£'000	£'000	£'000	£'000
(a) Capital Reserves	273	(24)	16	265
(b) Building Control	92	(45)	41	88
(c) Voluntary Set Aside for Debt Repayment	2,746	-	708	3,454
(d) IT Fund General Reserve	483	(156)	100	427
(e) Legal & Insurance Matters Reserve	325	(27)	208	506
(f) Land Charges	223	-	47	270
(g) Land Charges New Legislation Reserve	7	-	-	7
(h) City Centre Regeneration	122	-	-	122
(i) Housing Benefit & Council Tax Reserve	352	(109)	82	325
(j) Investment Properties Dilapidations Reserve	137	-	6	143
(k) Alleygate Maintenance Reserve	21	-	-	21
(l) Municipal Mutual Insurance	474	(200)	-	274
(m) General Commuted Sums	635	-	24	659
(n) Community Related Assets Reserve	5,626	-	-	5,626
(o) Localising Council Tax Support	135	(41)	-	94
(p) Council Tax Equalisation Reserve	53	(53)	-	-
(q) Business Rates Equalisation Reserve	1,430	(994)	-	436
(r) Guild Reserve	1,000	-	-	1,000
(s) Counter Fraud Fund Reserve	-	-	155	155
(t) Arts & Cultural Strategy Reserve	12	-	-	12
(u) Individual Electoral Registration Reserve	137	(8)	-	129
(v) City Deal Reserve	1,848	-	573	2,421
(w) Vehicle Maintenance Reserve	50	-	-	50
(x) Cemetery & Crematorium Reserve	120	-	100	220
(y) Public Health Initiative	19	(19)	12	12
(z) Riversway Maintenance Reserve	25	-	-	25
(aa) Community Infrastructure Levy Admin	162	(29)	234	367
(ab) Efficiency Planning Reserve	366	-	288	654
(ac) Housing Zone Reserve	150	(29)	51	172
(ad) Planning Appeals/Inquiry Reserve	50	-	50	100
(ae) Self Insurance Reserve	-	(6)	240	234
(af) Triennial Review Reserve	-	-	82	82
Total	17,073	(1,740)	3,017	18,350

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

21(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	Commuted sums set aside to cover the future maintenance of assets which have been adopted by the Council.
(n)	Community Related Assets Reserve	Sums set aside for financing maintenance expenditure associated with the transfer of Community Related Assets from the Homes and Communities Agency endowment.
(o)	Localising Council Tax Support	Voluntary set aside to support the Localised Council Tax Support scheme.
(p)	Council Tax Equalisation Reserve	Voluntary set aside to cover potential future deficits in council tax incomes.
(q)	Business Rates Equalisation Reserve	Voluntary set aside to cover potential future deficits in business rates income.
(r)	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.
(s)	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.
(t)	Arts & Cultural Strategy Reserve	Voluntary set aside to fund investment in the Arts & Cultural offer of the City.
(u)	Individual Electoral Registration Reserve	Set aside of Government Grant to fund Individual Electoral Register.
(v)	City Deal Reserve	Set aside of Community Provision relating to City Deal.
(w)	Vehicle Maintenance Reserve	Voluntary set aside to fund future vehicle maintenance costs.
(x)	Cemetery & Crematorium Reserve	Voluntary set aside to fund future capital costs.
(y)	Public Health Initiatives	Income received in advance for Public Health Initiatives & Welfare Reforms.
(z)	Riversway Maintenance Reserve	Voluntary set aside to fund future maintenance on the dock gates.
(aa)	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.
(ab)	Efficiency Planning Reserve	Set aside towards funding one-off costs of the implementation of the next three years savings plan.
(ac)	Housing Zone Reserve	Set aside of Government Grant to support house building on large designated sites within the City.
(ad)	Planning Appeals/Public Inquiry Reserve	Voluntary set aside to fund future Planning Appeals and Public Inquiries.
(ae)	Self Insurance Fund Reserve	Self insurance fund to cover risks that the Council haven't externally insured for.
(af)	Triennial Review Reserve	Set aside until the next triennial review in anticipation of future pension fund fluctuations due to the Leisure Transfer.

21(b). Capital Grants Unapplied

	Balance as at 01/04/16	Receipts in Year	Payments in Year	Transfer	Balance as at 01/04/17	Receipts in Year	Payments in Year	Transfer	Balance as at 31/03/18
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) Section 106 Unapplied Capital	899		(54)	(272)	573	-	(73)	38	538
(b) Unapplied Capital Grants & Contributions	370	572	(283)	-	659	718	(542)	-	835
(c) Community Infrastructure Levy	2,339	5,481	(1,926)	(371)	5,523	2,177	(4,017)	(655)	3,028
(d) Affordable Homes	-	210	-	262	472	170	-	-	642
Total	3,608	6,263	(2,263)	(381)	7,227	3,065	(4,632)	(617)	5,043

Notes to the Core Financial Statements

22. Unusable Reserves

31 March 2017 £'000		31 March 2018 £'000
61,753	Revaluation Reserve	58,010
(471)	Financial Instruments Adjustment Account	(464)
75,594	Capital Adjustment Account	66,585
(100,331)	Pensions Reserve	(89,030)
1	Deferred Capital Receipts Reserve	1
(146)	Collection Fund Adjustment Account	935
11	Available for Sale Financial Instruments Reserve	(116)
(137)	Accumulated Absences Account	(148)
36,274	Total Unusable Reserves	35,773

22(a). Revaluation Reserve

2016/17 £'000		2017/18 £'000
58,181	Balance as at 1 April	61,753
4,413	Upward revaluation of assets	1,100
(323)	Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services	(4,400)
4,090	Surplus or deficit on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services	(3,300)
-	Transfer from Capital Adjustment Account for Change in Accounting Estimates / Prior year Revaluation Reserve adjustments	-
(416)	Difference between fair value depreciation and historical cost depreciation	(296)
(102)	Accumulated gains on assets sold or scrapped	(147)
61,753	Balance as at 31 March	58,010

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.

22(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.

2016/17 £'000		2017/18 £'000
(478)	Balance as at 1 April	(471)
7	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	7
(471)	Balance as at 31 March	(464)

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

22(c). Capital Adjustment Account

2016/17 £'000		2017/18 £'000
74,491	Balance as at 1 April	75,594
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CI&ES):	
(3,133)	Charges for depreciation and impairment of non-current assets	(12,079)
(276)	Revaluation losses on Property, Plant & Equipment	-
(3)	Amortisation of intangible assets	-
(115)	Revenue Expenditure funded from Capital under Statute	(1,538)
(14)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(851)
<u>(3,541)</u>		<u>(14,468)</u>
416	Adjusting amounts written out of the Revaluation Reserve	296
<u>(3,125)</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>(14,172)</u>
	Capital financing applied in the year:	
1,701	Use of the Capital Receipts Reserve to finance new capital expenditure	3,026
633	Capital grants and contributions credited to the CI&ES that have been applied to capital financing	378
6	Capital grants and contributions with conditions released to the CI&ES	1,500
351	Application of grants to capital financing from the Capital Grants Unapplied Account	542
729	Statutory provision for the financing of capital investment charged against the General Fund Balance	729
440	Capital Expenditure charged against the General Fund balance	250
<u>3,860</u>		<u>6,425</u>
368	Movements in the market value of Investment Properties debited or credited to the CI&ES	(1,262)
<u>75,594</u>	Balance as at 31 March	<u>66,585</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.

22(d). Pensions Reserve

2016/17 £'000		2017/18 £'000
(82,332)	Balance as at 1 April	(100,331)
(15,597)	Remeasurements of the net defined benefit liability	14,266
(6,540)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	(7,440)
4,138	Employer's pensions contributions and direct payments to pensioners payable in the year	4,475
<u>(100,331)</u>	Balance as at 31 March	<u>(89,030)</u>

Notes to the Core Financial Statements

22(e). Deferred Capital Receipts Reserve

2016/17 £'000		2017/18 £'000
4	Balance as at 1 April	1
(3)	Transfer to the Capital Reserve upon receipt of cash	-
1	Balance as at 31 March	1

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.

22(f). Collection Fund Adjustment Account

2016/17 £'000		2017/18 £'000
	Council Tax	
6	Balance as at 1 April	171
140	Share of Council Tax surplus / (deficit) for the year	193
25	(Surplus) / deficit transferred to the General Fund as determined by regulation	(107)
171	Balance as at 31 March	257
	Business Rates	
(175)	Balance as at 1 April	(317)
415	Share of Business Rates surplus / (deficit) for the year	(811)
19	Renewable energy scheme income	36
(576)	(Surplus) / deficit transferred to the General Fund as determined by regulation	1,770
(317)	Balance as at 31 March	678
(146)	Total Balance as at 31 March	935

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.

22(g). Available for Sale Financial Instruments Reserve

2016/17 £'000		2017/18 £'000
15	Balance as at 1 April	11
29	Upward revaluation of investments	-
(33)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(127)
(4)	Movement in Year charged to CI&E	(127)
11	Balance as at 31 March	(116)

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. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- disposed of and the gains realised

22(h). Accumulated Absences Account

2016/17 £'000		2017/18 £'000
(158)	Balance as at 1 April	(137)
158	Settlement or cancellation of accrual made at the end of the preceding year	137
(137)	Amounts accrued at the end of the current year	(148)
21	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(11)
(137)	Balance as at 31 March	(148)

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.

Notes to the Core Financial Statements

23. Cash Flow Statement Operating Activities

The cash flows for operating activities included the following items

2016/17 £'000		2017/18 £'000
315	Interest Received	317
(784)	Interest Paid	(750)

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

2016/17 £'000		2017/18 £'000
3,130	Depreciation	2,391
279	Impairment and downward valuations	9,684
3	Amortisation	3
430	Increase/(decrease) in creditors	(1,337)
(3,266)	(Increase)/decrease in debtors	1,603
(20)	(Increase)/decrease in inventories	29
2,402	Movement in pension liability	166
116	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	998
(1,275)	Other non-cash items charged to the net surplus or deficit on the provision of services	394
1,799	Adjusted net surplus or deficit on the provision of services for non-cash movements	13,931

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

2016/17 £'000		2017/18 £'000
5,040	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-
(866)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,509)
(7,988)	Any other items for which the cash effects are investing or financing cash flows	(4,253)
(3,814)		(6,762)

24. Cash Flow Statement Investing Activities

2016/17 £'000		2017/18 £'000
(2,769)	Purchase of property, plant and equipment, investment property and intangible assets	(3,862)
(5,000)	Purchase of short-term and long-term investments	(12,250)
(7)	Other payments for investing activities	(7)
869	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,509
-	Proceeds from short-term and long-term investments	5,000
7,814	Other receipts from investing activities	3,495
907	Net cash flows from investing activities	(5,115)

25. Cash Flow Statement Financing Activities

2016/17 £'000		2017/18 £'000
-	Cash receipts of short-term and long-term borrowing	-
468	Council tax and NNDR adjustments	1,204
(3)	Repayments of short-term and long-term borrowing	(3)
465	Net cash flows from financing activities	1,201

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.

2016/17 restated				2017/18			
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
433		-	433	441	-	-	441
3,174	23	-	3,197	3,408	(99)	-	3,309
4,603	(12)	-	4,591	4,246	(80)	-	4,166
(1,618)	(593)	-	(2,211)	(1,305)	(647)	-	(1,952)
6,200	(75)	-	6,125	5,879	(100)	-	5,779
3,408	(157)	5,557	8,808	2,492	(525)	6,396	8,363
16,200	(814)	5,557	20,943	15,161	(1,451)	6,396	20,106
(16,662)	(1,529)	(6,574)	(24,765)	(15,705)	174	(2,940)	(18,471)
				347		10,584	10,931
(462)	(2,343)	(1,017)	(3,822)	(197)	(1,277)	14,040	12,566
7,685	14,730		Opening General Fund/Earmarked Reserve Balance	8,147	17,073		
462	2,343		(Surplus)/Deficit on General Fund/Earmarked Reserve Balance in year	197	1,277		
8,147	17,073		Closing General Fund/Earmarked Reserve Balance as at 31 March	8,344	18,350		

* 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

2017/18	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	441	-	-	-	-	441
Corporate Services	3,408	(99)	-	-	-	3,309
Customer Services	4,246	(80)	-	-	-	4,166
Development	(1,305)	(647)	-	-	-	(1,952)
Environment	5,879	(100)	-	-	-	5,779
Central Services	2,492	(525)	3,421	2,965	10	8,363
Net Cost of Services	15,161	(1,451)	3,421	2,965	10	20,106
Other Income and Expenditure	(15,705)	174	(1,858)	-	(1,082)	(18,471)
Discontinued Operations	347		10,584			10,931
(Surplus)/Deficit	(197)	(1,277)	12,147	2,965	(1,072)	12,566

Restated 2016/17	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	433		-	-	-	433
Corporate Services	3,174	23	-	-	-	3,197
Customer Services	4,603	(12)	-	-	-	4,591
Development	(1,618)	(593)	-	-	-	(2,211)
Environment	6,200	(75)	-	-	-	6,125
Central Services	3,408	(157)	3,176	2,402	(21)	8,808
Net Cost of Services	16,200	(814)	3,176	2,402	(21)	20,943
Other Income and Expenditure	(16,662)	(1,529)	(6,551)	-	(23)	(24,765)
(Surplus)/Deficit	(462)	(2,343)	(3,375)	2,402	(44)	(3,822)

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

2016/17 £'000		2017/18 £'000
	Expenditure	
22,590	Employee benefits expenses	22,190
58,508	Other service expenses	55,402
(1,361)	Support service recharges	(851)
5,800	Depreciation, amortisation, impairment	20,313
3,590	Interest payments	3,144
184	Precepts and levies	192
17	(Gain)/loss on disposal of assets	(874)
89,328	Total Expenditure	99,516
	Income	
(16,143)	Fees, charges and other service income	(14,831)
(1,611)	Interest and investment income	(2,287)
(15,724)	Income from council tax, non-domestic rates, district rate income	(14,657)
(59,672)	Government grants and contributions	(55,175)
(93,150)	Total Income	(86,950)
(3,822)	(Surplus) or Deficit on the Provision of Services	12,566

27. Members' Allowances

2016/17 £'000		2017/18 £'000
	Allowances	
211	Basic	213
64	Special Responsibility	65
7	Mayoral Duties	7
1	Co-opted Members	1
283		286
	Expenses	
4	Travel & Subsistence	4
287	Total	290

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:

	2016/17 No.	2017/18 No.
£50,000 - £54,999	1 *	2 *
£55,000 - £59,999	3	3
£60,000 - £64,999	2 *	1
£65,000 - £69,999	4 *	3
£70,000 - £74,999	2	-
£75,000 - £79,999	-	3 *
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	-
£125,000 - £129,999	1	1

* bands affected by a total of 3 termination payments made during 2016/17 and 2 during 2017/18.

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	No.	No.	No.	No.	No.	No.	£'000	£'000
£0 - £20,000	1	-	-	4	1	4	1	35
£20,001 - £40,000	-	-	2	4	2	4	67	99
£40,001 - £60,000	-	-	-	3	-	3	-	146
£60,001 - £80,000	1	-	-	2	1	2	71	124
£80,001 - £100,000	-	-	-	1	-	1	-	86
£100,001 - £150,000	-	-	-	-	-	-	-	-
£150,001 - £200,000	-	-	-	-	-	-	-	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
£250,001 - £300,000	-	-	-	-	-	-	-	-
Total cost included in bandings							139	490
Add: Amounts provided for in CI&ES not included in bandings							(1)	71
Total cost included in CI&ES							138	561

The Council's 2017/18 Comprehensive Income and Expenditure Statement includes £0.071m provision relating to exit packages agreed for 2018/19, but for which no payments were made in 2017/18.

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 - 2016/17 & 2017/18

			Salary (including	Benefits in Kind	Total	Pension	Total
			fees & allowances)		Remuneration	contributions	Remuneration
			£'000	£'000	excluding pension contributions	£'000	including pension contributions
			£'000	£'000	£'000	£'000	£'000
Chief Executive	2017/18	Note 1	129	-	129	17	146
	2016/17		130	-	130	14	144
Director Corporate Services	2017/18		69	-	69	10	79
	2016/17		66	-	66	8	74
Director Customer Services	2017/18		70	8	78	11	89
	2016/17		67	7	74	9	83
Director Development	2017/18		69	-	69	10	79
	2016/17		66	-	66	8	74
Director Environment	2017/18		70	5	75	11	86
	2016/17		67	5	72	9	81
Assistant Chief Executive Officer Policy & Social Justice	2017/18		59	-	59	9	68
	2016/17		59	-	59	7	66
Chief Environmental Health Officer/Deputy Director Environment	2017/18		59	-	59	9	68
	2016/17		59	-	59	7	66
Head of Shared Service & Deputy Director Customer Services	2017/18	Note 2	68	-	68	10	78
	2016/17		67	-	67	8	75
City Treasurer	2017/18		64	-	64	10	74
	2016/17		62	-	62	8	70
Re-imagining The Harris Project Leader	2017/18	Note 3	56	-	56	9	65
	2016/17		55	-	55	7	62
Head of Legal & Democratic Serv - Monitoring Officer	2017/18	Note 4	50	-	50	8	58
	2016/17						
			763	13	776	114	890
			698	12	710	85	795

Note 1: Salary includes Final Returning Officer payment for the Police & Crime Commissioner Elections and Final Counting Officer payment for the EU Referendum in 2016/17 and Returning Officer payment for the Lancashire County Council Elections and Interim Returning Officer payment for the UK Parliamentary Elections in 2017/18.

Note 2: 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.

Note 3: The post of Re-imagining The Harris Project Leader is a shared arrangement with Lancashire County Council. He is formally employed by Preston City Council and Lancashire County Council is recharged 50% of his total remuneration.

Note 4: The Head of Legal & Democratic Services - Monitoring Officer's salary did not exceed £50,000 in 2016/17.

29. External Audit Costs

2016/17		2017/18
£'000	Preston City Council incurred the following fees relating to external audit and inspection:	£'000
61	Fees payable to Grant Thornton LLP with regard to external audit services carried out by the appointed auditor	61
15	Fees payable to Grant Thornton LLP for the certification of grant claims & returns	11
-	Public Sector Audit Appointments Refund	(9)
-	Fees payable to Department for Work and Pensions for the National Fraud Initiative	2
76		65

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 £0.111m (2016/17 £0.053m) 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 £0.024m (2016/17 £0.050m) to 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. Those Members with a declared interest did not take part in any discussion or decision relating to the grant.

(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 Lancashire Police Authority, 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 2017/18 gross expenditure was £3.545m (2016/17 £3.570m) with receipts from Lancaster City Council of £1.773m (2016/17 £1.783m).

• 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 2017/18 gross expenditure was £0.157m (2016/17 £0.152m) with receipts from Lancaster City Council of £0.065m (2016/17 £0.061m) and Fylde Borough Council of £0.028m (2016/17 £0.027m).

(vi) Partnership working

During 2017/18 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 board's setup to deliver the City Deal. During 2017/18 the Council received £0.844m (2016/17 £0.951m) from the City Deal and paid £4.744m (2016/17 £2.652m) to the City Deal.

Notes to the Core Financial Statements

31. 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 2017/18 gross expenditure was £0.157m (2016/17 £0.152m).

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:

2016/17		2017/18
£'000		£'000
1,783	Revenues & Benefits Shared Service	1,773
1,783		1,773

32. 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.

2016/17		2017/18
£'000		£'000
18,605	Opening Capital Financing Requirement	17,876
	Capital Investment:	
2,983	Property, Plant & Equipment	4,789
27	Heritage Assets	-
-	Investment Properties	822
3,229	Revenue Expenditure Funded from Capital Under Statute	6,957
	Sources of finance:	
(1,701)	Capital receipts	(3,026)
(3,775)	Government grants and other contributions	(5,803)
	Sums set aside from revenue:	
(578)	Voluntary set aside from Earmarked Reserves	(726)
(185)	Direct Revenue contributions	(66)
-	Repayment of Capital Debt	-
(729)	MRP (Minimum Revenue Provision)	(729)
17,876	Closing Capital Financing Requirement	20,094
	Explanation of movements in year	
(729)	Sums set aside from Revenue (MRP)	(729)
-	Voluntary set aside from Revenue	(8)
-	Increase in underlying need to borrow (unsupported by government financial assistance)	2,955
(729)	Increase/(Decrease) in Capital Financing Requirement	2,218

Notes to the Core Financial Statements

33. Termination Benefits

The Council terminated 15 contracts of employment in 2017/18, incurring costs of £560,911 (£137,797 in 2016/17).

The 2017/18 total includes accrued liabilities of £105,673, £39,738 for compensation for loss of office and £65,935 for enhanced pension benefits, relating to 3 of the 15 mentioned officers.

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 2018 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 2016, and at that date showed a funding level of 90% (assets of £6.0bn against accrued liabilities of about £6.7bn). At this actuarial valuation the average deficit recovery period adopted is approximately 16 years for employers although the Lancashire County Pension Fund has agreed a recovery period of 19 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 2019 with any revised contributions rates being applied to the Council with effect from 1st April 2020.

(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) 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 2016, which showed a shortfall of assets against liabilities of £0.69m as at that date, equivalent to a funding level of 90%.

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 (k) indicates the change in the defined benefit obligation for changes in the key assumptions.

Amendments and Curtailments

The provisions of the Fund were amended with effect from 1st April 2014. For service up to 31st March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

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.

(d) 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.

(e) 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:

2016/17		2017/18
£'000		£'000
309,050	Present Value of Funded Liabilities	300,326
9,976	Present Value of Discretionary Benefit Arrangements	9,408
<u>(218,695)</u>	Fair Value of Employer Assets	<u>(223,503)</u>
<u>100,331</u>	Net Pension Deficit	<u>86,231</u>

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont d)

(f) 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

Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
2016/17 £'000	2016/17 £'000		2017/18 £'000	2017/18 £'000
		Service Cost:		
(3,665)	-	- Current service cost	(4,874)	-
-	-	- Curtailments	(294)	-
-	-	- Past service cost	-	-
(78)	-	- Administration expenses of the Pension Fund	(72)	-
12	-	- Payments to pension fund (higher)/lower than Pension Fund estimated amount	162	-
		Financing and Investment Income and Expenditure		
(2,809)	(302)	Net interest expense	(2,362)	(242)
(6,540)	(302)	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	(7,440)	(242)
		Remeasurement of the Net Defined Liability Comprising:		
(59,662)	(1,359)	Actuarial gains / (losses) arising on changes in financial assumptions	11,859	216
2,164	95	Change in Demographic assumptions gain /(loss)	-	-
14,375	57	Experience gain /(loss)	-	-
27,526	-	- Remeasurement gain on assets	2,407	-
(15,597)	(1,207)	Total remeasurements recognised in other comprehensive income	14,266	216
(22,137)	(1,509)	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	6,826	(26)
		Movement in Reserves Statement:		
6,540	302	Reversal of net charges made to the surplus or deficit on the provision of services	7,440	242
		Actual amount charged against the General Fund		
		Balance for pensions in the year:		
(3,533)	-	- Employers' contributions payable to scheme	(3,882)	-
-	(605)	Retirement benefits payable to pensioners	-	(593)

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

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

Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
2016/17 £'000	2016/17 £'000		2017/18 £'000	2017/18 £'000
188,560		- Opening fair value of scheme assets	218,695	-
6,532		- Interest income	5,517	-
27,526		- Remeasurements	2,407	-
4,150	605	Contributions from employer	4,637	593
1,008		- Contributions from employees into the scheme	927	-
(9,003)	(605)	Benefits/transfers paid	(8,608)	(593)
(78)		- Administration Expenses	(72)	-
218,695		- Closing Fair Value of Scheme Assets	223,503	-

(h) Reconciliation of Present Value of the Scheme Liabilities

Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
2016/17 £'000	2016/17 £'000		2017/18 £'000	2017/18 £'000
270,892	8,959	Opening fair value of scheme liabilities	319,026	9,976
3,665		- Current Service Cost	4,874	-
9,341	302	Interest Cost	7,879	242
1,008		- Contributions from scheme participants	927	-
		Remeasurement (gains) and losses:		
59,662	1,359	Actuarial (gains)/losses arising from changes in financial assumptions	(11,859)	(217)
(14,375)	57	Experience (gain) / loss	-	-
(2,164)	(96)	(Gain) / loss on demographic assumptions	-	-
-		- Past service cost	-	-
-		- Curtailments	294	-
(9,003)	(605)	Benefits/transfers paid	(8,608)	(593)
-		- Deficit Lump Sum repayment	(2,799)	-
319,026	9,976	Closing Fair Value of Scheme Liabilities	309,734	9,408

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. £2.8m represents the value of the prepayment that relates to 2018/19 and 2019/20.

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

(i) Pension Scheme Assets Comprised:

Asset Category	Period Ended 31 March 2017			Period Ended 31 March 2018		
	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000	Quoted prices in active markets £'000	Quoted prices not in active markets £'000	Total £'000
Cash						
- Cash & Cash Equivalents	-	2,270	2,270	-	(5,402)	(5,402)
- Cash Accounts	-	-	-	-	9,432	9,432
- Net Current Assets	-	-	-	-	(4,964)	(4,964)
Bonds						
- UK Corporate	797	-	797	1,274	-	1,274
- Overseas Corporate	2,794	-	2,794	-	2,654	2,654
- UK Fixed Gilts	419	-	419	-	-	-
- UK Index Linked	3,909	-	3,909	5,333	-	5,333
- Overseas Fixed Interest	-	-	-	-	216	216
Property						
- Offices	-	4,036	4,036	-	4,341	4,341
- Offices / Warehouse	-	403	403	-	467	467
- Industrial / Warehouse	-	5,400	5,400	-	6,199	6,199
- Shops	-	1,902	1,902	-	1,810	1,810
- Retail Warehouse	-	3,169	3,169	-	3,476	3,476
- Shopping Centre	-	882	882	-	860	860
- Multi let Commercial Building	-	3,475	3,475	-	3,865	3,865
Alternatives						
- UK Private Equity	-	2,479	2,479	-	-	-
- Overseas Private Equity	-	11,596	11,596	-	16,224	16,224
- Infrastructure	-	26,389	26,389	-	28,324	28,324
- Credit funds	-	49,006	49,006	-	41,182	41,182
- Indirect Property Funds	-	3,083	3,083	-	3,394	3,394
- Pooled Fixed Income	-	-	-	-	5,514	5,514
- Overseas Pooled Equity Funds	-	96,686	96,686	-	99,304	99,304
Total Assets	7,919	210,776	218,695	6,607	216,896	223,503

Notes to the Core Financial Statements

34. Defined Benefit Pension Scheme (cont'd)

(j) 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 2016.

The main assumptions used by the actuary have been:

31 March 2017		31 March 2018
%		%
2.3	Rate of CPI Inflation	2.1
3.8	Rate of increase in salaries	3.6
2.3	Rate of increase in pensions	2.2
2.5	Rate for discounting scheme liabilities	2.6
	Life expectancy at 65 for current pensioners:	
22.6 years	Men	22.7 years
25.2 years	Women	25.4 years
	Life expectancy for future pensioners (aged 65 in 20 years' time):	
24.9 years	Men	25 years
27.9 years	Women	28 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.

(k) Sensitivity Analysis

Change in Assumptions at 31 March 2018	Impact on the Defined Benefit Obligation Increase / (Decrease) £'000
1 year increase in life expectancy	6,264
Increase of 0.1% in salaries	760
Increase of 0.1% in inflation	5,357
Increase of 0.1% in discount rate	(5,266)

(l) 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 2017 will be at a rate of 15.4% of pay (£2.4m) together with a pre-paid cash deficit recovery contribution, which will be £4.2m 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 2019 with any revised contribution rates being applied to the Council with effect from 1st April 2020.

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 are three outstanding claims reported to the Council. These all relate to Industrial Deafness and at the time of preparing these accounts the total outstanding estimate for these 3 claims is £0.002m. 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 presented claims.

(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 £0.539m in 2017/18 (2016/17 £0.573m).

(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 £0.024m (2016/17 £0.050m).

(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. The Council understands that the pension contributions are being made in line with the actuaries' requirements reflecting the position as at 31 March 2017.

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 unfavorable ruling from the Supreme Court, has been triggered. Two payments have been made totaling £0.158m. The potential liability of £0.274m in 2017/18 (2016/17 £0.474m) has been placed in an earmarked reserve.

(vii) Applications for Mandatory Relief for NHS Trusts

The Council has received applications for mandatory business rates relief from various Lancashire NHS Trusts. The total business rates receivable from these NHS Trusts in 2017/18 was £1.9m (2016/17 £1.8m). If successful, they would be entitled to relief of up to 80% potentially backdated 6 years. The costs of any relief would be shared between the Council (40%), Central Government, Lancashire County Council and Lancashire Combined Fire Authority. Under the business rates retention scheme if the costs were significant the Council would qualify for a 'safety net' payment to ensure that income does not fall below 92.5% of baseline income.

36. Contingent Assets

(i) Leisure VAT Claims

The Council made a claim in 2015 to HM Revenue & Customs (HMRC) for overpaid VAT for leisure services. The claim was made following a case brought by the London Borough of Ealing to the Court of Justice for the European Union on the basis that certain supplies of sporting services made by local authorities can be treated as exempt from VAT. The claim by Preston City Council was for periods between 2011 and 2014. The claim is subject to review and consideration by HMRC.

(ii) 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 £0.637m in 2017/18 (2016/17 £0.768m). 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.

2016/17		2017/18		
£'000		National Non Domestic Rates	Council Tax	Total
		£'000	£'000	£'000
Income				
62,220	Council Tax	-	65,751	65,751
69,492	National Non-Domestic Rates	63,218	-	63,218
-				
-	Apportionment of Previous Year Deficit			
-	Central Government	2,232	-	2,232
26	Preston City Council	1,786	-	1,786
100	Lancashire County Council	402	-	402
14	Police and Crime Commissioner for Lancashire	-	-	-
6	Lancashire Combined Fire Authority	44	-	44
146		4,464	-	4,464
131,858	Total Income	67,682	65,751	133,433
Expenditure				
Precepts, Demands and Shares				
34,372	Central Government	26,682	-	26,682
37,733	Preston City Council	21,346	10,636	31,982
47,546	Lancashire County Council	4,803	43,823	48,626
5,711	Police and Crime Commissioner for Lancashire	-	5,934	5,934
2,993	Lancashire Combined Fire Authority	534	2,349	2,883
169	Parish Councils	-	192	192
128,524		53,365	62,934	116,299
Apportionment of Previous Year Surplus				
719	Central Government	-	107	107
575	Preston City Council	-	431	431
129	Lancashire County Council	-	60	60
-	Police and Crime Commissioner for Lancashire	-	24	24
14	Lancashire Combined Fire Authority	-	-	-
1,437		-	622	622
Charges to the Collection Fund				
729	Write-offs of uncollectable amounts	702	258	960
2,237	Increase in Bad and Doubtful Debts Impairment Allowance	577	1,423	2,000
(2,101)	Increase / (Decrease) in Provision for Appeals	1,492	-	1,492
239	Cost of Collection Allowance	225	-	225
National Non-Domestic Rates Transitional Protection				
222	Payments	8,849	-	8,849
19	Renewable Energy amounts	36	-	36
1,345		11,881	1,681	13,562
131,306	Total Expenditure	65,246	65,237	130,483
(552)	Movement on fund balance (Surplus) / Deficit	(2,436)	(514)	(2,950)
407	Balance on Collection Fund Brought Forward	839	(984)	(145)
(145)	(Surplus) / Deficit on Collection Fund Carried Forward	(1,597)	(1,498)	(3,095)

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.

Under the scheme Preston City Council retains 40% of the NNDR collected, with the remainder being paid to precepting bodies, Central Government (50%), LCC (9%) and LCFA (1%).

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 2017 No.	31 March 2018 No.
Band A	26,857	27,011
Band B	11,503	11,610
Band C	9,152	9,210
Band D	6,172	6,300
Band E	2,533	2,645
Band F	1,315	1,363
Band G	883	894
Band H	37	39
Total	58,452	59,072
Band 'D' Equivalent Properties (Tax Base for the calculation of Council Tax)	35,571	36,555

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 2017 and 31st March 2018 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 2017	31 March 2018
NNDR Rateable Value at 31st March	£169,898,979	£150,835,056
NNDR Multiplier	0.497	0.479

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.

When the 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 2017/18 Preston City Council paid a tariff of £16.944m to Central Government.

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. The Council did not receive any safety net payments in 2017/18.

Conversely, if income exceeds the baseline amount, the Council must pay 50% of this growth as a levy to Central Government. In 2017/18 the Council was not required to pay a levy.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA, and business rates outstanding as at 31 March 2018. 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 2018 has been calculated at £9.437m (Preston City Council's share is £3.775m) 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 £3.095m represents:

(i) a surplus of £1.597m on NNDR (Preston City Council's share is £0.639m) because the estimated deficit that was distributed during the year was higher than the actual deficit for 2017/18.

(ii) a surplus of £1.498m on Council Tax (Preston City Council's share is £0.257m) mainly because the total number of dwellings and the collection rate were higher 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

	2016/17		2017/18
	£'000		£'000
7,477	Balance at 1 April		8,621
(493)	Write-offs during the year for previous years		(258)
1,637	Contributions to provisions during year		1,681
1,144	Net increase / (decrease) in provision		1,423
8,621	Balance at 31 March		10,044

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.

2016/17 £'000		2017/18 £'000
1,301	Balance at 1 April	1,483
(78)	Write-offs during the year for previous years	(44)
260	Contributions to provisions during year	256
182	Net increase / (decrease) in provision	212
1,483	Balance at 31 March	1,695

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

2016/17 £'000		2017/18 £'000
2,776	Balance at 1 April	3,869
(236)	Write-offs during the year for previous years	(702)
1,329	Contributions to provisions during year	1,279
1,093	Net increase / (decrease) in provision	577
3,869	Balance at 31 March	4,446

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

2016/17 £'000		2017/18 £'000
1,111	Balance at 1 April	1,548
(94)	Write-offs during the year for previous years	(281)
531	Contributions to provisions during year	512
437	Net increase / (decrease) in provision	231
1,548	Balance at 31 March	1,779

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 2018.

2016/17 £'000		2017/18 £'000
10,046	Balance at 1 April	7,945
(3,790)	Amounts charged to provision	(4,683)
1,689	Contributions to provisions during year	6,175
(2,101)	Net increase / (decrease) in provision	1,492
7,945	Balance at 31 March	9,437

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

2016/17 £'000		2017/18 £'000
4,018	Balance at 1 April	3,178
(1,516)	Amounts charged to provision	(1,873)
676	Contributions to provisions during year	2,470
(840)	Net increase / (decrease) in provision	597
3,178	Balance at 31 March	3,775

Bequests and Trust Funds (Unconsolidated)

	Balance as at 1 April 2017 £	Expenditure/ Transfers £	Income/ Transfers £	Gains/ (Losses) on Investments* £	Balance as at 31 March 2018 £
Preston Relief in Need					
Restricted Endowment Fund	85,862			(1,550)	84,312
Unrestricted Endowment Fund	185,585			(7,855)	177,730
Restricted Grant Fund	8,687	(3,547)	3,795		8,935
Unrestricted Grant Fund	5,528	(8,700)	6,949		3,777
Dr Shepherd's Library Trust Fund					
Endowment Fund	3,725			164	3,889
Grant Fund	739	(140)	102		701

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 2017 £	(Expenditure) /Transfers £	Income/ Transfers £	Gains/ (Losses) on Investments £	Balance as at 31 March 2018 £
Mayors Fund Raising Account					
Grant Fund	1	-	-	-	1

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 table below 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

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 2017. 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:
 - 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 of a half-yearly system of reporting.

Council Policies

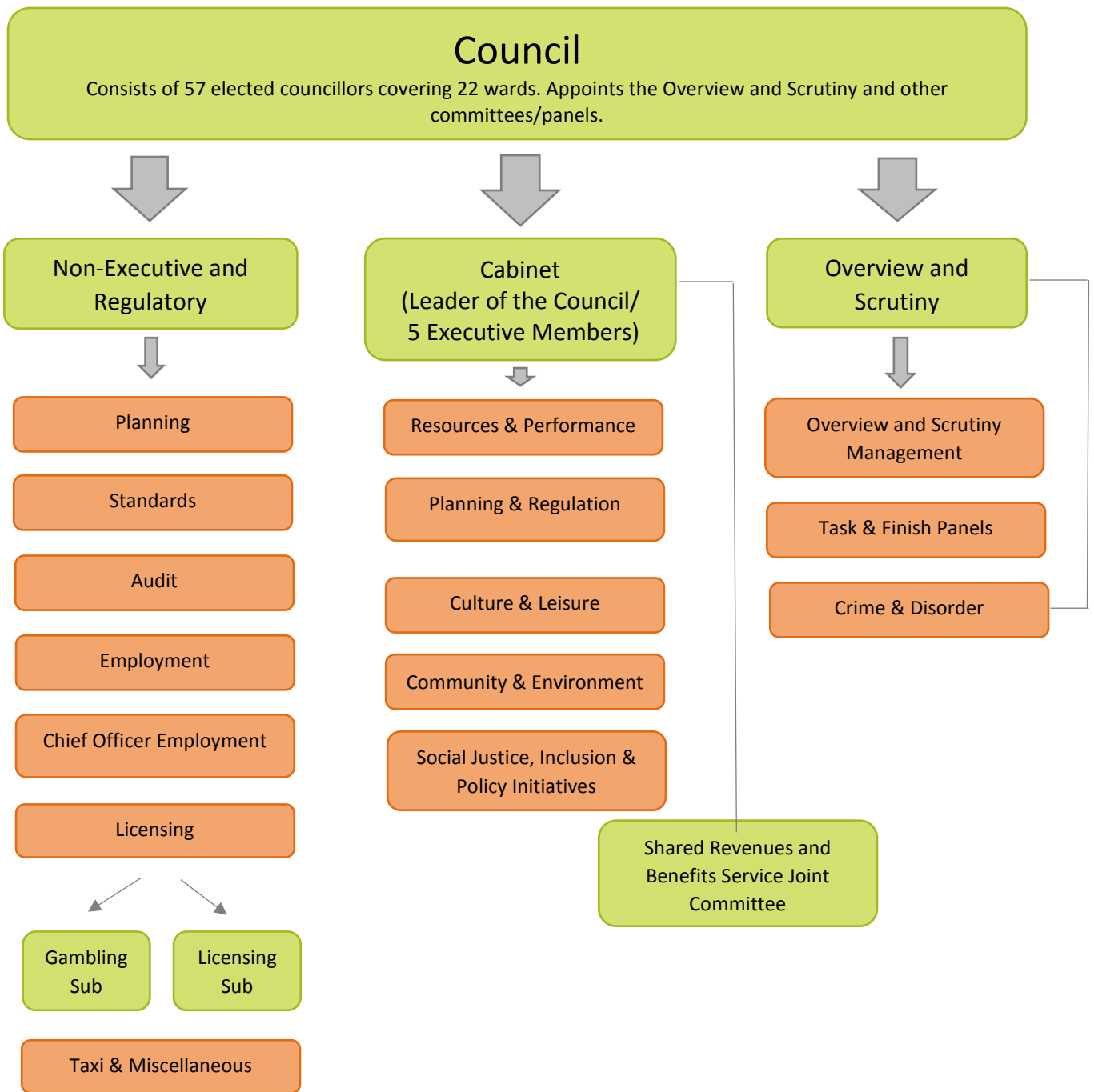
- Zero Tolerance approach to fraud (demonstrated through the Anti-Fraud Corruption Statement)
- Whistleblowing Policy
- Anti Money Laundering Policy
- Anti Bribery Policy
- Counter Fraud training courses

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

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.

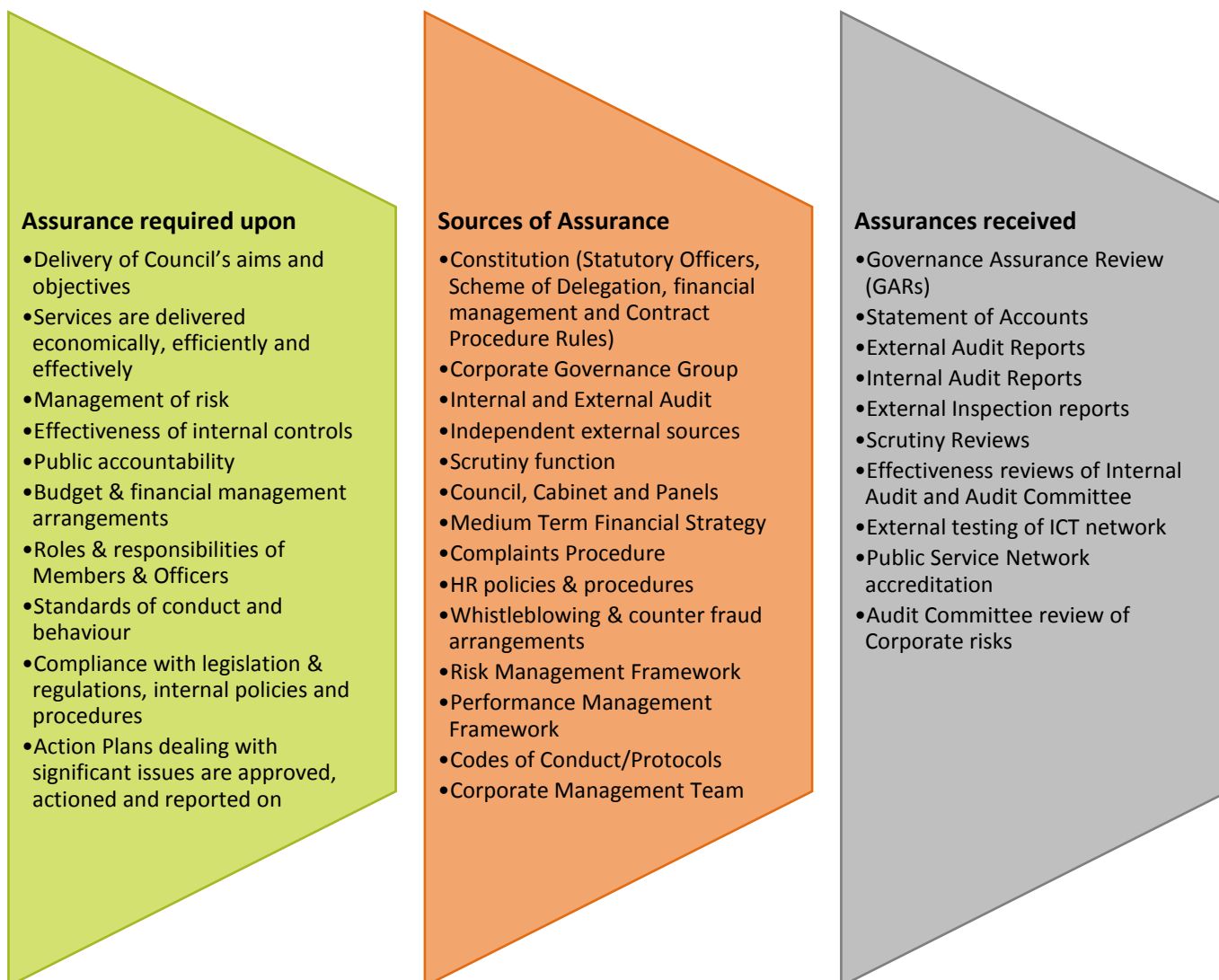
Annual Governance Statement



The above reflects the structure of the Council during 2017/18. At the May 2018 Council meeting two portfolio holders have been renamed to Cabinet Member for the Environment and Cabinet Member for Communities and Social Justice.

How the Council Gains Assurance

As mentioned, 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:



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 receives reports from audits and inspections. Any recommendations from these reports are incorporated into a Corporate Improvement Plan which is used as a basis for monitoring the achievements of the actions. Reports on progress are provided to Audit Committee, Corporate Management Team and Cabinet.

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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 following governance improvements/business was carried out during 2017/18 by the Corporate Governance Group and Audit Committee:

Corporate Governance Group/Audit Committee: Key Business during 2017/18

External Audit Plan and 2016/17 Annual Governance Statement approved	Unaudited 2016/17 SOA reviewed	Annual Audit Letter and the External Auditors Certification Report received
Approve the Internal Audit Plan	Chief Internal Auditors Annual report approved	Internal Audit Progress reports received
Internal Audit and Audit Committee reviews approved	Statement of Accounts 2016/17 approved	Treasury Management report reviewed
Corporate Improvement Plan noted	Draft Code of Corporate Governance received	Corporate Enquiry Team Business Plan received
Waivers under the Contract Procedure Rules noted	Assurance on Corporate risks received	Report on changes to the deadline for closure of the SOA 2017/18
Quarterly Regulation of Investigatory Powers Report (RIPA)	General Data Protection Regulation (GDPR) report	Debtor write offs
Corporate Risk Register reviewed	Annual fraud report	PSIAS Peer Review Report received

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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. However, the Accounts and Audit Regulations 2015 now require an annual review of the effectiveness of the system of internal control.

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 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

In addition to the above, the Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards (PSIAS). The PSIAS require the introduction and maintenance of a Quality Assurance and Improvement Programme (QAIP) which must include both an internal and external assessment of the internal audit service as a means of demonstrating compliance with these standards. Additionally, the effectiveness of the Audit Committee is also reviewed annually.

Internal Audit now use the Three Lines of Defence model as a basis for identifying and commenting on the various sources of assurances that are available. Furthermore, Audit Committee continues to seek direct assurance from Officers on significant Corporate risks.

The Chief Internal Auditor (CIA) has been given the responsibility to annually review the Corporate Governance Framework and report the findings to Audit Committee. In addition they provide assurance on the adequacy and effectiveness of its Code and the extent of compliance with it. During 2017/18 the CIA retired and interim arrangements have been in place awaiting the appointment of the replacement CIA in July 2018.

Annual Governance Statement

Senior Officers

Directors are required to individually sign a Statement of Assurance acknowledging their responsibility for internal control and countering fraud and corruption. In addition they confirm that all significant risks have been identified and recorded and that mitigating controls are in place.

Internal Control

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve the Council's aims and objectives and can therefore only provide a reasonable and not an absolute assurance of effectiveness. The system of internal control is an ongoing process which is designed to identify and prioritise the risks associated with achieving the Council's priorities. It also evaluates the likelihood of those risks being realised, what impact they would have should they be realised and the attempts to manage them efficiently, effectively and economically.

Inherent within the role of Internal Audit is a review of internal control arrangements. This includes the need to assess the extent of compliance with statutory requirements and the Council's rules and regulations, which comprise its Financial and Contract Procedure Rules, Scheme of Delegation and Codes of Conduct. In addition, the Chief Internal Auditor is required to produce an Annual Report and provide an opinion on the overall adequacy and effectiveness of the Council's control procedures.

Performance Management

The Council has its own Performance Management Framework, the overall aim of which is to ensure a culture of continuous performance and improvement. The Council monitors its performance through performance indicators and by tracking key project milestones. There is also a reporting framework through to Members for their scrutiny and review.

Risk Management

The Risk Management Policy requires Officers to understand and accept their responsibility for risk and for implementing appropriate controls to mitigate those risks. The Council's risk management software system (GRACE) allows all risk owners to record these risks and importantly review them in accordance with the Risk Management Framework to ensure they are appropriate and relevant. A close monitoring of these reviews now takes place to ensure that the registers are up to date. In addition, Internal Audit carries out an annual review of the Risk Management Framework in accordance with the terms of the Risk Management Policy.

Dealing with last year's Key Improvement Areas

The following shows the progress that was made against the Areas for Improvement reported in last year's Annual Governance Statement:

Innovation and Delivery Group (IDG) Tasks

Action taken

A key group of officers are working with Corporate Management team to bring about change in the Council. Following a workshop a number of tasks were agreed for review and work undertaken

- **Governance** – Work is underway to ensure the Governance Framework and Scheme of Delegation are more efficient and effective
- **Streamlining the report writing process** – new procedures and guidance rolled out
- **Looking at future skills and the way of working for managers** - People Strategy will consider future skills and 360 degree process

Risk Appetite

Action taken

The Corporate Management team have worked with Members to understand the risk appetite of the Council. As a result Members has agreed to consider the risk appetite when making decisions on new initiatives, new projects, implementation of the efficiency plan etc.

Partnership working

Action taken

The Council has continued to play an active role in developing sub regional partnerships to promote regeneration and public service reform, for example, through the City Deal and with other Lancashire authorities.

Scrutiny Task and Finish Review Action Plan

Action taken

The Council has implemented the improvement actions within the plan as agreed by the Overview and Scrutiny Management Committee.

Other areas where improvement has been made:

Cyber Security

During the past twelve months, the officer working group has developed a Cyber Security Policy which has been corporately endorsed and rolled out. The Council also had its first Cyber Security audit in 2017. Conducted by external auditors the review of cyber security at Preston City Council confirmed that systems and procedures in place are effective in minimising cyber security risk. The spoof phishing service has continued to test and raise the cyber-crime awareness of all Officers and Members. As the service is coming to an end this month and maintaining user awareness and vigilance is paramount, a business case has been developed to commission another for the next twelve months.

Good Governance Framework and Code of Corporate Governance

The Council's governance arrangements have previously been updated in line with the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government 2016'. The Council's local Code of Corporate Governance has recently been refreshed and can be found on the Council's website.

Overview and Scrutiny

The Council has recently undertaken a review of the Overview and Scrutiny task and finish groups. The purpose of the review was to improve the work plan studies undertaken by these groups thus creating more effective recommendations and ultimately better outcomes from these work plan studies. This review was undertaken by an external consultant with input from a cross section of Members and Officers.

Members

All existing Members have undergone 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 if Parish Councillors wish to participate in the exercise. New Members elected in May 2018 onwards are currently undergoing training. In addition, GDPR training has been provided to Members.

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The Service Improvement Board (SIB)

Has continued to provide strategic leadership, governance and direction in terms of delivering the Council's service improvement programme. A number of projects have already been successfully delivered and the Board is currently overseeing all the Council's digital initiative projects which include among others further roll-out of Interactive Voice Recognition (IVR), external print and post, mobile working in various business areas, self-serve scanning for customers in the One Stop Shop and secure email for Officers sending out confidential/sensitive information.

General Data Protection Regulations (GDPR)

The Council has set up a working group to monitor and facilitate the effective implementation of GDPR. It is currently reviewing all policies and procedures and has undertaken a full information asset audit. All members of staff must undertake a compulsory interactive training session on Mipod, and training to Members has been taken to raise and promote awareness. The Council has set up a GDPR website to inform and educate officers about the Regulations, and has a GDPR library of documents and templates to assist with compliance.

Public Sector Internal Audit Standards

An external assessment of the internal audit service was undertaken by the Lancashire Districts Peer Review Team in June 2017. This was to assess the conformance with the Public Sector Internal Audit Standards (PSIAS) and was a fulfilment of the requirement to have an external assessment within five years of implementation of the PSIAS. The review team concluded that the service conforms to each area of assessment.

Review of Effectiveness during 2017/18

Preston City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the following sources of assurance:-

A fuller description of each is provided below:-

Annual Governance Statement

Assurance Received	Assurance & Comment from:
✓	<p>Management</p> <p>Directors have each completed a Statement of Assurance stating they acknowledge their responsibility for internal control, risk management, the prevention and detection of fraud and corruption and that they are satisfied these risks are being managed and the controls are effective.</p> <p>Following a small one-off fraud on an external email account additional controls have been strengthened.</p>
✓	<p>Management</p> <p>Senior Officers have completed their review of the governance arrangements within their areas of operation and have signed and submitted their Governance Assurance Reviews in respect of 2017/18.</p>
✓	<p>Management</p> <p>Key Officers - As part of the Governance Assurance Review process, these Officers have provided additional assurance on major risks within their areas of responsibility:</p> <ul style="list-style-type: none"> • Section 151 Officer • Monitoring Officer • Head of Workforce • Health & Safety Manager • Acting Internal Audit Manager
✓	<p>Review of Internal Audit</p> <p>Internal Audit has completed its self-assessment against the Public Sector Internal Audit Standards (PSIAS) which has been challenged by the Corporate Governance Group and reported to Audit Committee. This self-assessment was externally validated by a Peer Group who found the section to be compliance with the standards.</p>
✓	<p>Audit Committee / Standards Committee</p> <p>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 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</p> <p>Standards Committee produces an Annual Report setting out the work of the Committee, the training provided and the number of complaints that have been received. Two Register of Interest forms are reviewed at every meeting to ensure they are accurate and up-to-date. An Advice surgery is provided for Members prior to every Council meeting. The Committee has devised a Code of Conduct training programme through the Council's Mipod system and has deemed it compulsory. The training has been rolled out to all Members as well as to Parish Councillors.</p>
✓	<p>Corporate Governance / Risk Management</p> <p>Internal Audit's review of the Corporate Governance and Risk Management Frameworks again supports a substantial level of assurance and reports that the Council's Governance Framework remains effective.</p>
✓	<p>Head of Internal Audit Opinion</p> <p>Resource constraints have been experienced during the year, with the retirement of the Chief Internal Auditor, resulting in a small number of audits having to be brought forward into the 2018/19 plan. These were risk assessed in order to support their deferral with alternative assurance having been received where possible. Despite this, the overall adequacy and effectiveness of the Council's control environment remains of a good standard.</p>

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✓	<p>Counter Fraud</p> <p>The Corporate Enquiry Team continued to work in partnership with Lancaster City Council and Fylde Borough Council. During 2017/18 the team focused on Council Tax discounts, Council Tax Support, Business Rates and Social Housing fraud. The team participated in the National Fraud Initiative data match, investigated allegations of fraud from members of the public, staff and external agencies. Pro-active investigations into high risk Council Tax Support cases were undertaken.</p> <p>The team acts as single point of contact for the Department of Work and Pensions investigators and associated work. The team continues to work with other organisations to tackle fraud and participates in operation GENGA, a multi-agency initiative to tackle organised crime and received an award for outstanding contribution to the GENGA partnership. At Preston overpayments of £214,275.25 were identified. One social housing property was also recovered.</p>
✓	<p>Partnerships</p> <p>Reports on the Council's key partnerships are made to the relevant Executive Member on a regular basis and to Cabinet when required. A reporting cycle for each partnership is now also in place with CMT. The Crime & Disorder Committee reviews community safety topics on a regular basis, engaging with Council departments and other partner agencies where appropriate.</p>
✓	<p>External Audit</p> <p>In September 2017 the External Auditors Grant Thornton gave an unqualified opinion on the Council's 2016/17 accounts together with an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The external audit of 2017/18 accounts will commence during June 2018 and subsequent Audit Opinion to Audit Committee in July 2018.</p>
✓	<p>Business Continuity (BC)</p> <p>A suite of documents including the BC Policy Statement, the Corporate BC Plan and the individual service BC Plans are all available on the Council's intranet (Cityspace). These documents are kept under review by the Business Continuity Recovery Group (BCRG) who meet throughout the year.</p> <p>As part of the disaster recovery/business continuity processes of the Council, all the systems data is backed up on a virtual server at a remote location. All of the systems tested were recovered successfully. There have been some minor BC incidents during 2017/18, however, none of these resulted in a serious impact on service provision to the public.</p> <p>A BC exercise involving all sections of the Council is being planned to take place during 2018/19.</p>
✓	<p>Information Governance</p> <p>The number of Freedom of Information (FOI) requests received in 2017 was 631 which is an increase from the 557 in the previous year. The Council has 20 working days to respond to a request under FOI and this deadline was complied with in 89.5% of cases. Two applicants have appealed to the Information Commissioner's Office. In one case an agreement was reached and further information was disclosed. The other case is still pending investigation.</p> <p>The Council has also processed 9 subject access requests made under the Data Protection Act 1998. With effect from May 2018 the Council will no longer be able to charge for subject access requests and the time for compliance will reduce from 40 days to one month. It is anticipated that there may be an initial increase in the number of requests received.</p> <p>During 2017/18 the Council has had 3 data breaches. In each case a review has been undertaken and appropriate action taken. None of the breaches was serious enough to warrant reporting to the Information Commissioner.</p> <p>All information governance policies and procedures are reviewed on an annual basis and any major changes are communicated to employees using Metacompliance software.</p>

Annual Governance Statement

✓	<p>Health & Safety</p> <p>Every few years, an in depth review of the policy against current legislation and guidance is undertaken. There were no issues and the Council continues to be compliant. The surveys that have been undertaken are up-to-date and are referred to whenever any building work is undertaken. Face fit testing of the personal protective equipment has been completed. Any asbestos related work which the Council carries out remains low. The number of audits have fallen behind plan this year due to staffing issues. A revised plan has been produced with a more realistic programme, targeted at the higher risk sections.</p> <p>There continues to be events on Council land. The multi-agency Event Safety Advisory Group is still in operation. There have been no major issues or incidents at any event in the last year. In 2017/18 the accident rate has remained at 0.25.</p>
✓	<p>Information Communication Technology (ICT)</p> <p>The Council has a mature and robust ICT infrastructure as a result of continuing upgrades throughout the year and demonstrating good practice. The Council still remains fully compliant to connect to the Public Services Network (PSN) and has recently undergone an annual health check and undertaken both internal and external penetration tests.</p> <p>To meet our PCI-DSS (Payment Card Industry Data Security Standard) compliance the Council has quarterly external vulnerability scans and any issues are fixed immediately to ensure that all of our internet facing infrastructures are as secure as possible. The spoof email phishing and video training conducted during 2017/18 has been successful reducing our "phish-prone" userbase from over 50% to single figures.</p>

Key Areas for Improvement

Building on the improvements in 2017/18 the Council has identified the following areas where it wishes to see stepped improvements in 2018/19:-

Key Improvement Areas for 2018/19
<p>New Interim Chief Executive and interim changes to Directorate</p> <p>A new Interim Chief Executive has been appointed from 19th May 2018 for a 12 month period. As a result interim arrangements/changes are being made to Directorates.</p>
<p>Electoral Boundary Changes</p> <p>Electoral boundary changes will take place during 2018/2019 and there will be all out election in May 2019 in accordance with The Preston (Electoral Changes) Order 2018. The number of Members will reduce from 57 to 48. As a result arrangements and plans will need to be in place prior to the Elections in 2019.</p>
<p>Cyber Security – next generation</p> <p>Following on from the initial cyber security training everyone will receive an invite to do a Cyber strength assessment. Phishing tests will continue throughout the year and everyone will be invited to do further customised training.</p>

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 regarded as fit for purpose. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement in our review and will monitor their implementation and operation as part of our next annual review. We recognise that over the next few years whilst implementing the Four Year Efficiency Plan both Members and Officers will need to be vigilant to ensure that our governance arrangements remain robust and sustainable.

Signed:



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Leader of the Council

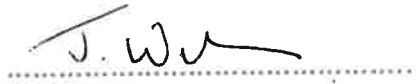


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Interim Chief Executive



.....
Monitoring Officer



.....
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, favorable 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 organisations 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

Glossary of Terms

decreases, a significant decline in a non-current assets market value and evidence of obsolescence or physical damage to the asset.

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 longer-term 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.