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Governance Committee

Tuesday, 27th July, 2021, 6.00 pm

Shield Room, Civic Centre, West Paddock, Leyland PR25 1DH

Agenda

Important Information regarding COVID-19

In response to the current government guidance surrounding the COVID-19 pandemic, this meeting will be held at the COVID-secure Civic Centre, in accordance with regulations.

All members of the Committee must attend in person.

Members of the public are kindly asked to watch the proceedings via a YouTube livestream by clicking here.

Members of the public are entitled to speak and submit written representations at the meeting with a written response provided. To make representations on any of the items below, please email democraticservices@southribble.gov.uk for the attention of Coral Astbury no later than **12pm by Friday, 23 July 2021**.

1 Apologies for absence

2 Declarations of Interest

Members are requested to indicate at this stage in the proceedings any items on the agenda in which they intend to declare an interest. Members are reminded that if the interest is a Disclosable Pecuniary Interest (as defined in the Members' Code of Conduct) they must leave the room for the whole of that item. If the interest is not a Disclosable Pecuniary Interest, but is such that a member of the public could reasonably regard it as being so significant that it is likely that it would prejudice their judgment of the public interest (as explained in the Code of Conduct) then they may make representations, but then must leave the meeting for the remainder of the item.

3 Minutes of meeting Tuesday, 25 May 2021 of Governance Committee (Pages 3 - 8)

Minutes of the last meeting held Tuesday 25 May 2021 are attached to be agreed as a correct record for signing by the Chair.

4 South Ribble Borough Council Audit Plan (Pages 9 - 32)

	Report of the External Auditors attached.	
5	**Management Responses to the External Auditors Planning Inquiries 2020-21**	(Pages 33 - 48)
	Report of the Director of Finance attached.	
6	**Treasury Management Annual Report 2020/21 and June Quarter Monitoring 2021/22**	(Pages 49 - 82)
	Report of the Director of Finance attached.	
7	**Statement of Accounts for the Financial Year 2020/21**	(Pages 83 - 228)
	Report of the Director of Finance attached.	

Gary Hall
Chief Executive

Electronic agendas sent to Members of the Governance Committee Councillors Ian Watkinson (Chair), Colin Sharples (Vice-Chair), Damian Bretherton, Christine Melia, Margaret Smith, Alan Ogilvie and Angela Turner

The minutes of this meeting will be available on the internet at www.southribble.gov.uk

Forthcoming Meetings
6.00 pm Monday, 27 September 2021 - Wheel Room, Civic Centre, West Paddock, Leyland PR25 1DH

Minutes of	**Governance Committee**
Meeting date	**Tuesday, 25 May 2021**
Members present:	Councillors Ian Watkinson (Chair), Colin Sharples (Vice-Chair), Damian Bretherton, Christine Melia, Margaret Smith, Angela Turner and Alan Ogilvie
Officers:	Gary Hall (Chief Executive), Chris Moister (Director of Governance), Louise Mattinson (Director of Finance and Section 151 Officer), James Thomson (Deputy Director of Finance), Dawn Highton (Shared Service Lead- Audit & Risk), Victoria Willett (Service Lead - Transformation and Partnerships), Darren Cranshaw (Shared Services Lead - Democratic, Scrutiny & Electoral Services) and Clare Gornall (Democratic and Member Services Officer)
Other members and officers:	Matt Derrick (Public Sector Audit Senior Manager, Grant Thornton); Councillors Martin, Titherington and M Tomlinson
Public:	0

1 Apologies for absence

There were none.

2 Declarations of Interest

There were none.

3 Minutes of the Last Meeting

The Chair presented the minutes of 23 March 2021 for approval. He updated the Committee on matters arising from Minute 86 – Risk Management Strategy as follows:

- The Deputy Director of Finance / S151 officer indicated that the Statement of Accounts 2019/20 had already been signed and published, however the update would be made to the 2020/21 Statement of Accounts.
- Councillor Foster would provide details of the Lancashire Pensions Fund Committee contact to Democratic Services to arrange for members to receive further information about its work.

Councillor Bretherton referred to Minute 88 – Proposed Updated Financial Procedure Rules and enquired as to the list of Trust Funds. It was agreed that the Deputy Director of Finance / S151 officer would provide a response after the meeting.

RESOLVED: – That the minutes of the last meeting of the Committee held on 23 March 2021 be approved and signed as a correct record.

4 Annual review of Council's Counter Fraud Policies

Dawn Highton, Service Lead – Audit and Risk presented a report giving details the revised Anti-Fraud, Bribery and Corruption Policy, the Fraud Response Plan and the Whistleblowing Policy.

It was requested by Councillor Ogilvie that in future any amendments/updates to the policies be highlighted at the start of the report for ease of reference.

The responses to comments and queries made by members are outlined below:

Fraud Response Plan

-The Director of Governance confirmed that no member of staff had been identified in connection with fraud or dismissed for that reason.

-It was suggested that due to staff confidentiality agreements that had been signed in previous years – it was not possible to determine if fraud was involved or not. The Director of Governance assured the Committee that if criminal behaviour such as fraud was involved appropriate action would have been, and will be, taken. However, the comprehensive monitoring system in place ensures that it is extremely difficult to commit fraud.

-The Director of Governance acknowledged that it was difficult to apply disciplinary proceedings to councillors under the current regime, however it was important that both staff and councillors be equally included in the policy.

Whistleblowing Policy

Cllr Ogilvie referred to page 57, paragraph 2.3 at which it was stated that the list of major concerns is “not exhaustive”; therefore who would decide on criteria for other relevant matters? The Director of Governance responded that he would take that decision, unless it was an allegation against himself in which it would be the Chief Executive and vice versa.

RESOLVED:-

That the revised Anti-Fraud, Bribery and Corruption Policy, the Fraud Response Plan and the Whistleblowing Policy as set out in Appendices A, B and C of the report, be noted.

5 South Ribble Borough Council Audit Progress Report and Sector Update

Matt Derrick, Senior Manager from Grant Thornton LLP presented a report providing the Committee with progress on delivering their responsibilities as the Council’s external auditors.

A question was asked with regards to the external auditor approach to assessing value for money, in particular financial definition weighted against social definition of value for money. Mr Derrick indicated that this would fall under Improving Economy,

Efficiency and Effectiveness. There is no requirement to prioritise one criterion over the other. The external auditor's role would be to assess risk from within the value for money framework, and any risks identified would be the focus of the auditor's work.

RESOLVED: – That the report be noted.

6 Internal Audit Annual Report

Dawn Highton, Service Lead – Audit and Risk presented a report summarising the work undertaken by the Internal Audit Service during 2020/2021 and giving an opinion as required by the Public Sector Internal Audit Standards on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

The report also included the results of the Quality Assurance and Improvement Programme.

Responses to comments and queries my members were as follows:

Councillor Bretherton enquired as to the monitoring of fraudulent applications in respect of COVID Business Support Grants. Ms Highton responded that only 10 applications required further investigation, however this was not an indication of fraud, only that these applications warranted further review. The Chief Executive stressed that it was important to ensure that the necessary checks and balances were in place and that this was the Council's approach.

Cllr Ogilvie referred to page 69 Car Park Management / Enforcement follow-up-review and requested an update on the one action still in progress. It was agreed that the information would be shared with Councillor Ogilvie.

Dawn Highton indicated that she would share the Quality and Improvement Assurance Programme (QAIP) with members of the Committee.

Dawn Highton confirmed that risk management will be included in each Interim Internal Audit Report brought before Committee.

RESOLVED:- That the report be noted.

7 Review of the effectiveness of Internal Audit

Dawn Highton, Service Lead - Audit and Risk presented a report relating to the results of the self-assessment carried out by Internal Audit against the requirement of the Public Sector Internal Audit Standards and Local Government Application Note as a means of assessing the effectiveness of Internal Audit.

Cllr Turner referred to the recent Council decision to create a wholly Council owned Leisure Trading Company and asked for confirmation that the LATC would have no tax obligations as long as it fulfils criteria specified by the Government, including that it wholly owned and managed by the Council and has no involvement with private companies. The Director of Governance confirmed that this was the case and that

there would be a single share owned by the Council and that would be the only shareholding.

In response to a member query Dawn Highton confirmed that the Quality Assurance and Improvement Programme would be featured in the Annual Report which will next be brought to Committee in May 2022.

RESOLVED:-

That the results of the self -assessment as part of the Governance Committee's consideration of the system of internal control, be noted.

8 Draft Annual Governance Statement

Chris Moister, Director of Governance and Monitoring Officer presented a report outlining the Annual Governance Statement for the period 2020/21.

The following responses were given to member queries:

- The Director of Governance confirmed that the environment is fully GDPR compliant and that policies are under constant review. He also indicated that the UK had to requalify for GDPR accredited status when it left EU.

-The Shared Service Lead - Transformation and Partnerships indicated that there would be another formal Staff Satisfaction Survey towards the end of the summer.

-The Director of Governance explained that in reference to page 168, budget monitoring – previously monthly monitoring reports were run off for budget holders and their managers but this had stopped. He confirmed that monthly meetings with budget holders and management accountants were now being held.

RESOLVED (unanimously):-

That the Annual Governance Statement be approved as a correct statement of the Council's governance environment and be recommended to the Leader and Chief Executive for signature.

9 Review of Compliance with CIPFA Financial Management Code

Louise Mattinson, Director of Finance presented a report to present the review of the Council's compliance with CIPFA's Financial Management Code.

Arising from questions by members, the Director of Finance indicated that the internal self assessment was not statutory, however we are expected to comply with the CIPFA Code.

As regards long term sustainability, therefore the 10 year financial plan was speculative; the Council receives a government settlement annually and there are other variables such as the review of Business Rates.

RESOLVED :-

That the Committee notes:

1. The publication of the Financial Management Code and the requirement for its application from 1 April 2020.
2. That 2020/21 was a shadow year during which all local authorities have been working towards full implementation for the first full year of compliance in 2021/22.
3. That an initial assessment has been carried out at APPENDIX A of the Council's assessed level of compliance compared to the Standards contained in the Financial Management Code.
4. The actions outlined in Appendix A of the report.

10 South Ribble Key Partnerships and Contracts Framework

Victoria Willett, Shared Services Lead – Transformation and Partnerships presented a report giving details of the Key Contracts and Partnerships Framework for South Ribble Borough Council.

The following responses were provided by officers to member queries:

- With regard to the considerations outlined at paragraph 8 – we don't need to fulfil all 6 bullet points. However, there is the opportunity to expand the list to include large scale contracts. This would be a decision for Cabinet.

-We will be including the Leisure Trading Company (LATC) as a contractual relationship – the company and the Council are separate entities but not the traditional partnership the Council has with other partners.

-Regarding issues such as Modern Slavery – contracts are monitored via the Procurement Rules.

The Chair asked a question regarding ethical standards and partnerships. The Shared Service Lead - Transformation and Partnerships indicated this would be considered as part of the agreed values/behaviours of honesty, integrity, objectivity, openness etc. We will look at how to monitor this in relation to partnerships.

RESOLVED (unanimously):-

To endorse the Key Contracts and Partnerships Framework for approval by Cabinet.

Chair Date

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Grant Thornton

South Ribble Borough Council audit plan

Year ending 31 March 2021

South Ribble Borough Council

27 July 2021

Agenda Item 4

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Factors

Local Government and the wider economy

Local economies have struggled under lockdown and this is impacting the financial stability of local authorities. While there will be some opportunities arising, such as greater use of online service delivery channels, carbon reduction and property portfolio optimisation, these will need to be fully understood before they can be realised. With conflicting public service priorities, there is uncertainty over whether there will be growth to funding levels going forward.

The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has faced many front-line challenges such as administration of grants to businesses, council tax reliefs and closure of leisure centres alongside the additional challenges of reopening services under new government guidelines. Finance staff have had to work at home.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit in recognition of the challenges in returning to the 31 July deadline, the Ministry of Housing, Communities and Local Government, in the response to the Redmond Review have extended the deadline for audited financials statements to 30 September for the 2020-21 and 2021-22 financial statements.

Governance arrangements

During 2019-20 the Council completed investigations into potential governance matters. The work was completed by the Council's Internal Audit team and a number of concerns around leadership, culture and adherence to policies and procedures have been reported. Other work completed by Internal Audit during that year, and reported to the Governance Committee, highlighted further issues including financial procedures not being properly followed.

In respect of the deficiencies identified, we issued an adverse value for money audit conclusion for 2019-20. The issues outlined could also have potential impact on financial statements audit.

In December 2020, we issued a section 24 recommendation in relation to the Council's limited progress in improving its governance and performance management throughout the period.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Chief Executive.
- We will consider your arrangements for managing and reporting your financial resources as part of our Value for Money work.
- We will examine the Council's actions to strengthen the governance arrangements and improve the monitoring of performance as well as consideration of progress against previously agreed recommendations.
- We will continue to provide you with sector updates via our Governance Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control and a risk factor in regards to expenditure recognition.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Ribble Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £0.788m (PY £0.675m) for the Council, which equates to 1.75% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.039m (PY £0.034m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Deficiencies in the control environment
- Monitoring of performance

Audit logistics

Our audit of the final accounts will take place in July and August 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £70,791 (PY: £67,500) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions – rebutted	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including South Ribble Borough Council mean that all forms of fraud are seen as unacceptable	As we do not consider this to be a significant risk for the Council we will not be undertaking any specific work in this area other than our normal audit procedures.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement. We note that there are previous examples, as highlighted by Internal Audit, where management may have over-ridden controls relating to procurement and the appointment of officers. We have also previously identified weak controls around authorisation of journal postings.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements The pension fund net liability of £39,960m (2019-20: £30,038m) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Council revalues its land and buildings on a rolling five-yearly basis. This valuation of £28,383m (2019-20: £28,711m) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. Investment Properties: All investment properties should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £10,144m (2019-20: £10,055m) represents a significant estimate by management in the financial statements due to the size of the numbers involved compared to Council's materiality and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, including investment properties, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Expenditure recognition– Governance Issues	During 2019-20 the Council completed investigations into potential governance matters. The work was completed by the Council's Internal Audit team and it identified a number of concerns around leadership, culture and adherence to policies and procedures. Other work completed by Internal Audit during the year, and subsequently reported to the Governance Committee, has highlighted further issues including financial procedures not being properly followed. Given that the matters reported to the Governance Committee have included several examples where expenditure has been incurred without following proper procedures, there is an increased risk of misstatement in the financial statements. We therefore identified the impact of the reported governance issues as an additional risk factor.	We will: • Complete more transactional testing by elevating the risk for categories of transactions and balances affected (such as expenditure and payables) • We will review listings of payments to suppliers to ensure there are no unusual transactions • Consider whether any of the findings from the investigation work may result in the use of our formal powers • Evaluate the adequacy of the disclosures in the financial statements of any material uncertainty that the Council may have identified through the work completed by internal audit. • Discuss with management any potential implications for our audit report, particularly if we have been unable to obtain sufficient audit evidence

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

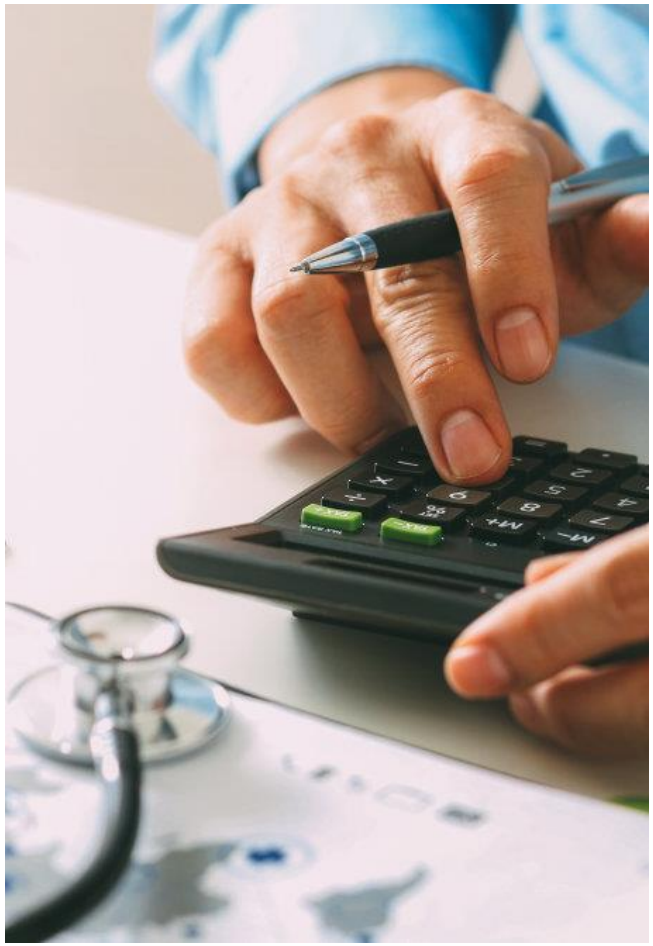
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Business rates appeals provisions and significant accruals,
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have submitted inquiries to management to set out how management has identified and considered each of its material estimates, the uncertainty attaching to each, and how it has concluded its approach is appropriate in determining the estimate.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £0.788m (PY £0.675m) for the Council, which equates to 1.75% of your prior year gross expenditure.

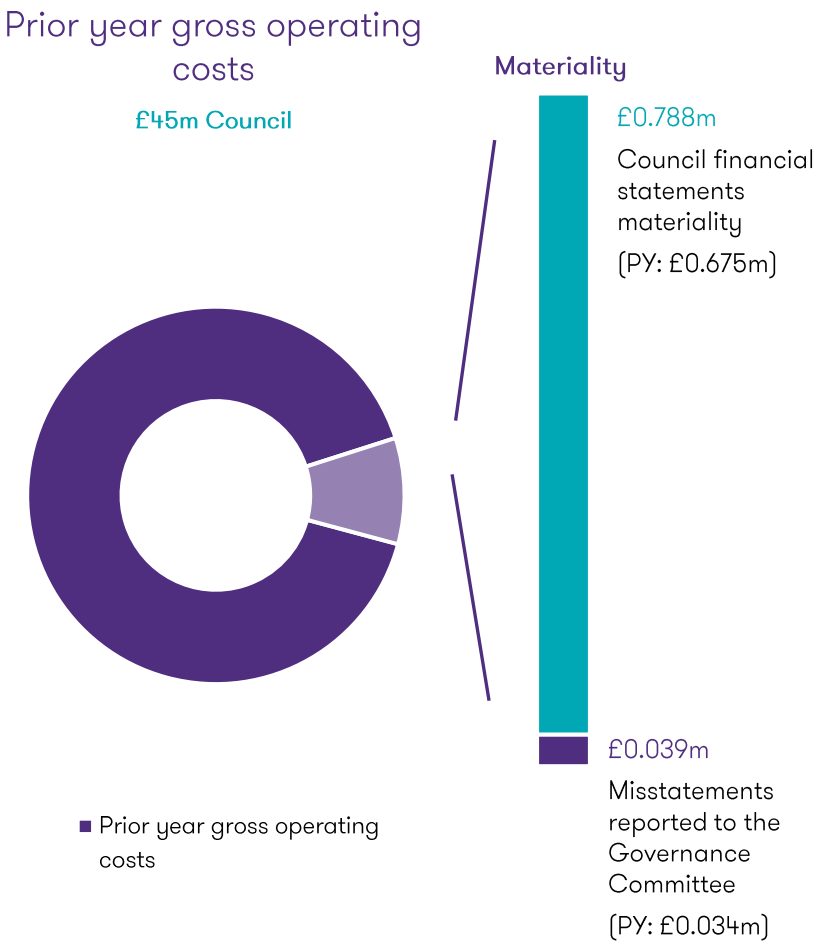
We design our procedures to detect errors in specific accounts balances or disclosures at a lower level of precision. The senior officer remuneration disclosure in the financial statements has been identified as an area requiring lower level of materiality of £20,000, due to the sensitive nature of the disclosure.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.039m (PY £0.034m).

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



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Deficiencies in the control environment

The Council has identified deficiencies in its control environment which were investigated by Internal Audit. In the 2019-20, we reported that management are aware of the issues and has put plans in place to address the issues.

We will assess the Council's progress in strengthening the control environment and actions taken to ensure compliance with policies and procedures.

Monitoring of service performance

In the 2019-20, we reported there have been performance concerns raised in several areas by the Council and Internal Audit, as well as weaknesses identified in performance monitoring and reporting.

We will assess how the Council is addressing the weaknesses identified and review actions that have been taken to ensure appropriate levels of service provision, including how progress is being monitored and evaluating any evidence of improvement.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Georgia Jones, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Matt Derrick, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

Nicole Doroja, Audit Incharge

Key audit contact responsible for the day to day management and delivery of the audit work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for South Ribble Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £33,821. Since that time, there have been a number of developments which are detailed at page 18. A number of these developments in respect of the increased level of risk and audit testing required, for example on land and buildings valuations and the pension liability, have been communicated to you during both our 2018-19 and 2019-20 audits. The additional level of testing on these areas will continue in our 2020-21 audit. In addition, the NAO introduced a revised audit code from 2020-21 onwards to local audit and there are new ISAs(UK) which are applicable from the 2020-21 audit cycle.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £3,500 (5%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Chief Executive.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
South Ribble Borough Council Audit	£68,321	£67,500	£70,791
Total audit fees (excluding VAT)	£68,321	£67,500	£70,791

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£33,821
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£1,970
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
Lower materiality	£2,000
Value for money additional fee re governance and control issues	£12,000
Audit fee 2019/20. This amount was prior to additional fees for COVID and financial control issues which gave a final fee of £67,500 for 2019/20, but the items listed above are those which continue to carry over into 2020/21.	**£53,291**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£6,500
Local risk factors	£2,000
Proposed increase to 2019/20 fee	**£17,500**
Total audit fees (excluding VAT)	**£70,791**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Subsidy Grant	13,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,700 in comparison to the total fee for the audit of £70,791 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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Report to	On
Governance Committee	**Tuesday, 27 July 2021**

Title	Report of
Management Responses to the External Auditor Planning Inquiries	**Director of Finance**

Is this report confidential?	No

Purpose of the Report

1. To present to the Governance Committee, as those charged with governance of the council, the management responses provided to the planning inquiries made by the External Auditors, Grant Thornton, as part of the audit of the 2020/21 statutory accounts.

Recommendations

2. The Governance Committee, is asked to review and approve the management responses to the auditors inquires, as attached.

Reasons for recommendations

3. As part of their audit planning process, the External Auditors need to ascertain the information detailed in the Appendices to this report, such as the risk of fraud, which is required by the auditing standards; the questions, together with the answers provided, are detailed at Appendix A.

Other options considered and rejected

4. Not applicable.

Corporate outcomes

5. The report relates to the following corporate priorities: *(tick all those applicable):*

An exemplary council	X	Thriving communities	
A fair local economy that works for everyone		Good homes, green spaces, healthy places	

Background to the report

6. As part of their audit planning process, the External Auditors need to ascertain the information detailed in the Appendices to this report, such as the risk of fraud, which is required by the auditing standards.
.

Risk

7. The risks identified to the External Auditors, in response to the planning inquiries are detailed in the Appendices to the report.

Equality and diversity

8. Not applicable.

Air quality implications

9. Not applicable.

Comments of the Statutory Finance Officer

10. As part of their responsibilities in conducting the audit of the statutory accounts, the External Auditors are required to seek responses, and request information, on all aspects of the Council's activities as they feel are necessary. The information requested as part of their planning inquiries, is in line with this.

Comments of the Monitoring Officer

11. No comments, the reasons for the request and approval are in the body of the report.

Background documents - There are no background papers to this report

Appendices

Appendix A – External Auditor Planning Inquiries and Management Responses 2020/21
Appendix B – Estimates used in the production of the 2020/21 accounts

Louise Mattinson
Director of Finance

South Ribble Borough Council

Responses from Management:

Auditor question	Response
General Enquiries of Management	
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The impact of Covid-19 will have a potential effect on the collection rates of both council tax and business rates. The impact on the council going forward is mitigated by the Government's policy on allowing the council to allocate any losses over a 3 year rather than 1 to 2-year period. The council holds £3.1m in a business rates retention reserve that could be called upon to manage temporary drops in collection rates The council will experience a reduction in collection of income through Fees and Charges or income from its commercial tenants. The matter was considered in increasing the level of debt provision during 2020/21. There was no indication of substantial additional impairment of Council assets.
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	We have considered the accounting policies. There have not been any events or transactions that have caused us to change or adapt our accounting policies.
Is there any use of financial instruments, including derivatives?	No
Are you aware of any significant transaction outside the normal course of business?	The council has paid out over £27m of business grants as part of the Government's Covid support scheme.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Due to Covid we may expect temporary reductions in some of the valuations of our investment assets.
Are you aware of any guarantee contracts?	None
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Legal Costs 20.21 SRBC.xlsx
Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No There is potential evidence of fraud with regard to one Small Business Grant Paid for £10k that the Council is pursuing a refund for

Auditor question	Response
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Advisor Costs 20.21 SRBC.xlsx
Fraud risk assessment	
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?	Yes, there is no indication that the financial statements have been materially misstated due to fraud Internal Audit undertake their own proactive fraud detection work and participate fully in the National Fraud Initiative. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Governance Committee and to Senior Management Team, including fraud risks and governance issues. Internal Audit Section will undertake special investigations in cases of suspected fraud or irregularity. Financial Procedure Rules and the Council's Anti-Fraud and Corruption Policy require the Head of Audit to be notified immediately of all discovered or suspected cases of fraud, corruption or other financial irregularity. Fraud in relation to revenues and benefits is dealt with separately by specific investigation officers. The s151 Officer has the overall responsibility for assessing the risk of material misstatement in the financial statements and is supported by services who provide the appropriate evidence for this assessment.
How do the Council's risk management processes link to financial reporting?	A review of all corporate risks forms part of the quarterly report to the Leadership Team, of which the CFO is a member, identifying risk levels, risk owners and mitigating actions. This is reported to Shared Senior Management Team of which the CFO is a member. All reports submitted to committees require financial comments from the CFO or qualified representative. In addition, a risk section has been added to reports so that authors outline the major risks associated with decisions. Financial implications of future risks are discussed amongst officers at Senior Management Team as well interaction with members at leader's brief and committee meetings

Auditor question	Response
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Whilst we are confident in our own systems, there is a heightened risk of error and fraud in relation to Benefits, although this is mitigated through quality assurance processes within the service and Internal Audit data quality work. There are also higher risks in relation to the payment of invoices that is mitigated through the necessary separation of duties and checks when procuring and paying for services. There is a higher risk of fraud relating the business grants payments made to businesses throughout 20/21. Risks have been analysed, reported and mitigated with only one potential fraudulent £10k payment made.
Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	See above text about business grants Through the work carried out by internal audit Reporting of Corporate Risks to Governance Committee Specific fraud would be communicated to the Governance Committee when deemed material
Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?	None Yes as identified previously This is a duplicate question asked previously above
What processes does the Council have in place to identify and respond to risks of fraud?	Internal Audit, in accordance with the Public Sector Internal Audit Standards considers the risk of fraud in every review. Fraud risks are included on the Council's dedicated risk management system GRACE and categorised as a fraud risk to allow for specific fraud risk monitoring.
How do you assess the overall control environment for the Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud?	Due to COVID 19, Internal Audit have not been able to undertake sufficient reviews to be able to form an opinion on the overall control environment. However, Internal Audit are aware that the Council has operated in a stable environment for a number of years and has obtained assurance from other sources listed in the Internal Audit Annual Report presented to the Governance Committee in May 2021.Robust actions plans with agreed implementation dates are in place for any instances where the control environment can be strengthened. Counter Fraud policies are in place and available on both the intranet and the website. These include: • Anti Fraud, Bribery and Corruption Strategy

Auditor question	Response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	• Whistleblowing policy • Anti money laundering policy. • The Fraud Response plan The additional testing of the Creditors system (previously highlighted as an area of concern for the over-ride of control) has not highlighted any additional areas of concern.
Are there any areas where there is potential for misreporting?	There is adequate separation of duties in place to prevent the potential for misreporting
How does the Council communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Code of Conduct including ethical standards and behaviours which officers are required to comply with. The code is referenced in employee appointment letters and a link is provided in the letter to a number of relevant documents including the Code of Conduct, adherence to which is a condition of their employment The Information Security Policy is also there which states what is acceptable and unacceptable in terms of information and using the Council's IT systems. Council values that provide an ethical framework are used at recruitment and during PDR's. Awareness is raised of probity policies via Core Brief and items on the loop. Mandatory fraud awareness training is due to be rolled out to all officers imminently. No significant issues have been reported
From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	The recruitment process includes robust measures to ensure all relevant documents are obtained and reviewed prior to an offer of employment being made.
Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	None Major related party's risks are monitored and reported separately
What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	Governance Committee approve the Internal Audit Plan and receive interim reports throughout the year. Reports contain a summary of work undertaken and would include fraud risk and issues and breaches of internal control if identified.

Auditor question	Response
What has been the outcome of these arrangements so far this year?	The limited amount of Internal Audit reviews completed during 20-21 has not identified any fraud issues or significant breaches of internal control.
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No
Have any reports been made under the Bribery Act?	No
Impact of laws and regulations	
How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Requirement for the Monitoring Officer to receive and comment on all council and executive decisions. Internal audit reviews and risk management processes outlined previously None
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Monitoring Officer (or deputy) attends all Governance Committee meetings
Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	None
Is there any actual or potential litigation or claims that would affect the financial statements?	None
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Litigation or claims may be picked up by legal services or services. Where necessary these will be reported to the Leader of the Council through the monitoring officer. Any budget implications of such litigations will be reported to Executive Cabinet, either through a separate report or through the quarterly budget monitoring report. The Council has set aside reserves to fund possible future costs of planning appeals.
Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None
Related Parties	
Have there been any changes in the related parties disclosed in the Council's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and the Council • whether the Council has entered into or plans to enter into any transactions with these related parties	There was an approved expansion of shared services during 2020/21 with new shared service lead posts in Policy and Governance starting from 1st December 2020. Leisure Services were brough in house at South Ribble Council as at April 2021 with the previous supplier, Serco Operating Leisure Ltd, no longer managing leisure services on the Council's behalf.

Auditor question	Response
• the type and purpose of these transactions	
What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?	The Transformation and Partnerships Team send emails to Directors and Service leads to refresh the list enabling Finance to identify significant transactions undertaken or budgeted to be undertaken.
What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The Council has sufficient separation of duties and appropriate authorisation limits to ensure purchase orders and invoices are paid as required. Monthly budget monitoring ensures that the Council will identify any variances to agreed payments with related parties.
What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Payments cannot be paid outside normal procedure rules including separation of duties regarding payments being raised and invoices paid. There is no out of hours service.
Accounting Estimates - General Enquiries of Management	
What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Pension Valuations PPE Valuations Material Creditor and Debtor transactions including shared services charges between Councils Provision for Business Rates appeals.
How does the Council's risk management process identify and addresses risks relating to accounting estimates?	This is dealt with within the finance section Senior Finance staff keep up-to-date with changes in accounting practises including purchasing the Code of Practice, attending relevant CIPFA training sessions and reviewing previous accounts to prepare for any changes.
How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of the CIPFA code of practice for local govt accounts. Review of source data provided to external experts (PP&E, pensions) and comparison of assumptions and results between financial years.
How do management review the outcomes of previous accounting estimates?	Comparison of estimates to eventual actual transactions, use this to form future judgements. Use these to review and challenge current outcomes of estimates.
Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes made to the processes, however underlying assumptions are reviewed and potentially changed.
How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Review of skills held internally, and outsource identified gaps, using knowledge of reputable and appropriate experts.
How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Review the underlying assumptions, and where there is material change, analyse to understand it and/or challenge the results.
How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Answered above
What is the nature and extent of oversight and governance over management's financial	Any substantial changes to the statement of accounts that result from changes in accounting

Auditor question	Response
reporting process relevant to accounting estimates, including: • Management's process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements.	estimates will be reported to Governance Committee alongside the draft statement.
Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Any substantial changes to the statement of accounts that result from changes in accounting estimates will be reported to Governance Committee alongside the draft statement.

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Property, Plant and Equipment	RICS approved valuation methodologies	Use of external RICS qualified auditors	Yes – External Valuers and in-house RICS qualified employees	Variances to be checked with in-house team and where necessary alternative valuers will be used to challenge any variances	No
Valuation of pension liability	As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits through the Local Government Pension Scheme.	The Committee is assisted by an investment panel which advises on investment strategy and risk management.	Yes - Mercers	This scheme is administered by Lancashire County Council who have appointed a Pension Fund Committee to manage the Fund.	No
Depreciation	The approach is outlined in the statement of accounts utilizing Code of Practice and up to date CIPFA Capital Accounting guidance	Analysis of impairments, acquisitions and disposals included in the closure of accounts procedures	Yes – External Valuers and in-house RICS qualified employees	No other alternatives have been considered for 20/21	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Significant Accrual	Estimates are based on hard data, eg values of orders placed, actual invoiced/remitted amounts paid /received in first month of succeeding financial year, values produced by completion final returns and grant claims.	Accruals are raised only where there is objective evidence of expenditure/income which is required to be recognized in the financial year.	No. Process is internal only. All staff involved are trained and experienced to sufficient degree both to fully understand the process and its significance and to apply it in practice.	Robust nature of base data and relatively mechanistic nature of process mean that there is only a very limited degree of uncertainty, eg an invoiced amount may vary slightly from an order value, a subsequent amendment might be made to a return on which a grant claim was based, but it will be rare for these to produce any significant variation.	No. Only factor of note is that overall value of accruals (specifically income accruals) is significantly higher for 2020/21, because of factors around Covid 19 related funding streams.
Fair Value Loans	The Council does not have any Fair Value Loans	Not applicable	Not applicable	Not applicable	Not applicable

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	For Sundry Debts, a percentage provision has been applied. For HB overpayments, provision is based on a percentage dependent on the age of the debt. CTax and Business Rates debt (including Costs) is again based on age bandings and percentages. All percentage bandings have been reviewed for 2020/21 in view of the impacts of the Covid 19 pandemic and, where judged appropriate, varied compared to previous years.	Estimates are derived by reference to the available relevant data and in accordance with professional standards and guidance.	No. Process is internal only. All staff involved are trained and experienced to sufficient degree both to fully understand the process and its significance and to apply it in practice.	There is an inherent element of estimation uncertainty and this has inevitably been increased by the circumstances of the pandemic. Every effort has been made to limit this increase, by close reference to all available data.	Base methodology remains unchanged, but there have been changes to the percentage provisions applied, to take account of the exceptional circumstances for income recovery, arising from the impacts of the Covid 19 pandemic.

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
NNDR Appeal Provision	For pre-2017 List appeals, a calculation is carried out based on levels of outstanding appeals, the grounds of the appeals and past experience of success rates and levels of reductions in RV. For the 2017 List, provision is based on an estimated percentage, derived with reference to comparator councils, adjusted for changes made at the 'Check' and 'Challenge' stages.	Estimates are derived by reference to the available relevant data, comparators, etc and in accordance with professional standards and guidance.	Estimate has been produced in-house. LG Futures have been retained to review and advise on its appropriateness.	A degree of estimation uncertainty is inherent even with the pre-2107 List, because although it is based on objective data and an established methodology, there is always the possibility of variation from previous percentage success rates and RV reduction. The uncertainty is higher in respect of the 2017 List, where there is very little objective evidence on which to assess the likely ultimate level of successful appeals. The percentage applied is judged to be within the range of likely outcomes, but towards the higher end of that range. Consideration has been given to applying a lower percentage, but this would expose the Council to the risk of future loss without the provision to cover it, with the possibility that this could be for a significant amount.	Only change compared to previous year is that a certain amount of information is now available in respect of numbers and status of 2017 List cases at the 'Check' and 'Challenge' stages and this has been incorporated

Agenda Item 6

Report to	On
Governance Committee	**Tuesday, 27 July 2021**

TITLE	REPORT OF
Treasury Management Annual Report 2020/21 and June Quarter Monitoring 2021/22	**Director of Finance**

Is this report confidential?	**No**

PURPOSE OF THE REPORT

1. To present the outturn for Treasury Management activity in financial year 2020/21 and monitoring information in respect of the first quarter of 2021/22.

RECOMMENDATIONS

2. Members are asked to note the report.

EXECUTIVE SUMMARY

3. The report summarises Treasury Management activity and performance against approved indicators over the financial year 2020/21 and in the first three months of 2021/22, across the following headings:

- Capital Expenditure And Financing (paragraphs 9-11)
- Overall Borrowing Need (paragraphs 12-24)
- Treasury Position As At 31 March 2021 (paragraphs 25-29)
- Investment Performance 2020/21 (paragraphs 30-37)
- Monitoring June Quarter 2021/22 (paragraphs 38-40)
- Advice of Link Asset Services (paragraphs 41-43)

4. Key points to note are:

- The Council's actual capital expenditure for the year was fully financed (paragraph 10/Table 2).
- Actual external borrowing to finance capital expenditure remained unchanged at zero over the year, with the only recorded liability at the beginning of the year being that in respect of a finance lease. This lease liability was fully discharged by 31 March 2021. (Paragraph 20/Table 4).
- In late March 2020, exceptional circumstances arising from the onset of the Covid 19 pandemic resulted in the Council entering into temporary borrowing of £10m. This borrowing continued to be held for the first few weeks of 2020/21. While this amount was in excess of the Council's approved authorised limit for borrowing, the relevant legislation makes provision for the authorised limit to be 'treated as increased' in such circumstances and so no breach of the limit occurred (paragraphs 21-22).

- The Bank of England's Base Rate remained unchanged at 0.10% throughout the whole of the year (paragraph 30).
- In 2020/21, the Council had an average investment balance of £53.089m and earned interest on this of £176.6k (0.36%). This exceeded the target rate of 0.10% (paragraphs 33-36).
- At the end of June 2021, the average investment balance over the first quarter of the financial year was £52.803m, on which interest of £14.7k (0.11%) had been earned, reflecting the continuing exceptionally low level of interest rates (paragraph 38).

CORPORATE OUTCOMES

5. The report relates to the following corporate priorities:

An exemplary council	X	Thriving communities	
A fair local economy that works for everyone		Good homes, green spaces, healthy places	

BACKGROUND TO THE REPORT

6. The Treasury Strategy for 2020/21 to 2022/23 was approved by Council on 26 February 2020. The strategy included prudential and treasury indicators, the treasury management strategy, the annual investment strategy, and the annual Minimum Revenue Provision (MRP) Policy.

7. A mid-year review of Treasury Management activity was presented to Governance Committee on 17 November 2020.

8. The prudential and treasury indicators for 2020/21, approved as part of the Treasury Management Policy Statement for 2020/21 remained unchanged throughout the year and all comparisons made in this report are based on those same indicators.

THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

9. The Council undertakes capital expenditure on long-term activities. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

10. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for 2020/21.

	2020/21	**2020/21**	**2020/21**	**2020/21**

Table 1 - Capital Expenditure 2020/21	Estimate £000	Revised £000	Actual £000	Variance £000
2019/20 Capital Programme	10,094	6,602	4,044	(2,558)
Additional finance lease liability	0	0	120	120
Capital Expenditure Total	**10,094**	**6,602**	**4,164**	**(2,438)**

Additional analysis of the schemes included in the 2020/21 Capital Programme was presented to Cabinet on 16 June 2021 in the report 'Revenue and Capital Budget Monitoring 20-21 Outturn'.

11. Financing of the capital expenditure is shown in the following table.

Table 2 - Capital Financing 2020/21	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Capital expenditure from Table 1	10,094	6,602	4,164	2,438
Capital Receipts	(75)	0	(27)	27
Grants & Contributions	(4,755)	(3,844)	(1,971)	(1,873)
Revenue and Reserves	(3,901)	(2,758)	(2,046)	(712)
Net financing needed for year	**1,363**	**0**	**120**	**(120)**

THE COUNCIL'S OVERALL BORROWING NEED

12. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the unfinanced capital expenditure in the current year, plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources. The CFR includes any Other Long Term Liabilities, and in particular finance leases. Such leases increase the CFR, but incorporate a borrowing facility, provided by the lessor, so the Council is not required to borrow separately for these schemes. At 2020/21 outturn, the only additional unfinanced capital expenditure in 2020/21 was the £120k incurred by the Council's leisure provider under the terms of the finance lease which terminated on 31 March 2021.

13. Part of the Council's treasury activity is to address the funding requirement for its borrowing need. Depending on the capital expenditure programme, the Council's cash position is organised to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Council. In 2020/21 it did not prove necessary to borrow for this purpose.

14. The CFR is not matched in full by external borrowing, so the Council is said to have under borrowed by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

15. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can be borrowed and repaid, but this does not change the CFR.

16. The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

17. The 2020/21 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2020/21 to 2023/24 on 26 February 2020.

18. The Council's CFR for the year is shown in Table 3 below and represents a key prudential indicator. It includes financing by means of a finance lease for leisure related capital investment, which increases the Council's borrowing need. As noted above, no borrowing is actually required in respect of the finance lease because this is included in the contract.

Table 3 - Capital Financing Requirement 2020/21	**2020/21 Estimate £000**	**2020/21 Revised £000**	**2020/21 Actual £000**	**2020/21 Variance £000**
Opening CFR	4,202	2,999	2,999	0
Net financing need for the year (Table 2)	1,363	0	120	(120)
Less MRP/VRP	(649)	(619)	(619)	0
Closing CFR	**4,916**	**2,380**	**2,500**	**(120)**

See also Note 35 Capital Expenditure and Financing in the Statement of Accounts 2020/21.

19. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

20. Gross borrowing and the CFR. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2019/20) plus the estimates of any additional CFR for the current (2020/21) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to

borrow in advance of its immediate capital needs, but this facility was not required in 2020/21.

Table 4 - Portfolio Position 31 March 2020/21	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Debt at 1 April	0	0	0	0
Other long-term liabilities (OLTL)	322	390	390	0
Total gross debt 1 April	322	390	390	0
Change in Debt	743	0	0	0
Change in OLTL	(322)	(390)	(390)	0
Expected change in gross debt	421	(390)	(390)	0
Gross debt 31 March	743	0	0	0
Capital Financing Requirement (Table 3)	4,916	2,380	2,500	(120)
Under borrowing	**4,173**	**2,380**	**2,500**	**(120)**

21. **The authorised limit**. This is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The original limit set by Council on 26 February 2020 was £3.750m. Once this has been set, the Council does not have the power to borrow above this level, except that, under s5 of the Act, the authorised limit may be treated as increased in relation to any payment which:
    - is due to the authority which has not yet been received by it, and
    - was not a delayed receipt of a payment which was taken into account when the limit was first arrived at.

22. This exception applied to the Council during the first part of April 2020, when the Council held £10m of temporary borrowing, entered into at the end of March 2020, when it was anticipated that significant expenditure, in excess of £10m, would be incurred in paying small business support grants in advance of the receipt the associated government funding. For this reason, the Authorised Limit was treated as increased by £10m and the temporary borrowing of this amount was within this temporarily revised limit. The Council has therefore maintained gross borrowing within its authorised limit. The debt was repaid as scheduled in April 2021.

23. **The operational boundary.** This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The operational boundary set for 2020/21 was £0.350m. This limit was exceeded by £9.650m in the first few weeks of the year, for the reason set out in paragraph 22 above. At 31 March 2021, with the previous finance lease liability having come to an end, actual gross debt was zero.

24. **Actual financing costs as a proportion of net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of

investment income), against the revenue stream (council tax, business rates, and various Government grants).

Table 5 - Ratio of Financing Costs to Net Revenue Stream 2020/21	2020/21 Estimate %	2020/21 revised %	2020/21 Actual %	2020/21 Variance %
Ratio	2.46	3.81	4.26	0.45

The increase compared to the original estimate is attributable to the fall in investment income (which is netted off against MRP/VRP to produced the figure for net financing costs) set out in paragraphs 33-34 below.

TREASURY POSITION AS AT 31 MARCH 2021

25. The Council's treasury management debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. Gross debt is shown in Table 4, and Investments (including Cash and Cash equivalents but excluding accrued interest) are shown in Table 6.

Table 6 - Year-End Resources 2019/20	2020/21 Estimated £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Core Funds/Working Balances	(40,369)	(46,974)	(46,346)	628
Under borrowing (Table 4)	4,173	2,380	2,500	120
Investments	**(36,196)**	**(44,594)**	**(43,846)**	**748**

26. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix A. Term Deposits by counterparty are shown in Table 7.

Table 7 - Summary of Term Deposits by Counterparty 31 March 2021	Type	Amount 31 March 2021 £000	Limit £000
Bank of Scotland	Term	6,000	6,000
Goldman Sachs International Bank	Term	4,000	6,000
Santander UK	Term	6,000	6,000
UK Banks		16,000	
Cheltenham Borough Council	Term	3,000	6,000
Highland Council	Term	5,000	6,000
Plymouth BC	Term	5,000	6,000
UK Local Authorities		13,000	
Fixed Term Deposits sub total		**29,000**	

27. All counterparty limits were adhered to throughout 2020/21.

28. Appendix B presents the approved limits for 2020/21.

29. Council approved that a maximum of £6m should be invested with any single UK local authorities for more than 365 days and up to two years. No sums were invested for more than 365 days.

Table 8 - Maximum Principal Sums Invested > 365 Days 2020/21	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000
UK Government	0	0	0
UK Local Authorities	6,000	6,000	0
UK Banks & Building Societies	0	0	0
Non-UK Banks	0	0	0
Total	**6,000**	**6,000**	**0**

INVESTMENT PERFORMANCE 2020/21

30. Investment returns dropped to historically exceptionally low levels from late March 2020 onwards and remained there throughout 2020/21. When the treasury management strategy for the year was approved, the Bank Rate stood at 0.75% and was expected to remain at that level throughout 2020/21. What happened was that the rate fell sharply, first to 0.25% and then to 0.10%, in response to the economic impacts of the Covid 19 pandemic abruptly. It then remained unchanged throughout the year. This has inevitably had a significant impact on investment rates, taking them down to well below even the historically relatively low returns available in 2019/20.

31. Given the low returns available compared to borrowing rates, the Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans.

32. **Investment Policy.** The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council for 2020/21. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as ratings outlooks, credit default swaps, banks share prices etc.). Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties. From time to time, suggested durations reduce after a term deposit has been placed, for instance from twelve to six months, but this did not occur during 2020/21.

33. Investment performance for 2020/21 is presented in Table 9.

Table 9 - Investment Performance 2020/21	**Average Daily Investment £000**	**Interest £**	**Average Rate %**
Fixed Term Deposits	20,748	116,034	0.51
Notice Accounts	12,000	50,150	0.42
Call Accounts	3,624	2,551	0.07
Money Market Funds	11,878	7,626	0.06
Debt Management Office DMADF	1,839	275	0.01
Total	**50,089**	**176,636**	**0.36**

34. The average return of 0.36% in 2020/21 compares to the 0.89% achieved in 2019/20, and reflects both the generally exceptionally low level of returns and the specific difficulties experienced in placing fixed term deposits with other local authorities. This in turn reflects the unusual patterns of local authority cash flows in 2020/21, resulting from Government measures to address the impacts of the pandemic. In general terms, this has meant that most authorities have had higher cash balances than would usually have been the case, so fewer have had short-term borrowing needs.

35. The Council has itself felt the effect of this, with the average daily balance of £50.089m shown above being 16% higher than the 2019/20 figure of £43.018m. This has slightly mitigated the loss in interest earned, with the total of £177k being down by 54% compared to the £385k earned in 2019/20, whereas the average interest rate (see above) was down by 60%.

36. The Council would usually only rarely place money with the Debt Management Office, and them only for very short periods (typically just one or two days), because the interest rates offered would be significantly lower than those available elsewhere. However, throughout 2020/21, the need to keep funds available at short notice to deal with the unusual pattern of major cash flows, together with the lack of alternative investment opportunities, has led to more extensive use being made of this facility, with a daily average investment with the DMO of £1.839m. The effect of this on investment returns has, however, not been especially marked, because the generally low levels of interest rates available elsewhere has reduced the differential between these and DMO rates.

37. The original earnings target for 2020/21, set in February 2020, was 7-day LIBID plus 15%, but the exceptional market conditions applying in 2020/21 meant that this would produce a negative target figure. This was noted by the Committee in the half-yearly update in November 2020 and, in line with the advice of the Council's treasury management consultants, the target was revised to 0.10%. This was exceeded.

MONITORING QUARTER 1 2021/22 – 3 months to 30th June 2021

38. Borrowing. No borrowing was entered into in the first quarter of 2021/22.

39. Investments as at 30 June 2021 are presented in Appendix D. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. The balance of £58.533m was just over £7m (13.6%) higher than the £51.525m at 30 June 2020. This is again principally because of the impact of measures introduced in response to the pandemic, which have resulted in some major cash flows being displaced forwards. This will largely reverse during 2021/22. The average daily balance was £52.803m, earning interest of £14.7k (0.11%). More extensive use than usual has again been made of the DMO, with a balance of £15m at 30 June 2021 (see paragraph 36 for more details of the reasons for this).

40. Prudential and Treasury Indicators and Investment Counterparty Limits remain unchanged from those approved by Council on 24 February 2021 and there are no current proposals for any changes. Appendix E presents the counterparty limits for 2021/22.

ADVICE OF LINK ASSET SERVICES

41. Link Asset Services' review of the Economy and Interest Rates in 2020/21 is presented as Appendix C.

42. A detailed economic commentary on developments during the quarter ended 30 June 2021 is presented as Appendix F.

43. Appendix G is a detailed commentary on interest rate forecasts.

CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

44. No consultation was undertaken in preparing this report.

AIR QUALITY IMPLICATIONS

45. The report has now air quality implications.

COMMENTS OF THE STATUTORY FINANCE OFFICER

46. There are no financial implications arising directly as a result of this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategies for 2020/21 and 2021/22 approved previously by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies. Variances from the revised budgets for interest receivable and payable for

2020/21 were reflected in the report ‘Revenue and Capital Budget Monitoring 20-21 Outturn’, presented to Cabinet on 16 June 2021.

COMMENTS OF THE MONITORING OFFICER

47. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

OTHER IMPLICATIONS:

▶ **Risk**	Risk is an important issue for Treasury Management activity, and management of risk is at the heart of the Treasury Strategy for each financial year.
▶ **Equality & Diversity**	The report has no equality and diversity implications.

BACKGROUND DOCUMENTS (or There are no background papers to this report)

- CIPFA Treasury Management in the Public Services: Code of Practice & Cross-Sectoral Guidance Notes (December 2017 edition)
- CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities (July 2018 edition)
- CIPFA Prudential Code for Capital Finance in Local Authorities (December 2017 edition)
- CIPFA Standards of Professional Practice: Treasury Management
- MHCLG Guidance on Local Government Investments
- MHCLG Guidance on Minimum Revenue Provision
- Treasury Management Policy Statement 2020/21 to 2023/24 (Council 26 February 2020)
- Treasury Management Policy Statement 2021/22 to 2024/25 (Council 24 February 2021)

APPENDICES

Appendix A: Investments as at 31 March 2021
Appendix B: Investment Counterparties 2020/21
Appendix C: Link Asset Services' review of the Economy and Interest Rates 2020/21
Appendix D: Investments as at 30 June 2021
Appendix E: Investment Counterparties 2021/22
Appendix F: Link Asset Services' Economic Commentary 2021/22
Appendix G: Link Asset Services' commentary on Interest Rates 2021/22
Appendix H: Glossary of Terms

Louise Mattinson
Director of Finance

Report Author:	Telephone:	Date:
Tony Furber, Principal Financial Accountant	01772 625625	15 July 2021

APPENDIX A

List of Investments as at 31 March 2021

Counterparty	Type	Sum Invested £000	Accrued Interest £000	Total 31 March 2020 £000	Rate %	Link Suggested Duration	SRBC Approved Duration	Date Invested	Maturity Date
Cheltenham BC	Term	3,000	1	3,001	0.10%	60 mths	24 mths	15-Oct-20	15-Apr-21
Goldman Sachs International Bank	Term	4,000	1	4,001	0.13%	6 mths	6 mths	29-Jan-21	30-Jul-21
Highland Council	Term	5,000	4	5,004	0.21%	60 mths	24 mths	09-Nov-21	08-Sep-21
Plymouth BC	Term	5,000	6	5,006	0.25%	60 mths	24 mths	25-Sep-20	09-Sep-21
Fixed Term Deposit sub total		**17,000**	**12**	**17,012**	**Listed in Order of Maturity**				
Bank of Scotland	Term	6,000	5	6,005	0.06%	12 mths	12 mths	30-Nov-17	n/a
Santander UK PLC	Term	6,000	0	6,000	0.40%	6 mths	6 mths	15-Mar-16	n/a
Notice Accounts sub total		**12,000**	**5**	**12,005**					
Short-Term Investments		**29,000**	**17**	**29,017**					
Barclays BPA Deposit Account	Call	846	0	846	0.01%	6 mths	6 mths	On Call	n/a
Other Cash Balances		298	1	299					
Call Accounts sub total		**1,144**	**1**	**1,145**					
Aberdeen Standard	MMF	5,000	3	5,003	0.11%	(1)	AAA-rated	On Call	n/a
Blackrock	MMF	4,000	0	4,000	0.04%	(1)	AAA-rated	On Call	n/a
Federated Sterling Liquidity Fund	MMF	5,000	0	5,000	0.04%	(1)	AAA-rated	On Call	n/a
Money Market Funds sub total		**14,000**	**3**	**14,003**					
Other Cash & Cash Equivalents Balances		0	0	0					
Cash and Cash Equivalents		**15,144**	**4**	**15,148**					
Total Investments/Cash & Equivalents		**44,144**	**21**	**44,165**					

Notes

(1) MMF rates are variable. This is the calculated average for the year to March

APPENDIX B

Investment Counterparties 2020/21

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
Money Market Funds				
Money Market Funds (CNAV and LVNAV)	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Maximum durations suggested by Link Asset Services (LAS)

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

The Economy and Interest Rates 2020/21

UK. Coronavirus. The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown, so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020 was a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination, which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The Monetary Policy Committee cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using

fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

Brexit. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU. That now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

USA. The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell spoke on the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

EU. Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly

expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

Japan. Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

World growth. World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

APPENDIX D

List of Investments as at 30 June 2021

Counterparty	Type	Total 30 June 2020 £000	Rate %	Link Suggested Duration	SRBC Approved Duration	Date Invested	Maturity Date
Goldman Sachs International Bank	Term	4,000	0.130%	6 mths	6 mths	29-Jan-21	30-Jul-21
Highland Council	Term	5,000	0.210%	60 mths	24 mths	09-Nov-21	08-Sep-21
Plymouth BC	Term	5,000	0.250%	60 mths	24 mths	25-Sep-20	09-Sep-21
Fixed Term Deposit sub total		**14,000**	**Listed in Order of Maturity**				
Debt Management Office		15,000	0.01%	60 mths	6 mths	30-Jun-21	01-Jul-21
Debt Management Office sub total		**15,000**					
Santander UK PLC	180 Day Notice	6,000	0.400%	6 mths	6 mths	15-Mar-16	n/a
Bank of Scotland	175 Day Notice	6,000	0.060%	12 mths	12 mths	30-Nov-17	n/a
Notice Accounts sub total		**12,000**					
Short-Term Investments		**41,000**					
Barclays Fibca Deposit Account	Call	2,533	0.01%	6 mths	6 mths	On Call	n/a
Call Accounts sub total		**2,533**					
Federated	MMF	5,000	0.01% (1)		AAA-rated	On Call	n/a
		5,000	0.01% (1)		AAA-rated	On Call	n/a
Aberdeen Standard	MMF	5,000	0.01% (1)		AAA-rated	On Call	n/a
Money Market Funds sub total		**15,000**					
Cash and Cash Equivalents		**17,533**					
Total Investments/Cash & Equivalents		**58,533**					

Notes

(1) MMF rates are variable. This is the calculated average for the year to June

APPENDIX E

Investment Counterparties 2021/22

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 2 years	Unlimited £6m per LA
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£6m per group (or independent institution)
Non-UK Banks	Non-UK banks of high credit quality	Orange Red Green	1 year 6 months 3 months	£4m per group (or independent institution); £8m in total for this category
Money Market Funds				
Money Market Funds (CNAV and LVNAV)	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Maximum durations suggested by Link Asset Services (LAS)

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

Economics Update 2021/22

UK. The 24 June Monetary Policy Committee meeting voted unanimously to keep Bank Rate unchanged at 0.10%. They voted by a majority of 8-1 to continue unchanged the existing programme of UK government bond purchases of £875bn which is due to end by the end of this year. In the press release, it was noted that:-

> "Since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory".

The MPC noted the developing upside risks in the UK to both activity and inflation. It said that the news on activity "had predominately been to the upside" and that Bank staff had "revised up their expectations for 2021 Q2 GDP growth to 5½% from 4¼%". For the first time, the policy statement noted that "there are increasing signs of recruitment difficulties for some businesses" and the minutes said, "it was possible that the near-term upward pressure on prices could prove somewhat larger than expected". Indeed, by saying that inflation "is likely to exceed 3% for a temporary period" the MPC admitted the Governor will have to write to the Chancellor later this year explaining why inflation is more than 1% above the 2% target.

But the key point is that the MPC still appears willing to ride out the inevitable spike in inflation over the next six months as it thinks it will be short-lived and caused by one-off reopening price rises and supply shortages relative to demand - boosted by consumers having built up huge savings of around £145bn during lockdown. These spikes will drop out of the CPI calculation over the next twelve months. The forward guidance in the policy statement designed to demonstrate the MPC's patience was left intact, and the emphasis remained on "the medium-term prospects for inflation" rather than factors that are "likely to be transient". The minutes said the MPC should "ensure that the recovery was not undermined by a premature tightening in monetary conditions". It also repeated that it will not raise Bank Rate until the 2% inflation target has been attained sustainably i.e. the mere fact that it is forecasting inflation to be over 2% during 2021 and 2022 is not in itself sufficient to justify an increase in Bank Rate in the near future. The MPC indicated in the minutes that some members would prefer to wait for a clearer picture of the underlying pace of the recovery once the furlough scheme expires at the end of September, before making any judgement on medium-term inflationary pressures. This implies that the MPC may be unlikely to be in a position to consider a change in policy until early in 2022 at the earliest.

In addition, the Bank is undertaking a review of its stated current policy to raise Bank Rate first before unwinding quantitative easing (QE) purchases of gilts. Indeed, it now appears to be likely that the Bank could unwind QE first before raising Bank Rate as it sees QE as a very useful quick acting weapon to use to combat any sudden dysfunction in financial markets, as happened in March 2020. However, it is currently nearly maxed out on the total level of QE. Unwinding QE first would cause short term gilt yields to remain anchored at low levels and medium and long term gilt yields to steepen. Money markets are currently expecting Bank Rate to start rising in mid-2022 but they are probably being too heavily influenced by looking across the Atlantic where inflationary pressures are much stronger than in the UK and building up further under a major boost from huge Federal government stimulus packages. Overall, there could be only a minimal increase in Bank Rate in 2023 or possibly no increases before 2024.

GDP. The Bank revised up its expectations for the level of UK GDP in 2021 Q2 by around 1½% since the May Report due to the easing of restrictions on economic activity; this now leaves total GDP in June only around 2½% below its pre-Covid 2019 Q4 level. UK GDP grew by 1.5% in the three months to April 2021: this was the first expansion since the three months to December 2020. Forward looking monthly business surveys are running at exceptionally high levels indicating that we are heading into a strong economic recovery. Capital Economics do not think that the UK economy will suffer major scarring from the lockdowns. The one month delay to the final easing of

restrictions in July is unlikely to have much effect on the progress of recovery with GDP getting back to pre-Covid levels during August.

CPI. The annual inflation rate in the United Kingdom rose to 2.1% y/y in May from 1.5% y/y in April: this is the first time that the measure has been above the Bank of England's 2% target since July 2019.

COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the second half of 2021 after a third wave of the virus threatened to overwhelm hospitals in Q1 this year. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The UK has made fast progress, giving both jabs to nearly half of the total population and one jab to two thirds, (84% of all adults). This programme should be completed in the second half of the year. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. Since the Democrats won the elections in late 2020 and gained control of both Congress and the Senate, (although power is more limited in the latter), they have passed a $1.9trn (8.8% of GDP) stimulus package in March 2021 on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also now negotiating to pass a $1trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.
After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation had actually been under-shooting the 2% target significantly for most of the last decade, so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after that meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow by allowing inflation to run higher for longer, even if they do not call it a policy of average inflation targeting as such.

In the Fed's June meeting, it stuck to its line that it expects strong economic growth this year to have only a transitory impact on inflation which is being temporarily boosted by base effects, spikes in reopening inflation and supply shortages. The big surprise was the extent of the upward shift in the "dot plot" of interest rate projections: having previously expected no hikes until 2024 at the earliest, most officials now anticipate two in 2023, with 7 out of 18 expecting to raise rates next year. This was a first indication that there was rising concern about the risks around inflationary pressures building up on a more ongoing basis and is somewhat hard to reconcile to the words around inflation pressures being only transitory.

Treasury yields in the US ought to rise much more strongly than gilt yields in the UK due to the divergence in the levels of inflationary pressures and the levels of surplus capacity currently in both economies, (the US is much nearer full capacity than the UK). Bond investor sentiment could lean in the direction that even if central banks refrain from raising central rates in the short term, all they are doing is setting up sharper increases further down the line. This is likely to cause increases in longer-term bond yields without any actual increases in central rates. There will then be a question

as to how strong an influence rising treasury yields will have on gilt yields. Due to the divergence between the US and UK economies, it is expected that the Fed rate will need to increase first before Bank Rate and that there could be a significant delay before the Bank of England follows suit.

EU. Both the roll out and take up of vaccines was disappointingly slow in the EU in the first few months of 2021 but has since been rapidly catching up. This delay will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. After contracting by another 0.3% in Q1 of 2021, recovery will now be delayed until Q3 of 2021. At its June meeting, the ECB forecast strong economic recovery with growth of 4.6% and 4.7% in 2021 and 2022 respectively.

Inflation is likely to rise sharply to around 2.5% during 2021 for a short period, but as this will be transitory, due to one-off factors, it will cause the ECB little concern. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December 2020 meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The total PEPP scheme of €1,850bn of QE, which started in March 2020, is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB maintains this level of support. The March ECB meeting also took action to suppress the rise in long bond yields by stepping up its monthly PEPP purchases. Meetings in April and June confirmed these policies so monetary policy will remain highly accommodative with no sign yet of tapering of asset purchases.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the contraction in Q1 2021. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. After making a rapid recovery in 2020/21, growth is likely to be tepid in 2021/22.

Japan. A third round of fiscal stimulus in December 2020 took total fresh fiscal spending in 2020 in response to the virus close to 12% of pre-virus GDP. That is huge by past standards, and one of the largest national fiscal responses. The resurgence of Covid in Q1 2021, coupled with a slow roll out of vaccines, has pushed back economic recovery. However, quickening of vaccinations in the second half of 2021 will lead to a strong economic recovery to get back to pre-virus levels by the end of 2021 – around the same time as the US and sooner than the Eurozone.

World growth. World growth was in recession in 2020 but should recover during 2021. Inflation is unlikely to be a significant problem in most countries for some years due to the creation of excess production capacity and depressed demand during the coronavirus crisis.

Impact on gilt yields and PWLB rates in 2021. Since the start of 2021 gilt yields and PWLB rates have risen sharply. What has unsettled financial markets has been a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic, in addition to the $900bn support package passed in December. Financial markets have been concerned that the two packages, on top of the Fed already stimulating the economy by cutting the Fed rate to near zero and unleashing massive QE, could cause an excess of demand in the economy which unleashes strong inflationary pressures; these could then force the FOMC to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years.

A further concern in financial markets is when will the Fed end quantitative easing (QE) purchases of treasuries and how they will gradually wind it down. These ongoing monthly purchases are

currently acting as downward pressure on treasury yields. Nonetheless, during late February and in March, yields rose sharply. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards there will invariably impact and influence financial markets in other countries. It is noticeable that gilt yields moved higher after the MPC meeting in early February as a result of both developments in the US, and financial markets also expecting a similarly rapid recovery of the UK economy as in the US; both countries were expected to make similarly rapid progress with vaccinating their citizens and easing Covid restrictions. They are, therefore, expecting inflation to also increase more quickly in the UK and cause the MPC to respond by raising Bank Rate more quickly than had previously been expected.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China which caused considerable consternation in western countries. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates from rates in prior decades.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is, therefore, very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. The Fed has changed its policy on inflation to targeting an average level of inflation. Greater emphasis will also be placed on hitting subsidiary targets e.g. full employment, before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

Updated Interest Rate Forecasts 2021/22

Provided as separate document.

Glossary of Terms

Authorised Limit –represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Capital expenditure – material expenditure on capital assets, such as land and buildings, capitalised in accordance with regulations.

Capital Financing Requirement (CFR) – the level of capital expenditure to be financed from borrowing. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism.

CIPFA – Chartered Institute of Public Finance and Accountancy

Counterparty – the other party involved in a borrowing or investment transaction.

Credit Rating – a qualified assessment and formal evaluation of the credit history and capability of repaying obligations of an institution (bank or building society). It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time. Ratings are prepared by Finch, Moody's and Standard & Poor's, and these are monitored by Link Asset Services.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Liquidity – the ability of an asset to be converted into cash quickly and without any price discount. The more liquid an organisation is, the better able it is to meet short term financial obligations.

LIBID – London Interbank Bid Rate - the interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by anybody or organisation, but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.

LVNAV MMF (Low Volatility Net Asset Value MMF) - a type of fund categorised as a Short Term MMF. Units in the fund are purchased or redeemed at a constant price, as long as the value of the assets in the fund do not deviate by more than 0.2% from par.

MHCLG – Ministry of Housing, Communities and Local Government (formerly DCLG)

Minimum Revenue Provision (MRP) - is a provision the council has set-aside from revenue to repay loans arising from capital expenditure financed by borrowing. MRP is required even when borrowing is internal rather than external.

Monetary Policy Committee (MPC) – independent body which determines the Bank Rate.

Money Market Fund (MMF) - mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and high credit rating debt-based securities with a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk.

Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.

Prudential Code – the Local Government Act 2003 requires the Council to 'have due regard' to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Prudential Code is published by CIPFA.

PWLB – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

Revenue expenditure – day to day items which may not be capitalised without a Government direction, including employees' pay, transport and premises costs, supplies and services, and benefits.

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LINK Group

Updated Interest Rate Forecast

11th May 2021

LINK GROUP UPDATED INTEREST RATE FORECAST

Updating of our forecasts 10th May 2021

Comparison of forecasts for Bank Rate today v. previous forecast												
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
10.5.21	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
9.3.21	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.15	0.15

- We have put in one increase in Bank Rate from 0.10% to 0.25% in Q3 2023.
- There are 10bps increases in some of our PWLB rate forecasts due to the stronger and quicker UK economic recovery.
- LIBOR and LIBID rates will cease from the end of 2021. In the February edition of CityWatch, we outlined how these rates are expected to be replaced. In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 10.5.21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Link Group Interest Rate 8.3.21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

MPC meeting 6.5.21

- Bank Rate was left unchanged at 0.10% and the stock of QE at £895bn, although the pace of QE purchases was slowed, as the MPC had previously implied, so as to last until the end of the year. The MPC's words were distinctly more hawkish in five ways: -

  1. The MPC's **annual GDP growth forecast** for 2021 was revised up from 5.0% in February to 7.25% - the fastest pace of growth since the 1940s. Growth was revised down in 2022 by a slightly smaller amount (7.25% to 5.75%). The Bank now expects GDP to return to its pre-crisis peak in Q4 2021 rather than in Q1 2022. This feeds through into the unemployment rate peaking at 5.4% in Q3 2021, rather than 7.8% in Q3 2021 previously. It also raised the **inflation forecast** in the near term, but lowered it further out so that it is around 2% from the second half of 2022 and for all of 2023. That is a bit earlier than before. Consumers were now expected to be confident enough to spend 10% of their excess savings rather than the 5% it had assumed in February. The MPC expects there to be less excess supply in 2021 and for there to be more excess demand in 2023, suggesting that the MPC has revised up demand by more than supply.
  2. The new economic forecasts imply that the date at which the conditions **for tighter monetary policy** might be in place, e.g. a 4.5% unemployment rate and 2.0% inflation rate, has come forward by at least a year, from the end of 2023 to the end of 2022. The Bank's forecast for CPI inflation stays above 2.0% for the next two years. That suggests at least one rate hike will be needed to keep inflation at the 2.0% target.
  3. The MPC tweaked its **forward guidance** by removing the phrase "if the outlook for inflation weakened" as the risks were now more balanced than being on the downside; this presumably means that the MPC is now ready to tighten policy as well as loosen it.
  4. The MPC decided to slow the pace of its **asset purchases** from about £4.4bn a week currently so that it could stay on track to hit its target for QE by the end of the year.
  5. Andy Haldane, the most hawkish member of the MPC, but also soon to leave the MPC, voted to **reduce the QE target** by £50bn.

- The MPC is likely to want to be sure that **inflation** is going to stay around 2.0% and that the unemployment rate is continuing to decline before it decides to start tightening policy. This suggests that, even on the Bank's forecasts, a series of rate hikes is unlikely until 2023 at the earliest. However, by then, the initial surge in inflation in 2021 and 2022 due to a combination of base effects, energy price increases and a release of pent-up demand hitting supply constraints, will have subsided. It will, therefore, turn into a question of when the elimination of spare capacity in the economy takes over as being the main driver to push inflation upwards; this could then mean that the MPC will not start tightening policy until 2023 or even later.
- As **Bank Rate** at 0.10% was an emergency response to a dire situation, we have put in one increase to 0.25% in Q3 2023 to reflect a likely desire by the MPC to recover a little flexibility in being able to use Bank Rate cuts as a monetary policy tool in the future. The timing for such a move is highly unpredictable, as is whether there could be more than one such hike.
- The **financial markets** are predicting that Bank Rate starts rising in 2022 but this appears to be premature.

Gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. What has most unsettled financial markets has been US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic. However, this is in addition to the $900bn support package passed in December. This was then followed by two further packages – a $2trn infrastructure plan in April spread over 8 years and a $1.8trn American families plan in May spread over the next decade, but paid for by increases in taxes. The last two will have only a minor impact on growth and inflation as their impact is spread over the next decade, assuming they get passed by both Houses. But financial markets have been alarmed that all this stimulus is happening at a time when: -

1. A fast vaccination programme is enabling a rapid opening up of the economy.
2. The economy is already recovering strongly.
3. It is starting from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed is still providing stimulus through monthly QE purchases.

This could cause an excess of demand in the economy which could unleash inflationary pressures. This could then force the Fed to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation and saying that increases were unlikely in the next few years as the impending surge in inflation was only "transitory".

A further concern in financial markets is when will the Fed end QE purchases of treasuries and how they will gradually wind it down. These purchases are currently acting as downward pressure on treasury yields. Nonetheless, during the last week of February and the first week of March, yields rose sharply. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards there will invariably impact and influence financial markets in other countries. It is noticeable that gilt yields moved higher through February and that international factors have been combining with domestic factors to this effect.

Increases in Bank Rate

While our forecast in the above table shows only one increase from 0.10% to 0.25% in the next three years, we have had a considerable internal discussion as to how the MPC might approach doing the first increases. The current rate of 0.10% was an emergency rate introduced at the height of the financial markets sell-off in March 2020. However, as the global economy recovers from the worst of the pandemic:-

- Would the MPC still feel it is appropriate to keep Bank Rate down at such a low level until inflationary pressures are entrenched?
- Would it feel that the first increases in Bank Rate should be in the form of, perhaps, 10 bps movements, to better signal to the markets their intent for the rest of the economic recovery?
- OR would it do a first increase back to 0.25% to get a foothold back on the ladder of 0.25% increases thereafter?

Interesting questions, but we do not have the answers! We are just pointing out that there should be caution in assuming that Bank Rate will definitively stay at exactly 0.10% for the next three years. What the MPC will NOT want to do, however, is to delay any Bank Rate increase to the extent that investors in gilts lose confidence in the Bank's inflation fighting credentials or to allow inflation expectations of consumers to build up to unacceptable levels which then feeds through into putting upward pressure on pay inflation.

There are two views in respect of Bank Rate beyond our three-year time horizon: -

a. The MPC will be keen to do a series of increases in Bank Rate as soon as possible in order for it to become a usable tool when the next economic downturn comes along. This is in line with thinking on Bank Rate over the last 20 years.

b. Conversely, that we need to adjust to the new post-pandemic era that we are now in. In this new era, the shift to a <u>sustainable level</u> of 2% inflation targeting has set a high bar for raising Bank Rate i.e., only when inflation is demonstrably and sustainably above 2%, (which means it will be backward looking at factual evidence). In addition, many governments around the world have been saddled with high levels of debt. When central bank rates are low, and below the average GDP growth rate, the debt to GDP ratio will gradually fall each year without having to use fiscal tools such as raising taxes or austerity programmes, (which would depress economic growth and recovery). This could, therefore, result in governments revising the setting of mandates to their national central

banks to allow a higher rate of inflation linked to other economic targets. This is the Capital Economics view – that Bank Rate is unlikely to rise for the next five years and will probably then struggle to get to 1% within 10 years.

Globally, our views on economies are as follows: -

- **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP. However, a second wave of the virus caused a renewed fall back in growth during Q4 and in Q1 this year. The slow role out of vaccines will delay economic recovery but the vaccination rate has picked up sharply in Q2. Prospects for Q2 have improved as 70% of the adult population will have been vaccinated by July. That should embolden governments to begin to lift restrictions in the coming weeks and this in turn should bring forward some of the pick-up in economic activity to around 1%. There is little sign that underlying inflationary pressure is building.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all the initial contraction. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, the pace of economic growth will fall back after this initial surge of recovery from the pandemic.

- **Japan.** After declaring a second state of emergency on 7th January, which depressed growth in Q1 2021, the economy should make a strong recovery to pre-pandemic GDP levels in the rest of the year as the slow role out of vaccines eventually gathers momentum.

- **World growth.** World growth has been in recession in 2020 but should recover during 2021. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

The balance of risks to the UK: -

- The overall balance of risks to economic growth in the UK is now to the upside though there are still residual risks from variants - both domestically and their potential effects worldwide.

- There is relatively little domestic risk of a series of increases in Bank Rate in the next three years and, therefore, in shorter-term PWLB rates. Gilt yields and PWLB rates are, nonetheless, expected to be subject to on-going volatility.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include: -

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications with customs paperwork or lack of co-operation in sorting out significant remaining issues.

- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In

addition, the EU agreed a €750bn fiscal support package which has still to be disbursed. These actions will help shield weaker economic regions in the near-term. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on the extent of credit losses resulting from the pandemic.

- **German minority government & general election in September 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, because of the rise in popularity of the anti-immigration AfD party. Subsequently, the CDU has done badly in state elections, but the SPD has done even worse. Angela Merkel has stepped down from being the CDU party leader but remains as Chancellor until the general election in 2021. This then leaves a major question mark over who the major guiding hand and driver of EU unity will be when she steps down.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile and, therein, impact market confidence/economic prospects and lead to increasing safe-haven flows.

- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Stronger than currently expected recovery in UK and/or other major developed economies.

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

LINK GROUP FORECASTS

We do not think that the MPC will embark on a series of increases in Bank Rate during the current and next two financial years as we do not expect inflation to return to being sustainably above 2% during this period.

With unpredictable virus factors now being part of the forecasting environment, there is a risk that forecasts could be subject to significant revision during the next three years.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e., equities, or the safe haven of government bonds. The overall longer-run trend is for gilt yields and PWLB rates to rise.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?

- Would the MPC take action to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below.

PWLB debt	Current borrowing rate as at 10.5.21 p.m.	Target borrowing rate now (end of Q2 2021)	Target borrowing rate previous (end of Q2 2021)
5 year	1.14%	1.20%	1.20%
10 year	1.68%	1.70%	1.60%
25 year	2.16%	2.20%	2.10%
50 year	1.95%	2.00%	1.90%

Borrowing advice: Our long-term forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently near or below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk. Please speak to your CRM to discuss options.

Our suggested budgeted investment earnings rates for investments up to about three months' duration in each financial year for the next six years are as follows: -

Average earnings in each year	Now	Previously
2020/21	0.10%	0.10%
2021/22	0.10%	0.10%
2022/23	0.10%	0.10%
2023/24	0.25%	0.10%
2024/25	0.50%	0.25%
2025/26	1.00%	1.00%
Long term later years	2.00%	2.00%

The long-term later years forecast in the table above is an indicator for 10 years+.

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for a trend of gently rising gilt yields is unchanged. Negative, (or positive) developments could significantly impact safe haven flows of investor money into UK, US and German bonds and produce shorter-term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, (apart from the current rate of 10 bps), whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Interest Rate Strategy Group

Report to	On
Governance Committee	**Tuesday, 27 July 2021**

Title	Report of
Statement of Accounts for the Financial Year 2020/21	**Director of Finance**

Is this report confidential?	No

Purpose of the Report

1. To present members with the Draft Statement of Accounts for 2020/21 and to advise Members in respect of the statutory requirements for signature, audit, inspection and publication of the Statement . The report also details the role of Members in the process leading up to the formal submission of the SOA for approval by the 30th September 2021 following completion of the external audit.

Recommendations

2. Members are asked to note the report.

Corporate outcomes

3. The report relates to the following corporate priorities: *(tick all those applicable):*

An exemplary council	✓	Thriving communities	
A fair local economy that works for everyone		Good homes, green spaces, healthy places	

Background to the report

4. The Accounts and Audit Regulations came into force on the 1st April 2015 and set the statutory timetable for production, approval and audit of the Statement of Accounts. For the 2020-21 Statement, the Regulations have been updated by the Accounts and Audit (Amendment) Regulations 2021.

5. The Responsible Financial Officer must sign and date the Statement of Accounts and certify that it presents a true and fair view of the financial position of the Authority at the year end, and the income and expenditure for the year.

6. The Responsible Financial Officer must then commence the period for the exercise of public rights and notify the local auditor of the date on which that period was so commenced. The usual date by which this must be done is by 31st May, but for 2020/21 this has been amended to 31st July. There is no requirement for Members to approve the Statement of Accounts at this stage in the process.

7. The Responsible Financial Officer must, on behalf of the authority, publish (which must include publication on the authority's website) the statement of accounts along with the Annual Governance Statement and a Narrative Report and a declaration, signed by that officer, to the effect that the status of the statement of accounts is unaudited and that the statement of accounts as published may be subject to change.

8. The regulation also states that the period for the exercise of public rights is treated as being commenced on the day following the day on which all of these obligations have been fulfilled. The Responsible Finance Officer must also ensure that commencement of the period for the exercise of public rights takes place on such a day that includes the first 10 working days of August (usually June) and continues for a single period of 30 working days.

9. The draft Statement of Accounts for the Financial Year 2020/21 is attached at Appendix A. The document is complete except for tables and supporting narrative in respect of the Lancashire Business Rates Pool, where information has yet to be received from the Pool lead authority. The Annual Governance Statement, which is required to accompany the accounts, is that approved by the Committee on 25th May 2021 and so is included here for completeness, rather than for further review.

10. The Statement of Accounts will be available for public inspection from Monday 2nd August 2021 for a period of 30 working days. This will be advertised on the Council's website from 1st September and Members of the Committee will be able to access the statutory accounts at that point.

11. The audit of the accounts is already under way, with the Council's auditors having requested a forward copy of the Statement at the beginning of July, in order to facilitate an early start to their work. For 2020/21, the required date for the publication of the Draft Statement has been amended from 31st May to 31st July, and for completion of the audit and final approval and publication of the Statement ,this has been amended from 31st July to 30th September.

12. Once the audit has been completed, the Regulations specify that the Responsible Financial Officer must reconfirm on behalf of the authority that they are satisfied that the Statement of Accounts presents a true and fair view of the financial position of the authority at the year end, and the income and expenditure for the year. The council is then required to:

- consider, either by way of a committee or by the members meeting as a whole, the statement of accounts;
- approve the statement of accounts by a resolution of that committee or meeting;
- ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

13. Once approved the council must, by no later than 30th September, publish:

- the statement of accounts together with any certificate or opinion, entered by the local auditor;
- the annual governance statement; and
- the narrative report.

14. Publication of the final documents must also be on the council's website. Arrangements are in place to ensure all of the requirements can be met and that the governance committee will be able to fulfil its duty in terms of scrutiny of the accounts.

Risk

15. Risk implications apply in relation to the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Amendment) Regulations 2021, to prepare financial statements in accordance with the statutory timetable. The accounts must be compliant with the relevant standards and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.

Equality and diversity

16. The report has no equality or diversity implictions.

Air quality implications

17. The report has no air quality implications.

Comments of the Statutory Finance Officer

18. There are no direct financial implications arising as a result of this report. The report relates entirely to the statutory accounting requirements for the Statement of Accounts. All financial implications relating to the final budget outturn position have been set out in the Budget Outturn Report 2020/21 which was considered by Cabinet on 16th June 2021.

Comments of the Monitoring Officer

19. The legal implications are in respect of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Amendment) Regulations 2021, and the requirement that the accounts must be compliant with the relevant accounting standards and codes of practice and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.

Background documents (or There are no background papers to this report)

- Accounts and Audit (England) Regulations 2015
- Accounts and Audit (Amendment) Regulations 2021
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

Appendices

Appendix A : Unaudited Statement of Accounts 2020/21

Louise Mattinson
Director of Finance

Report Author:	Email:	Telephone:	Date:
Tony Furber (Principal Financial Accountant)	tony.furber@southribble.gov.uk	01772 625625	19th July 2021

Statement of Accounts

Year Ending 31 March 2021

South Ribble Borough Council

Contents

Narrative Report of the Chief Financial Officer

Introduction

I am pleased to introduce the Statement of Accounts for the 2020/21 financial year for South Ribble Borough Council. The accounts are produced annually to give electors, local taxpayers, members of the Council, employees and other interested parties clear information on the Council's finances and the financial outlook for the future.

The accounts must be completed by law and in accordance with the requirements of the Code of Practice on Local Authority Accounting. The accounts provide all of the financial information for the 2020/21 financial year and there is a narrative that provides a high level overview of the key issues that affect the accounts including information on the Council's achievements during the year and a section that looks at the outlook for the future.

The last financial year has been extraordinary and has placed new pressures on the Council's services. I am extremely proud of the staff at South Ribble Council as they have responded to these new demands. Through their hard work and dedication, they have ensured the Council has supported its residents and businesses whilst continuing to deliver its Corporate Strategy priorities.

Additional financial support from central government assisted the Council in meeting the financial impact arising from the pandemic. This included approximately £27m of funding that was paid via the Council to its local businesses. The Council set up Community Hubs to help support its residents and increased its support for the homeless. The Council has and will continue to support the Government's test and trace programme, as well as supporting residents that claim local council tax support.

The Council faces a continued challenge as a result of the pandemic, and also due to the fact that it is operating in an environment where the costs and demands on services are growing each year, whilst resources are finite. The effects of the pandemic brings uncertainty over future costs and funding for the authority, but I am confident, given the way in which our staff have met these challenges to date, that the authority will continue to meet and manage these challenges into the future on behalf of all our local residents.

I hope you find this report and the Statement of Accounts useful in understanding the Council's financial position and performance for the year.

I'd also like to express my thanks for the hard work and dedication of staff across the whole of the Council who have worked to consolidate the financial stability of the Council and ensure the production of the Statement of Accounts in what are very unusual and difficult circumstances.

Louise Mattinson ACA
Director of Finance/Section 151 Officer

South Ribble

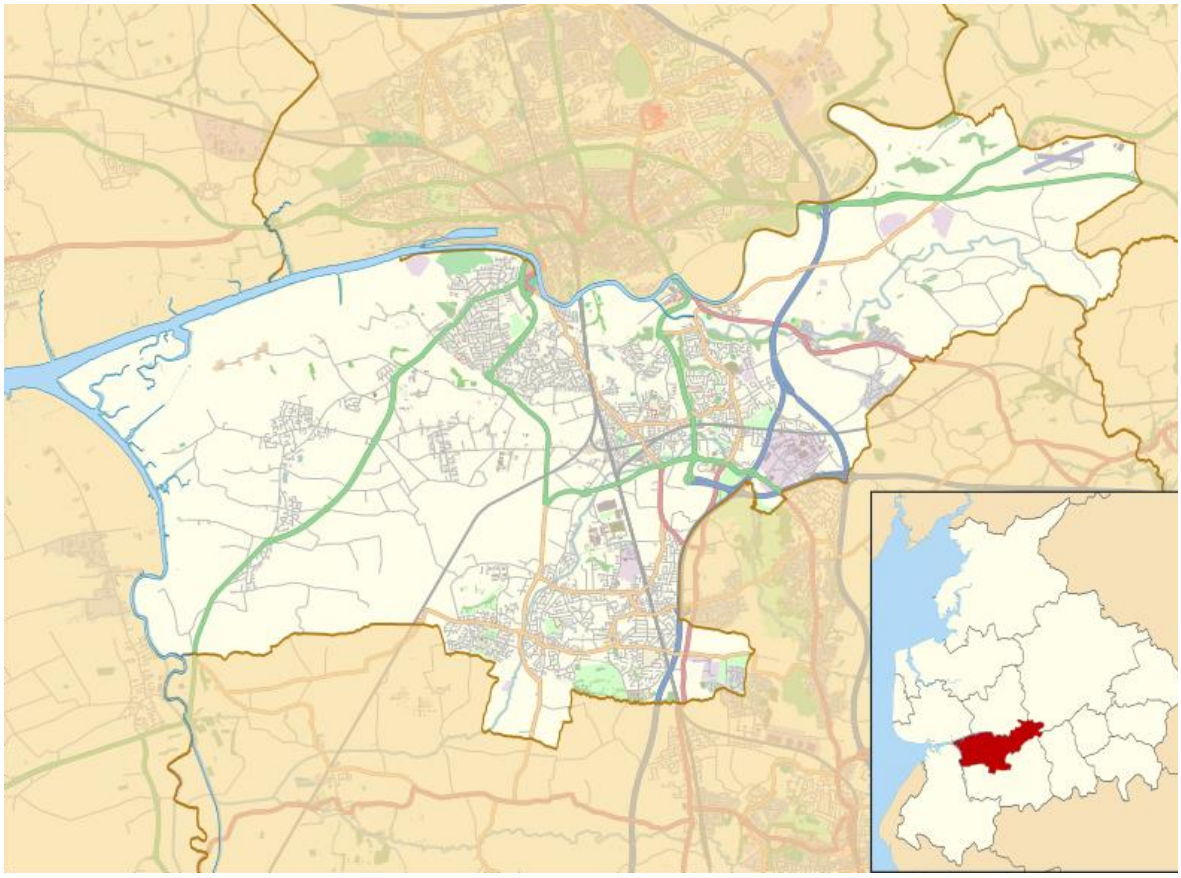
South Ribble Borough is located in Lancashire at the centre of the North West region, situated right on the M61, M6 and M65 motorways with easy access to the West Coast mainline and airports at Manchester and Liverpool with the Borough extending to about 113 km2 (approximately 44 square miles). The Borough is on the edge of the West Pennine Moors with beautiful scenery and countryside and is just a short drive from the Lancashire coastline. The latest available Office for National Statistics (ONS) figures estimate that the total population of the borough was estimated as 111,086 in 2020.

The Council is based in the town of Leyland in the south of the borough with other notable population areas being Penwortham, Longton, Hutton, Walton-le-Dale, Bamber Bridge, Lostock Hall, Moss Side and a significant part of Buckshaw Village.

The district was formed on 1st April 1974 under the Local Government Act 1972, from Leyland and Walton-le-Dale urban districts, along with part of Preston Rural District. The borough shares its borders with Chorley, West Lancashire, Blackburn with Darwen, Ribble Valley, Preston and Fylde Councils.

Regeneration, Inward Investment and working with partners to deliver the City Deal agreement are recognised as being very important to the future prosperity of the borough and are key priorities for the Administration. The Council has to provide services such that it meets the needs of its citizens, serving both an urban and rural environment. Another key priority for the Council is its Green Links programme for the protection of its parks and open spaces, leisure and sports facilities, encouraging this green environment and to take on the increasing issues of Air Quality associated with the transport infrastructure.

Location and map of South Ribble borough



South Ribble Borough Council

South Ribble Borough Council is part of a two tier system in Lancashire that consists of a County Council, two unitary councils and 12 district councils. South Ribble Borough Council works collaboratively with a wide range of partners to deliver its vision of 'Working together to make South Ribble and its communities, great places to live, work, visit and play'. The Council is committed to working across organisational boundaries to improve outcomes for local people and communities and to ensure that high-quality services are readily accessible to the people of the borough. During 2020/21, the Council underwent significant changes in its Senior Management structure as part of the sharing of services with Chorley Borough Council.

The Council has 50 district councillors elected to cover all the electoral wards across the borough. District councillors represent their communities and bring their views into the Council's decision making process. Council meetings are publicised on the Council's website alongside agendas, reports and minutes. The meetings are open to members of the public to attend bringing decision-making closer to the public.

The political structure of the Council in the 2020/21 year was as follows, with a Labour minority administration supported by the Liberal Democrat group on the basis of a supply and confidence agreement:

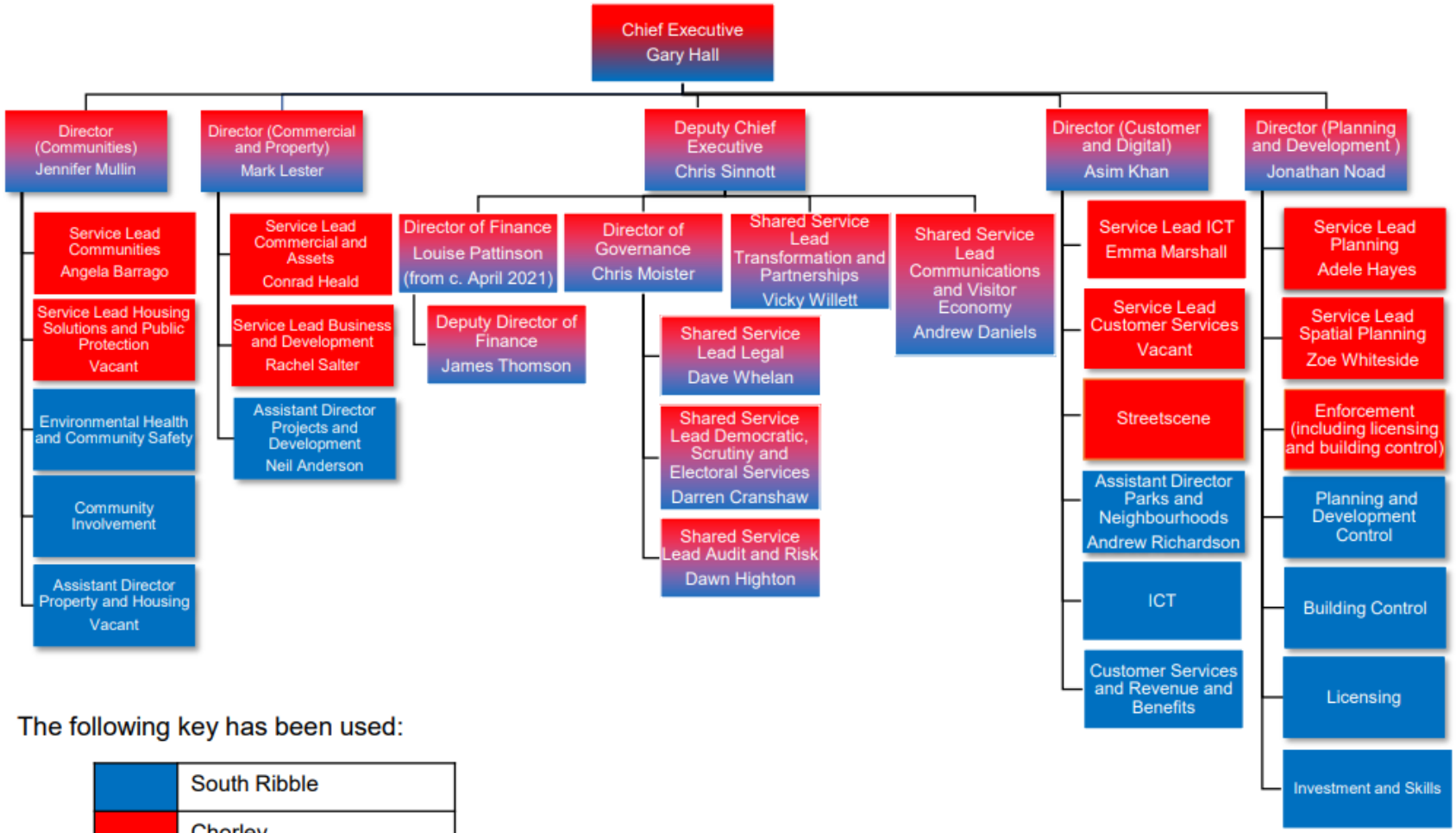
Party	No.
Conservative	22
Labour	22
Liberal Democrat	5
Vacant	1
TOTAL	**50**

Management Structure

The Senior Management Structure was reviewed during 2020/21 to enhance service sharing with Chorley Borough Council. This in turn has informed the allocation of resources within the Medium-Term Financial Strategy. The current structure is shown on the next page with a review of the newly shared Directorates being undertaken during 2021/22.

The current structure includes bringing South Ribble Council's leisure services back in-house in April 2021. The Council is in the progress of setting up a wholly owned leisure company to manage the running of its leisure services on the Council's behalf. The current leisure staff will sit in the Commercial & Property Services Directorate until they move in to the wholly owned company.

Leadership and Management Structure



The following key has been used:

	South Ribble
	Chorley
	Shared

Our staff are the most important resource we have to help us achieve our goals. The Council employs 437 staff in full time, part time and casual contracts. A breakdown of our workforce by age and gender is set out in the table below:

No. of Employees by Age and Gender.

	SRBC		Leisure		Total	
	Male	**Female**	**Male**	**Female**	**Male**	**Female**
Under 20	1	1	2	6	3	7
20-29	30	17	11	14	41	31
30-39	33	33	7	9	40	42
40-49	38	45	4	13	42	58
50-54	19	21	7	7	26	28
55-59	24	31	2	6	26	37
60+	19	22	5	10	24	32
Total	**164**	**170**	**38**	**65**	**202**	**235**

Corporate Plan and Performance in 2020/21

The Annual Corporate Plan Performance report for 2020/21 will be presented to Full Council at the end of September 2021. The report will provide an overview of how the Council performed against the identified deliverables for 2020/21, within the 2020/21 to 2022/23 Corporate Plan, which was reviewed and refreshed part way through the year, following an election and new administration. The refresh of the Corporate Plan was completed and approved by Council in September 2020. Reporting is based on the refreshed Corporate Plan and Objectives.

In summary, the Council has made good progress during the year, although it is important to understand that many of these Corporate Plan projects run across multiple years, therefore a significant amount of the work completed to date has been at a strategic planning and consultation level. Although this process can be time intensive, South Ribble Borough Council is committed to ensuring that the projects delivered meet the needs of South Ribble's communities. Within the Corporate Plan, some projects are delivered directly by the Council itself, while others are led by other organisations, with the Council playing a supporting or influencing role.

The Corporate Plan is delivered with the purpose to achieve the Council's vision and ambition.

This refreshed vision and priorities are outlined below.

Corporate Strategy

2020/21 -2022/23

An exemplary council

A council that:

- Delivers high performing services that represent value for money
- Understands the community and works with partners to make things better
- Is open and transparent in its activities

Thriving communities

Places where:

- Residents have positive mental health
- People get involved and have a sense of belonging
- Communities can access services and support when they need them

Good homes, green spaces, healthy places

A borough with:

- A choice of decent, affordable housing
- Commitment to protecting the local environment
- A choice of quality recreational activities

A fair local economy that works for everyone

A council that:

- Increases access to training and jobs
- Grows and supports sustainable businesses
- Invests in improving the borough

Our vision:

A healthy and happy community, flourishing together in a safer and fairer borough that is led by a council recognised for being innovative, financially sustainable and accountable.

The areas of activity and the identified projects associated with each of these are identified below, together with examples of performance against them in 2020/21. A detailed report regarding performance was taken to Budget and Performance Scrutiny on 14 June 2021 and was approved by Executive Cabinet on 16 June 2021, the report can be found here.

AN EXEMPLARY COUNCIL

Achievements:

The project to transform the way the council operates has made good progress with the establishment of a shared Chief Executive and management team. Effective governance structures have been put in place including weekly Senior Management Team meetings and monthly Leadership Team meetings to ensure clear strategic direction and communication. Work to review services has also advanced with the completion of the first stage of the ICT review including structures, budgets and sharing opportunities identified and consulted on ready for implementation. The shared model for ICT services supports the development of the Joint Digital Strategy action plan with year 1 delivery due to begin in quarter one 2021-22.

The development of shared arrangements for Customer Services is ongoing in line with the project plan. Staff have had the opportunity to feed in their views and ideas through workshop and other sessions. From this, the initial key objectives and priorities for the service, alongside high-level proposals for a shared model have been developed and scoped and was reported to the Shared Services Joint Committee on 21 June 2021.

Work with partners to design and deliver better public services has been moved forward with a joint workshop between South Ribble Partnership and Chorley Partnership in March 2021 to identify opportunities for working together in line with sovereign priorities. Partners recognised the benefits of a single partnership across the two districts, which will cover over 200,000 residents and provide greater opportunities to deliver change at scale and be able to deliver greater outcomes to residents through the sharing of experience, resources, and knowledge. At the South Ribble Partnership in May 2021 partners considered new governance arrangements for a combined Chorley and South Ribble place-based partnership. The arrangements provide opportunities to focus on South Ribble issues, while also benefitting from the opportunity to work across the two boroughs where it is appropriate.

The Annual Governance Statement (AGS) action plan continues to improve the transparency and openness of the council. Progress has been reported to the Governance Committee in March 2021 outlining the activities that have been completed against the AGS action plan. Governance Committee approved a new Risk Management Strategy and agreed the principles of a Key Partnerships and Contracts Framework which will be finalised and adopted to ensure robust monitoring of key strategic partnerships. The Financial Procedure Rules were also referred to Governance Committee for their approval.

Of the four projects within this priority, three are green and on track and one has not yet started.

Projects	2020-21 Quarter 4 (Jan – Mar)
Deliver the Annual Governance Statement Action Plan	GREEN
Transform the way the council operates	GREEN
Work with partners to design and deliver better public service:	GREEN
Deliver year one of the joint digital strategy	NOT YET STARTED

THRIVING COMMUNITIES

Achievements

The project to deliver a mental health support programme for young people has progressed. Work has been focused on building of relationships with mental health support services available in South Ribble. A directory of mental health services for young people has been developed and published on the Council's website. The aim of the directory is to raise awareness of metal health services both locally and nationally.

The focus of the Youth Council project has been to develop the contacts with key stakeholders, which includes Lancashire County Council Youth Services, all South Ribble high schools, young people groups and organisations. Best practice research has been undertaken via membership of the British Youth Council and the Co-operative Council Innovation Network (CCIN) highlighting the best methods of engaging young people effectively. Plans are now developing for the engagement methods to be used with young people to inform the structured consultations and engagement work that will commence in September 2021. The project has been promoted on social media to generate initial awareness and interest.

The South Ribble Community Hub action plans were approved at Cabinet in March 2021 and activity has progressed across the hubs although with some limitations around consultation and engagement due to local restrictions (examined further in the action plan below). Examples of progress include the preparation work for online events for Penwortham Live and Longton Live, a community partnership with Samlesbury Civic Society to encourage and promote volunteering and further develop a community garden, and Securing the purchase of the Eagle and Child Bowling Club and securing a long term lease with the bowling club.

In addition, as part of the Community Hub project, Foodbank Network partners have continued to support residents with food, cleaning products, toiletries, pet food and baby related goods. The Communities team has supported on a practical level with collecting and delivering large donations, providing accommodation, and referring people to appropriate services for help with other issues such as benefits and housing advice. The school uniform bank has expanded for 2021 to assist families struggling to purchase uniforms, and the recycling of good quality or unworn items**.**

Of the three projects within this priority, two are rated green; and one is rated amber.

Projects	2020-21 Quarter 4 (Jan – Mar)
Establish South Ribble Together Hubs	**AMBER**
Deliver a mental health support programme for young people	**GREEN**
Establish a Youth Council	**GREEN**

Establish South Ribble Together Hubs: Agreeing plans for neighbourhood areas and a borough food bank network	**AMBER**
Issue:	As part of the engagement with communities, the original consultation methods to get feedback on the neighbourhood action plans involved face to face public meetings. The lockdown that was put in place by late December, had resulted in any face to face engagements being cancelled. To remedy this, the plan had been to undertake engagement through other methods which involved newsletters and social media. The planned engagements were to take place in March 2021, however, following the decision to run round one of the Community Hubs Boost Fund with a closing date for applications of 31 March and decisions / notifications of successful bids in May, in consultation with the cabinet member the timeline for the publication of newsletters was delayed in order to coincide with the announcements. Technical issues with the social media platform and account management had further delayed the updating and rebranding of the Facebook pages for each neighbourhood area.
Actions Plan - What will be done:	The project is expected to be back on track by the next quarter as the issues with Facebook have been resolved and pages are now live, with content being updated and relaunched with the new branding for each hub. The e-newsletter has now also been published with copies available on each neighbourhood hubs dedicated Facebook page. As a result, the timeline for the project has now been resolved and engagement activities can take place.

A FAIR LOCAL ECONOMY THAT WORKS FOR EVERYONE

Achievements

As the national support programmes for businesses begin to reduce, a South Ribble business support programme will begin in quarter one 2021/22. Planned delivery will include a desktop research activity and a borough wide business survey to identify the local needs and objectives which will then define the overall business support programme. The programme should reduce the potential for business failures, support viable businesses, safeguard jobs, and support economic recovery following the impact of the pandemic. A reserve of £150k has been set aside in 2020/21 to support local businesses.

The Community Wealth Building project has made good progress with the appointment of the Community Wealth Building Coordinator. This will enable the programme to move at pace with a detailed programme to be prepared in quarter one of 2021/22 incorporating ongoing activity to develop a social value policy and procurement portal to help measure outcomes and quantify benefits for the community such as job creation and local spend. A reserve of £150k has been set aside in 2020/21 to support community wealth building projects.

Significant progress with establishing the Credit Union for South Ribble. Unify Credit Union have extended their common bond to include all people who live and work in South Ribble, which has increased the accessibility of the credit union's services. The credit union branch, which is to be based at Towngate has been undergoing renovations and improvements which are due to be completed for opening by the end of June 2021.

Work to deliver year 1 of the Town Deal has been boosted by the news that the Town Investment Plan bid, as part of the Government's £3.6 billion Town Fund was successful. The Leyland Town Board has the potential to now use £25 million to invest in the proposals put forward around three key project areas, which are Leyland town centre improvements, Leyland Market improvements and a business hub development for business for workspace, events and skills. Going forward, the project will deliver against the Head of Terms as set out by Ministry of Housing, Communities and Local Government (MHCLG) in the award letter. A project framework, procurement route and governance will be agreed for the delivery of the project to support Leyland Town Board and the Council.

Of the three projects within this priority, two are green and one has not yet started.

Projects	2020-21 Quarter 4 (Jan – Mar)
Implement the community wealth building action plan	GREEN
Establish a business support programme	NOT YET STARTED
Deliver year 1 of the Town Deal	GREEN

GOOD HOMES
GREEN SPACES
HEALTHY PLACES

Achievements:

As part of the project to support the green agenda, the 'Reduce, Reuse, Recycle' campaign, which finished in March 2021 has resulted in a significant reduction of contaminated bins, a total of 2,636, which represents overall a 75% reduction. Work has also progressed to finalise location plans for the installation of four additional electric vehicle charging points. The electric vehicle charge points will be located in the car parks at King Street in Leyland, Hope Terrace in Lockstock Hall, Bamber Bridge Leisure Centre and Kingsfold Community Centre.

The project to improve leisure facilities has made good progress. Work undertaken across the leisure centre estates includes completion of a number of improvements to the leisure centre estate. These works include a number of works that are part of compliance/health and safety works; but also addressing dilapidation works which includes the interior redecoration of all the leisure centres, (i.e. faulty ceiling tiles and changing room tiles), new Boiler, landscaping, and lined car park at Leyland Leisure Centre. A new water storage tank and all mirrors replaced in the dance studios at Bamber Bridge Leisure Centre. Looking forward at quarter one 2021/22, a decarbonisation report will be commissioned for each leisure Centre and grant applications will be submitted to support decarbonisation projects.

The project to commence building affordable homes has focussed on progressing design works at the McKenzie Arms site to allow a tender to be issued for the appointment of a contractor to deliver the scheme. The Tom Hanson House development on Station Road, which will provide nine new affordable flats has been delayed, however it will be completed in early 2021/22 and handed over to the Community Gateway Association.

The bring Worden Hall back into use project has begun following planning approval, the exciting project will see a range of refurbishment work to the site. Work that has begun includes, intrusive survey work to inform the progressing design activities; the development of Interior design and branding proposals; Folly café will be temporarily relocated to allow refurbishment works on the Hall to be undertaken. The project will see the Hall transformed into a flexible space for the community and events such as weddings.

Of the four projects within this priority, one is rated green and three are rated as amber.

Projects	2020-21 Quarter 4 (Jan – Mar)
Bring Worden Hall back into use	GREEN
Deliver a project to support the green agenda	AMBER
Deliver a leisure improvement project	AMBER
Commence building of affordable homes within the borough	AMBER

Deliver a project to support the green agenda: To support the council's commitment to carbon neutral	**AMBER**
Issue:	This project has been rated amber in quarter four on the basis that: The annual target to plant 27,500 this year has not been achieved. This can primarily be attributed to Covid restrictions which led to the cancellation of a large public giveaway, as well as the use of voluntary labour for planting. However, the Council is on-track against the four-year target of 110,000 trees by 2022/23. Currently at the end of year two, 62,267 trees have been planted. This means the Council is in advance of the programmes two-year target of 55,000 trees planted. There has been slow progress in securing landowner's permission on the Penwortham to Howick section for the Green Links. This section of the Green Links programme is 4km in length and delivery is subject to securing landowners' consent.
Actions Plan - What will be done:	Sites have been identified for planting in the 2021/22 season. As the Covid restrictions begin to ease the tree giveaways are to be reinstated and work will resume with community groups and schools, which will increase the number of trees planted in the upcoming seasons. Work has been started with the Council's legal team to proactively identify landowners, with support to undertake land registry searches. This will enable more effective engagement with landowners in order to support delivery of the Green Links objectives and deliver improvements to the local area.

Deliver a leisure improvement project: To deliver a programme of improvements to the Council's existing leisure facilities	**AMBER**
Issue:	Whilst the project continues to deliver against its planned programme, the overall scope of the project has been widened in response to a request from 'The Climate Change Committee'. This change impacts the overall timeline of the project, therefore pushing its rating into Amber as part of forecast delays to the project timeline. The request from the committee is that that in support of the Council's commitment to the green agenda and climate change, the project undertakes the production of de-carbonisation reports for each of the Council's leisure centres. The production of the reports is to support the submission of grant applications to central Government which if successful will provide the Council with funding towards decarbonisation projects. The decarbonisation plans will support the climate change agenda whilst also ensuring that the project delivers the best value for money in terms of additional funding and a subsequent reduction in operation costs for the leisure centres.
Actions Plan - What will be done:	The project timeline has been updated to reflect that an additional three months will be required to undertake the decarbonisation reports and grant application process. The timeline extension is simply to meet the grant application process which is set externally. By next quarter this project is expected to revert to green with the revised timeline having been accepted.

Commence building of affordable homes within the borough: To deliver a number of schemes to address the gap in the current housing market by providing quality affordable homes	**AMBER**
Issue:	The Tom Hanson House development on Station Road in Bamber Bridge was due to complete in February 2021. However, the site is now expected to be completed in May 2021.
Actions Plan - What will be done:	The Tom Hanson House development on Station Road, which will provide 9 new affordable flats will be completed in May 2021 and handed over under a lease agreement to the Community Gateway Association.

Performance of the Corporate Strategy Measures

▲ Worse than target, outside threshold	● Worse than target but within threshold (5%)	★ Performance is better than target

Indicator Name	Polarity	Target	Comparison	Quarter 4 2020/21	Symbol	Trend
An Exemplary Council						
Service requests received via self-service channels	Bigger is better	29% (2020/21)	38% (Q3: 2020/21)	30.59%	★	Worse than Q3 2020/21
More than 80% of customers will be satisfied with the service they receive from the council	Bigger is better	80%	*75% (Q3: 2020/21)	93.34	★	Better than Q3 2020/21
Thriving Communities						
Number of meals provided to school age children through holiday hunger offer	Smaller is better	Target to improve trend	*16,760 (Q3 2020/21)	16,945 In quarter	-	-
Number of residents benefiting from opportunities created by the community's team	Bigger is better	To be baselined 2021/22	138 (Q3: 2020/21)	878	-	-
The percentage of the population with NVQ level 3 or above will increase	Bigger is better	60.6%	60.6% (Q4 2019/20)	57.2%	▲	Worse than Q4 2019/20
A fair local economy that works for everyone						
Overall employment rate greater than north west average	Bigger is better	74.2%	88.8% (Q4 2019/20)	83.3%	★	Worse than Q4 2019/20
% 16 -17year olds not in education or training (NEET)	Smaller is better	3.5%	3.2% (Q4 2019/20)	4.0%	▲	Worse than Q4 2019/20
Median workplace earnings in the borough will be better than the average for the North West region	Bigger is better	£559.60	£543.00 (Q4 2019/20)	£560.60	★	Better than Q4 2019/20
Good homes green spaces healthy places						
Total number of young people's physical activity courses delivered	Bigger is better	295 (Q4 2019/20)	369 (Q3 2020/21)	62	▲	Worse than Q4 2019/20
27,500 Trees will be planted in the borough this year (Cumulative)	Bigger is better	27,500 (Annual)	*2,205 (Q3:2020/21)	16,944	▲	Worse than Q4 2019/20
The number of people who are prevented from becoming homeless is increased	Bigger is better	341	412 (Q4 2019/20)	[1]411	★	Worse than Q4 2019/20
The number of affordable homes delivered	Bigger is better	80	81 (Q4 2019/20)	37	▲	Worse than Q4 2019/20

Key Organisational Performance Measures

Indicator Name	Polarity	Target	Comparison	Quarter 4 2020/21	Symbol	Trend
Number of households in temporary accommodation at the end of the quarter	Smaller is better	Target to improve trend	37 (Q3 2020/21)	44	▲	Worse than Q3 2020/21
Number of Accidents reported to Health and Safety from work related activity	Smaller is better	Target to improve trend	26 (Q3 2020/21)	8	★	Better than Q3 2020/21
No. of accidents reported to Health Safety Executive for work related activity (RIDDOR)	Smaller is better	Target to improve trend	0 (Q3 2020/21)	1	▲	Worse than Q3 2020/21
Number of near miss incidents reported to Health and Safety	Bigger is better	Target to improve trend	18 (Q3 2020/21)	3	▲	Worse than Q3 2020/21
The average number of working days from Disabled Facilities grant referral received from LCC to application approved	Smaller is better	Target to improve trend	155 (Q4 2019/20)	167	▲	Worse than Q4 2019/20
% planning applications decided within 13 weeks (major applications)	Bigger is better	75%	88.88% (Q3 2020/21)	100	★	Better than Q3 2020/21
% planning applications decided within 8 weeks (minor / other applications)	Bigger is better	85%	91.79% (Q3 2020/21)	85.09	★	Worse than Q3 2020/21
% of telephone calls answered within 90 seconds	Bigger is better	40%	94.2% (Q3:2020/21)	65.6%	★	Worse than Q3 2020/21
% of calls abandoned before being answered in a quarter	Smaller is better	15%	2.0% (Q3:2020/21)	11%	★	Worse than Q3 2020/21
Average days to process a new Housing Benefit claim	Smaller is better	19 days	15.57 days (Q3:2020/21)	14.43 days	★	Better than Q3 2020/21
Percentage of Council Tax collected (Cumulative YTD)	Bigger is better	97.58%	97.58% (Q4 2019/20)	96.84%	●	Worse than Q4 2019/20
Percentage of Business Rates (Cumulative YTD)	Bigger is better	98.50%	98.5% (Q4 2019/20)	95.02%	●	Worse than Q4 2019/20

Financial Performance

In 2020/21, the Council set a balanced annual budget of £14.677m.

The draft outturn report for 2020/21, approved by Cabinet on 16 June 2021, showed a forecast net surplus of £0.570m. The report and appendices can be found here.

The outturn position is summarised in the table below:

	Original Budget £'000	Current Budget £'000	Outturn £'000	Outturn Variance £'000
Corporate	496	344	516	171
Neighbourhoods & Development	7,230	7,261	6,784	(477)
Planning & Property	701	738	539	(200)
Customer & Digital	2,394	2,420	2,399	(20)
Governance	1,757	1,697	1,647	(50)
Communications & Visitor Economy	203	278	303	26
Finance	754	717	871	154
Transformation & Partnerships	512	638	530	(108)
Pensions Deficit Contributions	25	25	1	(24)
Savings Targets	(305)	(187)	-	187
Net Cost of Services	**13,766**	**13,931**	**13,590**	**(341)**
Provision for repayment of debt	649	649	619	(31)
Interest payable / (receivable)	(170)	(170)	(66)	104
Parish Precepts	432	432	440	8
Funding Requirement	**14,677**	**14,843**	**14,583**	**(260)**
Funding:				
Council Tax	(8,596)	(8,596)	(8,598)	(2)
New Homes Bonus – City Deal	(601)	(601)	(601)	-
New Homes Bonus – SRBC	(59)	(59)	(59)	-
Retained Business Rates	(3,715)	(3,715)	(3,706)	8
Section 31 grants (mainly business rates)	(1,595)	(1,595)	(6,858)	(5,263)
Surplus business rates set aside for deficits in future years	-	-	5,257	5,257
Total Funding	**(14,566)**	**(14,566)**	**(14,565)**	**0**
Government Covid-19 support for income deficits			(310)	(310)
Net Contribution (To) / From Reserves	**111**	**277**	**(293)**	**(570)**

It was approved to utilise the underspend as follows:

a. Transfer £100k into the Local Plans reserve to provide sufficient funding up to 2023/24
b. Create a new £400k Asset Maintenance Reserve to pay for potential future maintenance costs and part fund future capital expenditure on short-life assets such as ICT and vehicles.
c. Create a £250k Income Investment Reserve to cover costs of developing new income generation projects which may not be able to be capitalised.
d. Transfer an additional £168k to the Covid Recovery Fund.

The outturn position will be considered as part of the update of the Council's Medium Term Financial Strategy (MTFS) to ensure that ongoing additional income, or reduced expenditure, is fully reflected in the strategy.

In recent years austerity measures have been implemented by Central Government to reduce overall public sector spending. This has resulted in changes in the way the Council is funded and has seen the withdrawal of central government grants including the revenue support grant and, in the future, the anticipated withdrawal of New Homes Bonus. This has been in part replaced by an increase in locally retained business rates as the Council, as part of the Lancashire Business Rate Pooling arrangement, benefits annually by approximately £1.6m per annum through this pooling.

There is risk and uncertainty in relation to future years funding, not only because it is directly linked to growth in the borough, but also pending the outcome of Central Government's Fair Funding review and any potential reset to the business rates retention system. The implementation of these was delayed for 2021/22 due to government's focus on BREXIT and the Covid-19 pandemic. However, uncertainty remains regarding the implementation of the business rates baseline reset, which may have a major impact on the council's future income from business rates. It is assumed in the budget that the Council will lose its benefit from membership of the Lancashire Business Rates Pool over a two year period, however this will be reviewed when further Government announcements are made.

In light of this, and the fact that Council Tax is the major source of funding for local services, it is essential that all councils monitor their collection rates and raise as much income as possible. Any under recovery of income can have a significant impact on the ability of a Council to fund its service delivery. South Ribble continues to perform well in this area, despite the effect of Covid-19 on businesses and residents, with collection rates of 96.84% for council tax and 95.20% for business rates in 2020/21. These collection rates were understandably lower in 2020/21 than 2019/20 and will be monitored closely as part of the Council's performance management framework during 2021/22.

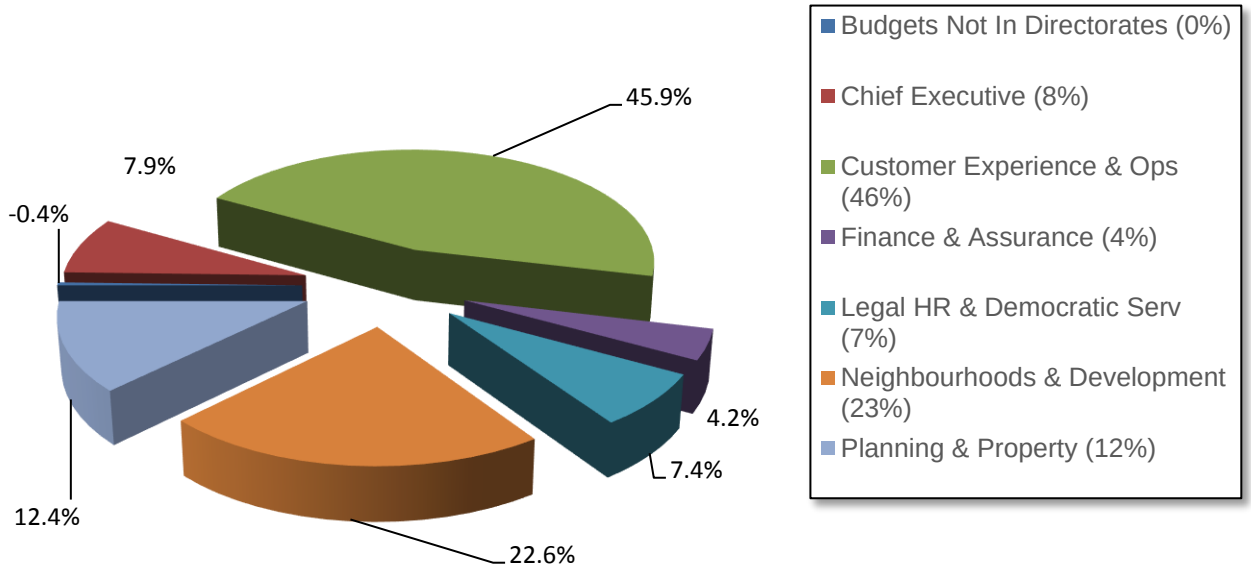
Total reserves for the Council were £27.149m by the end of 2020/21 of which £4.141m is held in a general reserve. The remaining reserves are earmarked for specific programmes of work or costs that are known to the Council. Monitoring of reserves will continue to ensure they remain appropriate and reflect the level of risk that exists around unplanned/unforeseen expenditure or loss of income. A detailed breakdown of the individual reserves held is shown in Note 11 of the Statement of Accounts. It should be noted that although reserves have increased by £6.336m since 2019/20, £5.244m was due to the receipt of business rates relief support that will be applied in 2021/22. In addition, the Council has set aside £1.329m of Covid-19 specific reserves to enable the Council to respond to the pandemic in 2021/22 onwards.

The following table shows the reconciliation between the outturn position shown above and the movement for the year shown in the Expenditure and Funding Analysis (EFA), which forms Note 1 to the Statement of Accounts:

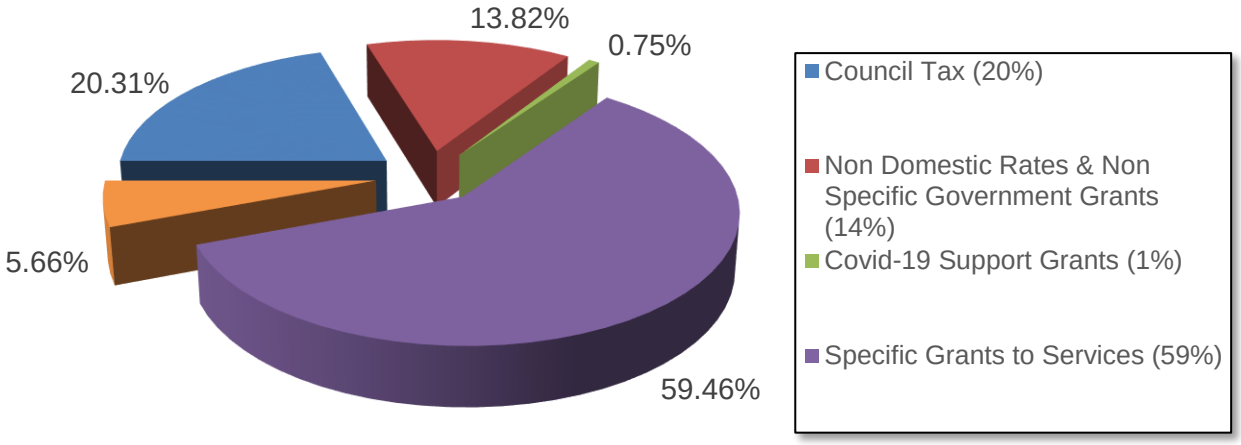
Contributions to Reserves 2020-21	**£'000**
Amount as per Outturn Report	(293)
Amounts in Outturn Report, not in EFA	
Contributions to Reserve	(2,103)
Amounts in EFA, not in Outturn Report	
Capital expenditure funded from revenue	2,047
Additional s31 grants in respect of business rate reliefs	(5,486)
Developer contributions payable to City Deal	(501)
Amount as per EFA	(6,336)

The following charts show where the Council's money came from and how it was spent on services:

Where the money was spent



Where the money came from



Capital Programme

In February 2020 the Council approved a 4-year capital strategy of £57.930m. This programme delivers a number of key projects to the benefit of the residents of South Ribble:

Health, Leisure and Wellbeing Programme (£31.442mm) includes upgrades to key green infrastructure sites, updating existing leisure assets and facilities, a new leisure facility and a sports pitch hub with artificial grass pitches.

Master planning and regeneration of key strategic sites (£20.472m) offers more affordable housing, support to vulnerable people through disabled facilities grant and upgrading the condition of the Council's buildings

Improved and updated ICT systems and technology (£5.476m) including mobile technology, replacement of Council service vehicles and an update to the Civic Centre to create a more commercially focussed facility.

The capital programme budget for 2020/21 was £10.094m. With approved slippage from 2019/20 and other subsequent changes, the final budget was £9.614m.

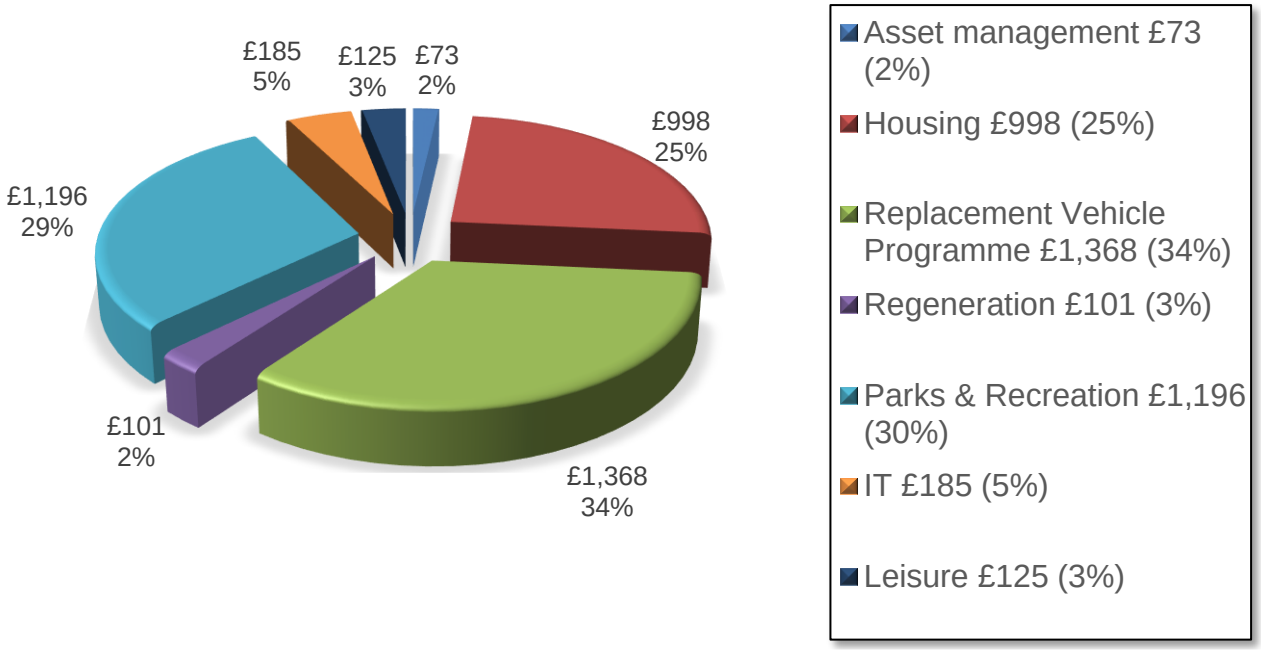
The draft outturn position of the 2020/21 capital progamme is set out in the following table and outlined further in appendix C of the outturn report approved Cabinet on 16 June 2021. The report and appendices can be found here.

Capital Programme Outturn 2020/21

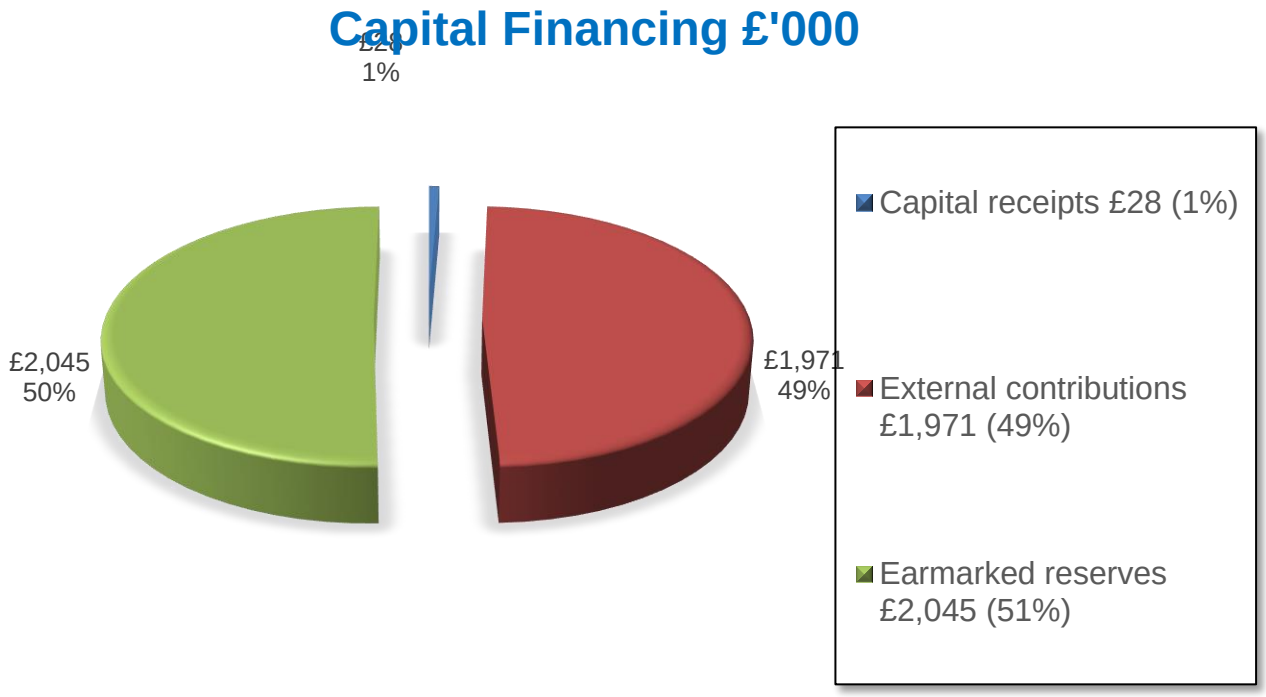
Description	2020/21 Budget £000	Revised Budget (A) £000	Outturn (B) £000	Variance (B) – (A) £000	Re-phased into 2021-22 £000	Over / (Under) Spend £000
Good homes, green spaces and healthy places						
Green Links	460	252	118	(134)	(131)	(3)
Worden Park	913	444	244	(200)	(97)	(103)
Other Parks & Open Space	1,200	839	802	(37)	(37)	0
Sport and Leisure	1,298	254	156	(98)	(98)	0
Affordable Housing	663	758	482	(276)	(276)	0
Disabled Facilities Grants	1,003	750	510	(240)	(240)	0
Empty Homes Grants	39	0	0	0	0	0
Private Sector Home Improvement Grants	75	6	6	0	0	0
A fair economy that works for everyone						
Land Acquisition – Croston Road	77	30	30	0	0	0
Leyland Train Station Ticket Office	60	15	0	(15)	(15)	0
Acquisitions Qunn St	0	1,123	0	(1,123)	(1,123)	0
Master Planning and Regeneration	50	50	0	(50)	(50)	0
New Longton Regeneration	75	0	0	0	0	0
Parkin Meters Replacement	0	45	0	(45)	(45)	0
Thriving communities						
Hoole Village Hall Grant	200	50	50	0	0	0
St Mary's Penwortham – Churchyard Wall Repair	140	40	21	(19)	(19)	0
An exemplary council						
IT Programme – Digital Strategy	405	269	185	(83)	0	(83)
Vehicles and plant replacement	2,477	1,530	1,368	(162)	(162)	0
Corporate buildings/Asset Management Planning	480	158	73	(85)	(85)	0
TOTAL	**9,614**	**6,613**	**4,045**	**(2,568)**	**(2,379)**	**(189)**

The Council spent £4.045m against the revised budget of £6.613m, which equates to 61% and gives an overall variance of £2.568m. Of this, £2.379m has been carried forward into 2021/22 to enable projects to be completed. The remaining £0.189m is a net underspend. A summary position of capital expenditure is set out below.

Capital Expenditure £'000



Capital Financing £'000



The significant areas of spend on projects (over £20k) in 2020/21 are outlined below:

Project	2020/21 Outturn £m
Good homes, green spaces and healthy places	
Green Link – Shruggs Wood	58
Leyland Loop	60
Worden Park - Overflow Car Park	117
Worden Hall Refurbishment	122
Hurst Grange Coach House Phase 2	189
Open Spaces – Balcarres Green	26
Playground – Worden Park	50
Playground – Leadale Green	35
Playground – Seven Stars	175
Playground – Hurst Grange	226
Playground – Bellis Way	37
Tarn Wood, Penwortham	31
A Tree for every Resident	26
King George V Playing Fields, Higher Walton	31
Sports Pitch Hub	113
Affordable Housing – McKenzie Arms	58
Affordable Housing – Pearson House	424
Disabled Facilities Grants	510
A fair economy that works for everyone	
Acquisition – Croston Rd	30
Thriving Communities	
Hoole Village Hall Grant	50
St Mary's, Penwortham - Churchyard wall repairs	21
An Exemplary Council	
Upgrade of Systems	118
Refresh of Tablets and Phones	61
Civic Centres Solar Panels	31
Polling Booths	22
Vehicle Replacement Programme	1,368

The Corporate Risk Register

Strategic Risk Register Risk management is a cornerstone of good corporate governance and the Council has established a system of risk management which involves the creation of risk registers at a strategic level, service level and individual project levels. Compiling the Strategic Risk Register requires a collective effort involving Senior Leadership Team (SLT) to identify the key strategic risk issues facing the Council.

The Strategic Risk Register is stored and managed within the Council's risk management system GRACE. SLT are responsible for identifying, owning monitoring and mitigating strategic risk including ensuring that any actions against each risk are completed.

The GRACE system also contains separate risk registers for individual projects and service level risk registers owned and controlled by individual services managers and project managers. All strategic risks are now contained and embedded within the GRACE system have been reviewed to inform this latest position. Directors and service leads continue to own individual risks with actions being owned by the most relevant Senior Officer within the organisation. All risks are stored within the GRACE system and are scored on a 4x4 risk matrix as outlined below:

Major	4	4 Low	8 Medium	12 High	16 High
Serious	3	3 Low	6 Medium	9 Medium	12 High
Minor	2	2 Low	4 Low	6 Medium	8 Medium
Insignificant	1	1 Low	2 Low	3 Low	4 Low
		1	2	3	4
		Rarely – there is a slight possibility that the event will occur	**Unlikely**- there is a possibility that the event will occur or there is a history of occasional occurrence within the authority	**Likely** – There is a strong possibility that the event will occur or there is history or regular occurrence within the Authority	**Highly likely** -there is little doubt that the event will occur

The latest Corporate Risk Register was reported to Governance Committee on 19 January 2021, the full report can be found here. A summary of the risks (ordered highest to lowest risk) for 2021 can be found below.

Risk	Description	Owner	Inherent risk	Residual risk
R01 Service delivery	The ability of the council to continue its service delivery being either halted or significantly scaled back as a result of major incidents or emergencies such as cyber-attacks, pandemics.	Chief Exec/Deputy Chief Exec	**16** (high)	**9** (medium)
R02 Corporate Governance failure	Failure to implement and maintain the corporate governance framework action plan leading to continued fundamental weaknesses in internal controls	Director Governance	**9** (medium)	**6** (medium)
R03 Financial sustainability	Reduction in current funding streams including government grant and key public sector and third-party partners	Director Finance/ Deputy Director Finance	**12** (high)	**9** (medium)
R04 Management of capital funding and capital programme	Poor management and monitoring of capital funding to deliver large scale improvements to the corporate plan - ensuring that is on track and up to date and projects are delivered within agreed timescales and budget	Director Finance/ Senior Responsible Officers	**12** (high)	**9** (medium)
R05 External legislation and policy change	Failure to account for and/or respond to external legislation and policy change for example those brought about by BREXIT, Universal Credit, GDPR, local government transformation, Green agenda.	Director Governance	**12** (high)	**8** (medium)

Risk	Description	Owner	Inherent risk	Residual risk
R06 Staff capacity and skills	Lack of staff capacity and/or skills to enable the Council to deliver large-scale capital projects to support the Corporate Strategy	Deputy Chief Exec	**9** (medium)	**4** (low)
R07 ICT security and data protection	Failure to comply with GDPR regulations and data legislation leading to action taken against the council, including reputation and legal action resulting in fines.	Director Customer and Digital	**12** (high)	**8** (medium)
R08 Strategic partnerships	Failure to achieve desired outcomes through strategic relationships incl. City Deal	Chief Exec/Deputy Chief Exec	**16** (high)	**12** (high)
R09 Agile services (consideration post COVID-19)	Failure to adapt business models and services to reflect changes in the way people interact and do business with the council (including consideration of communities' post COVID-19, impact of local economy and council services).	Deputy Chief Executive	**12** (high)	**8** (medium)
R10 Council's reputation	Damage to the Council's reputation and potential reduction in resident satisfaction	Director Governance	**9** (medium)	**4** (low)
R11 Shared service arrangements	Failure of existing shared service arrangements/ failure to expand shared services arrangements	Chief Exec/Deputy Chief Exec	**9** (medium)	**2** (low)
R12 Staff satisfaction and morale	Reduction in staff satisfaction and morale with the Council including increase in sickness absence	Shared Service Lead-Transformation and Partnerships	**9** (medium)	**6** (medium)
R13 Political relationships	Failure to maintain political stability and Officer-Member relationships	Director Governance	**9** (medium)	**6** (medium)
R14 Council performance	Failure to sustain performance of Corporate Strategy projects and general organisational performance	Shared Service Lead-Transformation and Partnerships	**9** (medium)	**4** (low)
R15 Data breach or action leading to complaints or ICO investigation	Shared system arrangements to facilitate South Ribble Together Hub (Covid) with Citizens Advice leading to poor service or data breach leading to financial penalty and reputational harm	Director – Neighbourhoods and Developments	**12** (high)	**4** (low)
R16 Brexit	Potential detrimental impact of Brexit upon service delivery	Deputy Chief Executive	**9** (medium)	**8** (medium)

One of the highest rated risks to the Council for 2021 is R01 'the ability of the Council to continue its service delivery being either halted or scaled back as a result of major incidents or emergencies such as cyber-attacks, pandemics'. This risk is rated highly due to the likelihood and impact of disruption to business continuity due to the ongoing COVID-19 pandemic. However, the controls we have in place to mitigate this risk as a Council are strong and therefore the residual and target scores reduce significantly to medium.

The maintenance and success of key strategic partnerships are key to the Council meeting its key corporate priorities and aims. Risk R08 relates to the success of these partnerships and has been rated highly for 2021 given the Council's reliance on them and specific issues relating to the City Deal. There remain strong partnerships in place with governance arrangements to manage relationships through mechanisms such as the South Ribble Partnership.

As would be expected, COVID- 19 has had a significant impact on the consideration and scoring of some of the highest rated risks for 2021. Its impact (and potential unknown future impact) can be seen influencing several of the highest risks facing the Council. This includes R03 'reduction in current funding streams including government grant and key public sector and third-party partners. This risk has been rated highly due to the unknown impact of COVID-19 on future funding/income streams and potential impact on Council income generation. It can also be seen against risk R09 'agile services' due to the likelihood of changing customer needs and environments during and post the pandemic. Strong actions are in place against this risk including effective business planning for 2021/22 and undertaking a survey to understand the changing needs of residents and therefore the target risk is low.

Two of the highest rated risks facing the Council are financial. These risks involve the management of capital funding and the capital programme (R04) and financial sustainability (R03). With regards to financial sustainability, this risk has been rated highly due to probability of reduction in current funding streams including Central Government grants, key public sector and third party partners following as a result of the COVID – 19 pandemic in an environment where cuts where already ongoing. Risk RO4 involves the management of capital funding to deliver large scale improvements within the Corporate Plan. The Corporate Plan is a significant document which determines the direction of the Council and key projects to be delivered over the next three years and therefore the impact of any poor management of capital funding to deliver the plan would be high. Although both rated highly – strong, well established controls and monitoring are in place to manage both risks and therefore the residual and target risks are lower, at medium.

Risk R05 and RO7 relate to external policy and legislation and the potential failure of the Council in complying with/ responding effectively to them. Risk R05 specifically relates to policy change such as Brexit and GDPR and the risk should the council fail to comply with existing regulations (in the case of GDPR) or any new regulations arising (Brexit). There is also a separate Brexit risk at R16 which is rated at a medium level due to the need for awareness of potential changes in council policies and procedure following Brexit.

Risk R07 is more data based and related to policy/ legislation surrounding GDPR and data protection and the Council's compliance with it. Work is continuing around GDPR compliance however comprehensive actions are in place following the Council's GDPR audit and therefore the target level of risk is low at 4, reflecting the level of risk the Council is willing to accept following the completion of all actions and controls.

Eight risks (53%) are rated at a medium level for 2021. These risks are around internal governance, political relationships, shared services, staff satisfaction and the Council's reputation. The medium rating of these risks reflects the work that has been undertaken over the last 18 months as part of improvements to the Council's governance processes and internal structures, as well as the successful completion of phase one of shared services and agreement to progress to phase two. Staff have continued to be supported, through the difficult circumstances of the COVID – 19 pandemic and the last staff satisfaction survey (pre-COVID) showed satisfaction was 78%.

The significance of these risks and their potential impact on the Council remains however, and therefore they are rated at a medium level for 2021 along with existing controls already in place and any further actions to be undertaken to mitigate these risks.

Risk R02 ‘corporate governance failure’ is rated as a medium this year. The risk is around failure to implement and maintain the corporate governance framework action plan leading to continued fundamental weaknesses in internal controls. The risk has been classed as medium due to significant learning following previous governance failures and the strong actions and controls that have therefore been put in place and are being delivered through the Annual Governance Statement action plan. Several actions to be delivered will contribute towards effective corporate governance, meaning the target risk is low and rated 4 (green).

Risk R15 is related to the establishment of South Ribble Together Hub and the development of a triage and referral service being delivered with support from Citizens advice. The risk directly relates to potential for data breaches and implications of enforcement by the Information Commissioner. Several mitigating actions and controls are in place that have moved the risk from high to low. Progress will be continually monitored and regular management meetings of the service is overseen through the Community Development Team Manager.

Coronavirus Pandemic
In March 2020, the whole of the UK was affected by the pandemic and central government issued various instructions and guidance to combat this. Like all Councils, South Ribble took action to protect itself, its staff and the community.

The impact of the restrictions were felt throughout 2020/21. The financial implications have been reported quarterly to members as a separate section in the revenue and capital budget monitoring papers. To date the funding from Government has met the increased costs and loss of income that the Council has experienced during the pandemic. However, future announcements of specific funding have not been made and therefore the medium-term impact on the Council's financial position will need to be monitored closely.

The following paragraphs provide a high-level overview of the effects of the situation on this statement of accounts.

Provision of Services
As a result of the business continuity plans in place across the Council, front line service provision was largely unaffected by the lockdown instruction. Leisure facilities and some community facilities were temporarily closed, and arrangements implemented for re-opening when allowed. From April 2021, leisure services have been brought in-house with the ambition during 2021/22 for the Council to transfer the management of these services into a wholly owned leisure company.

All other services were maintained as a result of business continuity arrangements and, where possible, staff redeploymed to high priority areas. Although the reception areas in the Council's buildings were closed, public services were maintained by digital service provision and use of other communication means. The Council has fully implemented government funded schemes including provision of business rates relief, providing council tax hardship support and providing grants to support business, thereby protecting the economic stability of its area.

Workforce
In line with government instruction, the Council has issued a 'work from home wherever possible' instruction to its staff from throughout 2020/21. All staff are still strongly encouraged to work from home where it is practical to do so and are only permitted to attend offices where unavoidable. This directive has maintained service provision at a satisfactory level and has greatly reduced the risk that Council staff become infected. As staff were protected, the Council was able to deploy its staff, where suitably trained, to other areas.

Supply Chains
The Council is aware of its responsibility for the economic wellbeing of its area and has taken all practical steps to protect supply chains. A policy was already in place for prompt payment of supplier invoices and all staff have been requested to process undisputed invoices as quickly as possible. Where possible, arrangements have been made with suppliers offering financial support and assistance provided through the administration of the government business grant support for businesses.

Reserves, Financial Performance and Financial Position
Total reserves for the Council were £27.149m by the end of 2020/21 of which £4.141m is held in a general reserve. The remaining reserves are earmarked for specific programmes of work or costs that are known to the Council. Monitoring of reserves will continue to ensure they remain appropriate and reflect the level of risk that exists around unplanned/unforeseen expenditure or loss of income. It should be noted that although reserves have increased by £6.336m since 2019/20, £5.244m was due to the receipt of business rates relief support that will be applied in 2021/22. In addition, the Council has set aside £1.329m of Covid-19 specific reserves to enable the Council to respond to the pandemic in 2021/22 onwards.

In respect of Commercial property values, the valuation report outlined that the impact of Covid-19 is difficult to quantify at this stage and that the true impact of Covid-19 will not be known until liquidity returns to the market later in 2021, as expected. There were no significant downward valuations in the Council's investment property portfolio.

The Council will also review its planned efficiencies and savings included in its MTFS to ensure these can be delivered within the anticipated timeframe. These will be assessed as part of the refresh of the 2022/23 to 2024/25 Corporate Strategy and the subsequent preparation of the MTFS.

Cash Flow Management

The Council closely manages its cash flows ensuring management costs are kept to a minimum while gaining the maximum return on surplus balances. The loss of income from rentals and fees and charges has been temporarily offset by the cash payments received from government in Covid-19 related grants. There have been no cash flow issues during 2020/21 and cash balances will be managed in accordance with the approved treasury strategy.

Plans for Recovery

The Covid-19 crisis will continue to have a significant operational and financial impact on the Council, its partners and the communities it serves. It isnow important that the Council has a clear plan for how it will recover its services and return to 'business as usual' as quickly as possible. A key focus will be on getting core services back up and running efficiently. However, there are some aspects of the response effort that will need to remain in place for an extended period of time, such as the Community Hub and enhanced support for local businesses.

Our plans will need to assess and align the resources required to get the Council back on track, while taking account of new responsibilities and priorities as a result of the impact of Covid-19 on residents and communities. In response to this, the Corporate Plan will be reviewed so that activities and programs are aligned to supporting communities and businesses through the period of recovery, as well as ensuring activities are appropriate to be delivered in an environment of social restrictions and distancing. Already the Council has set aside reserves to help manage this process including:

- £150k - to promote community wealth building
- £150k - to provide support for local businesses
- £50k - to provide support for the mental health of young people
- £654k - a Covid Recovery Fund

Outlook for the Future

All local authorities are facing challenges as a result of changes to the funding from Government through the Fair Funding Review which was due in the Autumn of 2019. This was postponed to at least 2022/23 due to BREXIT and then as a result of the Covid-9 pandemic. In February 2021, the Council updated its MTFS to reflect the Council's new corporate priorities, and baselined changes in funding and expenditure. Gaps between the budget required and likely funding available were approved by Full Council, based on prudent economic growth and Council Tax increases to achieve a balanced three year Medium Term Financial Strategy. There are significant savings identified due to the assumed drop in business rates income. The Council is developing a Transformation Plan to close the budget gap through the delivery of savings and/or generation of additional income. The MTFS is kept under constant review in order to take account of changes in demand and/or funding that may impact on the financial position going forward. This is especially important as the Council assists in the national recovery from th pandemic.

Efficiencies identified and reported in previous years will continue to be developed and options for the delivery of more efficiency savings and investment returns are being created. The Council is also developing robust arrangements to ensure that plans for efficiencies are realistic and deliverable over agreed timescales. Updates are provided to Cabinet at regular intervals and the Council is developing the delivery of the Transformation Strategy.

The new Corporate Plan has been developed to set strategic projects to be delivered and a planned use of reserves for investment priorities has been agreed that will see them reduce to £11.092m by March 2024.

The Council is in a potentially high growth area for housing and business. As such it needs to manage this growth to ensure that the Council services and the wider infrastructure are reshaped accordingly. To deliver this the Council has embarked on an ambitious capital programme utilising its own

reserves, external funds and borrowing, where the appropriate business case exists to repay debt, to facilitate this transformational programme for its residents. This focus will be both on front line service delivery and back office support such that the Council has the resilience for growth from within existing resources. The Council also plans to deliver an ambitious housing programme to facilitate housing options for all tenures and ages within the wider borough. Growth delivered without infrastructure can have negative environmental impacts such as Air Quality. Therefore at the same time the Council is investing in its Green Links programme to promote the wider Health Leisure and Wellbeing priorities associated with its Parks and Open Spaces and sports facilities as well as working with the County Council on highway infrastructure to offset these wider impacts.

As part of a longer term strategy, a detailed asset review is being undertaken to identify those assets that are protected open spaces, retained for commercial purposes and those that can be released for housing or wider economic regeneration. Economic growth results in future employment and the Council will be analysing its core demographic data to ensure that opportunities are maximised to its residents.

Overall the Council has a robust financial position over its Medium Term period, however, as already stated the progress of these could be affected by the financial impact of the COVID 19 pandemic. The effects of this will be reviewed as appropriate.

Treasury Management

The treasury operations of the Council are conducted in accordance with its annual Treasury Strategy. This strategy document identifies the investment and borrowing policies of the Council over a three-year period, specifying, amongst other things, the criteria for investment counterparties, the maximum duration and amount of investments, and the need for borrowings.

The key facts for 2020/21 were:

- Investments were short-term, the maximum period permitted by the Council's Treasury Strategy being one year.
- The average cash balance invested was £50.089m at an average rate of 0.36% and generated £0.177m of interest during the year.
- No new Prudential Borrowing was entered into to finance capital expenditure, either from external loans or from internal cash balances.

Pension Fund Liability

The pension fund deficit has increased during the year by £10.164m, from £29.842m to £46.006m. This reflects the value of pension liabilities which the Council is required to pay in the future when they fall due, offset by the value of assets invested in the pension fund. The Council's pension fund is revalued every three years to set future contributions into the fund; the last valuation was undertaken in 2019 which reported a funding level of just over 100%, the result of the Lancashire County Pension Fund being one of the most successful Local Authority funds in the country. The Council has a deficit recovery plan in place with the Administering Authority which aims to maintain a 100% funding level by making additional Deficit Recovery Contributions over a 16 year period.

This deficit figure is an estimate, based on the actuary's assessment of the present value of the liabilities to be met by the fund over a long period, less its current assets and anticipated future receipts. Note 37 presents detailed information about the Defined Benefit Pension Scheme.

Main Accounting Changes

The new or amended international financial reporting standards or international accounting standards introduced by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 include:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle. The amendments affect:
    - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Previously Held Interest in a Joint Operation
    - IAS 12 Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity
    - IAS 23 Borrowing Costs – Borrowing Costs Eligible for Capitalisation
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.
- Amendments to References to the Conceptual Framework in IFRS Standards

Going Concern

South Ribble Borough Council's MTFS outlines the strategies it will pursue to meet current and future funding shortfalls. A balanced budget for 2021/22 has been approved and there is no reason to believe that the budget gap identified in the Council's budget in future years will not be entirely mitigated through the Transformation Programme. As such, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Further Information

If you would like to receive any further information about these accounts, please do not hesitate to contact South Ribble Borough Council on 01772 625625, by email at info@southribble.gov.uk or by post at the Civic Centre, West Paddock, Leyland, Lancashire, PR25 1DH.

Introduction to the Statement of Accounts

The Accounts and Audit Regulations 2015 require the council to produce a Statement of Accounts for each financial year.

This Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (The Code), which is based on International Financial Reporting Standards.

The Statement of Accounts contain a number of sections and statements and these are explained below:

STATEMENTS TO THE ACCOUNTS

Page 36 **The Independent Auditor's Report** – This gives the auditor's opinion of the financial statements and of the council's arrangements for securing economy, efficiency and effectiveness in the use of its resources.

Page 41 **Statement of Responsibilities for the Statement of Accounts** – This summarises the responsibilities of the council and the Responsible Financial Officer in relation to the Statement of Accounts.

Page 113 **The Annual Governance Statement** – The council is required to conduct an annual review of the effectiveness of its system of corporate governance and to publish a statement on the adequacy of the system with its annual accounts. This statement is referred to as the Annual Governance Statement (AGS). The AGS explains our governance arrangements, the review of the governance framework against the Local Code of Governance and future plans to improve and strengthen the governance environment.

CORE FINANCIAL STATEMENTS

The core financial statements consist of the following:

Page 42 **Comprehensive Income and Expenditure Statement –** This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Page 43 **Movement in Reserves Statement –** Levels of reserves, and movements therein, are indicators of the financial strength of the organisation. This statement distinguishes usable from unusable reserves. The distinction is explained in the Balance Sheet comment below.

The Movement in Reserves Statement shows the surplus or deficit arising in the year on the Provision of Service. This is the true economic cost of providing the authority's services (as detailed in the Comprehensive Income and Expenditure Statement). For the purposes of council tax setting, however, a series of statutory adjustments are then made, resulting in a line entitled "Increase/Decrease in year".

Page 44 **The Balance Sheet –** this shows the value of the assets and liabilities recognised by the authority. The total of these, the Net Assets, is matched by the authority's reserves, as shown in the lower part of the Balance Sheet.

Reserves are categorised into "Usable", i.e. available to fund expenditure or reduce local taxation, and "Unusable". The latter includes the Revaluation Reserve (holding

unrealised gains in property values), and other reserves holding amounts arising from differences between the accounting basis used in compiling the Comprehensive Income and Expenditure Statement and statutory basis prescribed for taxation purposes.

Page 45 **Cash Flow Statement –** this shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

Page 46 **Notes to the Main Financial Statements –** these add to and interpret the individual statements.

SUPPLEMENTARY FINANCIAL STATEMENTS

Page 109 **Collection Fund –** this is an agents statement that reflects the statutory obligation for billing authorities to record transactions relating to the collection of Council Tax and Non-Domestic Rates, and their distribution to precepting authorities, the Government, and the council itself.

Page110 **Notes to the Collection Fund –** these add to and interpret the Collection Fund statement.

The Independent Auditor’s Report

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Statement of Responsibilities

This statement defines the responsibilities of the council and the Responsible Financial Officer in respect of the council's financial affairs.

The council's Responsibilities

The council shall:

- Make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Finance/S151.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Director of Finance/S151 Officer. is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Complied with the local authority Code;
- Kept proper accounting records which are up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Further Information

Further information about the accounts is available from the Shared Financial Services Team, Civic Centre, West Paddock, Leyland, Lancashire, PR25 1DH

Certification

I certify that the Statement of Accounts gives a true and fair view of the financial position of South Ribble Borough Council as at 31 March 2021 and its Income and Expenditure for the year ended 31 March 2021.

Louise Mattinson
Chief Finance Officer/Section 151 Officer

Date: 31 July 2021

CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices. This is not the amount to be funded from taxation, since authorities raise taxation to cover expenditure in accordance with regulations. The taxation position is shown in the Movement in Reserves Statement.

2019/20				Note	2020/21		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
949	(59)	890	Chief Executive		3,259	(3,965)	(706)
11,658	(3,127)	8,531	Neighbourhoods & Development		9,340	(3,272)	6,068
5,994	(4,435)	1,559	Planning & Property		5,112	(3,810)	1,302
3,067	(252)	2,815	Finance & Assurance		1,752	(140)	1,612
2,356	(677)	1,679	Legal, HR & Democratic Services		3,076	(1,308)	1,768
20,346	(18,004)	2,342	Customer Experience & Operations		18,955	(16,264)	2,691
637	0	637	Budgets Not in Directorates		(174)	0	(174)
45,007	**(26,554)**	**18,453**	**Cost of Services**		**41,320**	**(28,759)**	**12,561**
389	(13)	376	Other operating expenditure	12	440	(27)	413
4,113	(3,519)	594	Financing and investment income and expenditure	13	2,900	(3,137)	(237)
15,154	(34,592)	(19,438)	Taxation and non-specific grant income	14	10,871	(25,150)	(14,279)
64,663	**(64,678)**	**(15)**	**(Surplus) / deficit on provision of services**		**55,531**	**(57,073)**	**(1,542)**
		0	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets				(521)
		(5,309)	Re-measurement of the net defined benefit liability	37d			8,346
		(5,309)	**Other Comprehensive (Income) and Expenditure**				**7,825**
		(5,324)	**Total Comprehensive (Income) and Expenditure**				**6,283**

Movement in Reserves Statement

This statement shows the movements in the year on the different reserves held by the council, analysed between those that are "usable" (available to fund expenditure or reduce local taxation), and other reserves.

The line "(Surplus)/deficit on provision of services" shows the true economic cost of providing the authority's services, as detailed in the Comprehensive Income and Expenditure Statement. For the purposes of council tax setting however, a series of statutory adjustments are then made. These adjustments are shown in total below, and are also detailed in Note 10.

	General Fund £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2019	**(19,519)**	**(827)**	**(9,111)**	**(29,457)**	**(3,015)**	**(32,472)**
Movements in 2019/20						
Total Comprehensive Income & Expenditure	(15)	0	0	(15)	(5,309)	(5,324)
Adjustments between accounting basis & funding basis (note 10)	(1,279)	827	(1,158)	(1,610)	1,610	0
(Increase) / Decrease in year	**(1,294)**	**827**	**(1,158)**	**(1,625)**	**(3,699)**	**(5,324)**
Balance at 31 March 2020	**(20,813)**	**0**	**(10,269)**	**(31,082)**	**(6,714)**	**(37,796)**
Movements in 2020/21						
Total Comprehensive Income & Expenditure	(1,542)	0	0	(1,542)	7,825	6,283
Adjustments between accounting basis & funding basis (note 10)	(4,794)	0	1,986	(2,808)	2,808	0
(Increase) / Decrease in year	**(6,336)**	**0**	**1,986**	**(4,350)**	**10,633**	**6,283**
Balance at 31 March 2021	**(27,149)**	**0**	**(8,283)**	**(35,432)**	**3,919**	**(31,513)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. It shows the net assets of the authority which are matched by the reserves held. Reserves are reported in two categories. 'Usable Reserves' includes reserves available to provide services and other reserves which may only be used to fund capital expenditure or repay debt. 'Unusable Reserves' fall into two categories. The first consists of the Revaluation Reserve which holds unrealised gains and losses in asset values. The second category holds amounts resulting from the "adjustments between the accounting basis and the funding basis", as shown in the Movement in Reserves Statement (MiRS).

31 March 2020 £'000		Notes	31 March 2021 £'000
28,265	Property, Plant & Equipment	15	33,084
10,056	Investment Property	16	10,144
140	Intangible Assets	17	163
43	Long Term Debtors	18	39
38,504	**Long Term Assets**		**43,430**
38,071	Short Term Investments	18	29,017
92	Inventories	19	111
3,190	Short Term Debtors	20	12,943
12,048	Cash and Cash Equivalents	21	15,148
53,401	**Current Assets**		**57,219**
(10,000)	Short Term Borrowing	18	0
(11,307)	Short Term Creditors	22	(25,055)
(2,686)	Provisions	23	(2,081)
(23,993)	**Current Liabilities**		**(27,136)**
(167)	Long Term Creditors	18	(152)
0	Other Long Term Liabilities	18	0
(29,842)	Net Pension Liability	37	(40,006)
(107)	Grant Receipts in Advance - Capital	33	(1,842)
(30,116)	**Long Term Liabilities**		**(42,000)**
37,796	**Net Assets**		**31,513**
(31,082)	Usable Reserves	24 & MiRS	(35,432)
(6,714)	Unusable Reserves	25	3,919
(37,796)	**Total Reserves**		**(31,513)**

The unaudited accounts were authorised for issue on 31 July 2021.

Louise Mattinson
Director of Finance/Section 151 Officer
Date: 31 July 2021

Cash Flow Statement

This shows the changes in cash and cash equivalents during the reporting period. It shows how cash and cash equivalents are generated and used by classifying cash flows into operating, investment and financing activities.

2019/20 £'000		Note	2020/21 £'000
15	Net surplus or (deficit) on the provision of services (CIES page 14)		1,542
8,262	Adjustments to net surplus or deficit on the provision of services for non-cash movements	26a	14,449
(1,778)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	26b	(134)
6,499	**Net cash flows from Operating Activities**	**26**	**15,857**
(7,202)	Investing Activities	27	5,384
9,625	Financing Activities	28	(18,141)
8,922	**Net (increase) or decrease in cash and cash equivalents**		**3,100**
3,126	Cash and cash equivalents at the beginning of the reporting period		12,048
12,048	**Cash and cash equivalents at the end of the reporting period**	**21**	**15,148**

Notes to the Main Financial Statements

NOTE: values throughout these accounts are presented rounded to whole numbers (usually thousands or millions of pounds). Totals in supporting tables and notes may appear not to exactly match to the Core Financial Statements or other tables, due to rounding differences.

1. Expenditure and Funding Analysis

The Expenditure and Funding Analysis Note, which is a note to the core financial statements, shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES). More information on the adjustments between expenditure charged to the General Fund and the CIES is provided in Notes 8 and 10.

2019-20				2020-21		
Net Expenditure chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis (note 8 and 10) £'000	Net Expenditure in the CIES £'000		Net Expenditure chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis (note 8 and 10) £'000	Net Expenditure in the CIES £'000
880	10	890	Chief Executive	(1,105)	90	(1,015)
6,430	2,101	8,531	Neighbourhoods & Development	6,389	(322)	6,067
392	1,167	1,559	Planning & Property	114	1,188	1,302
1,630	1,185	2,815	Finance & Assurance	1,472	140	1,612
1,632	47	1,679	Legal, HR & Democratic Services	1,544	224	1,768
2,054	288	2,342	Customer Experience & Operations	2,274	417	2,691
519	118	637	Budgets Not in Directorates	(230)	56	(174)
13,537	**4,916**	**18,453**	**Net cost of Service**	**10,458**	**1,793**	**12,251**
(14,831)	(3,637)	(18,468)	Other Income and Expenditure	(16,794)	3,001	(13,793)
(1,294)	**1,279**	**(15)**	**(Surplus) / Deficit in year**	**(6,336)**	**4,794**	**(1,542)**
(19,519)			Opening General Fund Balance at 1 April	(20,813)		
(1,294)			Add (Surplus) / Less Deficit on General Fund Balance in Year	(6,336)		
(20,813)			**Closing General Fund Balance at 31 March**	**(27,149)**		

2. Accounting Policies

General Principles

The Statement of Accounts summarises the council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom (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.

Accruals of Income and Expenditure (Revenue Recognition)

The Income and Costs of the council are accounted for in the period to which they relate, regardless of when the cash is paid or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Revenue from Council Tax and Business Rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash and Cash Equivalents are shown net of bank overdrafts that are repayable on demand.

- Cash consists of cash in hand and deposits repayable without penalty on notice of not more than 24 hours.
- Cash Equivalents consist of highly liquid investments which mature in less than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with depreciation charges, revaluation and impairment losses in excess of accumulated revaluation gains, and amortisation charges in respect of intangible assets.

The Authority is not required to raise council tax to meet these charges. Instead it has to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (the Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and National Non-Domestic Rates

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

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

Contingent Assets and Liabilities

These are assets and liabilities arising from past events the existence of which will only be confirmed by future events not wholly within the council's control. They are disclosed in the notes to the main financial statements. See Note 38 to the accounts.

Exceptional Items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement, or in the notes to the main financial statements, depending on their significance.

Employee Benefits

Benefits payable during employment

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

Termination benefits

These are amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date, or a decision to accept voluntary redundancy. The costs are recognised when the council commits itself to terminate the employment of an officer or group of officers, or makes an offer to encourage voluntary redundancy. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

Post-Employment Benefits

Employees who are members of the Local Government Pension Scheme which provides defined benefits to those members. Full details of transactions are given in Note 37 to the accounts. The following notes explain the methodology.

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

Liabilities are discounted to their value at current prices, using a discount rate for the year (based on the indicative rate of return on high quality corporate bonds).

The assets of the fund attributable to the Authority are included in the Balance Sheet at their fair value:

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

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

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
- net interest on the net defined benefit liability i.e. net interest expense for the council - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;

Re-measurement comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the pension fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

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

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities thus arising are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Where an event occurs after the Balance Sheet date and it provides evidence of conditions that existed at the Balance Sheet date, the amounts recognised in the Statement of Accounts is adjusted.

Where an event that occurs after the Balance Sheet date is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted. The "non-adjusting event", and an estimate of the financial effect, is however disclosed in the notes to the main financial statements.

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

Financial Instruments

Financial Liabilities

Borrowings are initially measured at fair value and carried at their amortised cost. The annual charge to the Comprehensive Income and Expenditure Statement (CIES) is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the Balance Sheet is the outstanding principal payable plus interest accrued at 31 March 2021.

Gains or losses on premature redemption are charged to the Comprehensive Income and Expenditure Statement unless they are the result of a restructure that involves the modification or exchange of existing instruments, in which case they are added to the amortised cost and charged over the life of the modified or exchanged loan. Where charged to the Comprehensive Income and Expenditure Statement, regulations require discounts to be amortised over the shorter of the life of the original loan or ten years. Greater discretion applies to premia, they can be amortised over the life of the original or replacement loan, or a shorter period. A transfer is done from the General Fund Balance to the Financial Instruments Adjustment Account to give effect to these regulations.

Financial Assets

Financial assets measured at amortised cost are initially measured at fair value and carried at amortised cost. The annual credit to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement is based on the carrying amount multiplied by the effective rate of interest. The amount presented in the Balance Sheet is the outstanding principal receivable plus interest accrued at 31 March 2021.

The authority recognises expected credit losses on all of its financial assets measured at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority. Where a financial asset measured at amortised cost is identified as being subject to an expected credit loss, this shall be recognised as an impairment and the loss charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Going Concern

The accounts have been prepared on the assumption that the council will continue in existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Government Grants and Other Contributions

Government grants and other contributions for both revenue and capital purposes are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with. If compliance has not been achieved, cash received is held on the Balance Sheet as a long term creditor.

The postings in the Comprehensive Income and Expenditure Statement relating to capital grants and contributions are reversed out of the General Fund balance in the Movement in Reserves Statement. If the monies have not been used they are credited to the Grants Unapplied Reserve. If they have been applied to fund capital expenditure they are credited to the Capital Adjustment Account.

Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds with appropriate planning consent. The Authority charges for and collects the levy, which is a planning charge. The levy income will be used to fund a number of infrastructure projects to support the development of the area. CIL received is limited by regulations. It is therefore recognised at the commencement date of the development in the Comprehensive Income and Expenditure Statement in accordance with the above core accounting policy for grants and contributions. CIL charges will be largely to fund capital expenditure with a small proportion used to fund revenue.

Intangible assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences), is capitalised at cost if it is expected that future economic benefits or service potential will flow to the council for more than one financial year. Internally generated assets are capitalised where it is demonstrated that these will generate future economic benefits or service potential for the council.

The cost is amortised over the economic life to reflect the pattern of consumption. The charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

The postings in the Comprehensive Income and Expenditure Statement are reversed from the General Fund balance in the Movement in Reserves Statement and charged to the Capital Adjustment Account.

Inventories and Long term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First In First Out (FIFO) costing formula. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

Investment Properties

Investment properties are those held solely to earn rentals or for capital appreciation. They are measured initially at cost and subsequently at fair value. Valuations are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. They are not depreciated but are re-valued annually. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Gains and losses on revaluation and disposal are not permitted by statute to impact on the council tax. A reversal is therefore done between the General Fund Balance and the Capital Adjustment Account (or, in the case of sale proceeds exceeding £10,000, to the Capital Receipts Reserve).

Operating income and expenditure from investment properties are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset from the lessor to the lessee. All other leases

are classified as operating leases. If the lease covers both land and buildings, then the land and building elements are considered separately for classification.

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

The Authority as lessee

Finance leases
An asset held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the inception of the lease (or the present value of the minimum lease payments, if lower). The asset is matched by a liability, being the obligation to the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are split between a finance charge, charged to the Comprehensive Income and Expenditure Statement, and the principal element, applied to write down the lease liability. Assets held under a finance lease will be subject to depreciation and revaluation in the same way as any other asset.

Operating leases
Rentals are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the asset.

The Authority as lessor

Finance leases
Where the Authority grants a finance lease over an asset, it is written out of the Balance Sheet and charged to the "gain or loss on disposals" line in Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. The Authority's net investment in the lease is credited to the same line, matched by a Long Term Debtor in the Balance Sheet. Lease rental receipts are split between finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement), and the principal element applied to write down the Long Term Debtor.

Operating leases
Where the Authority grant an operating lease over an asset it remains on the Balance Sheet, and the income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. See Note 36 to the accounts.

Non-Current Assets Held for Sale

Accounting treatment is detailed in the Property Plant and Equipment, Disposal and Non-Current Assets Held for Sale policy.

Overheads

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

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 estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practice or if the change provides more reliable or relevant information about the effect of transactions on the council's financial position or financial performance. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts from prior periods. Material errors will also require a prior period adjustment. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the period.

Property Plant and Equipment (PPE)

All expenditure on the acquisition, creation, or enhancement of fixed assets is capitalised on an accruals basis in the accounts provided it exceeds the 'de minimis' threshold of £5,000 and provides benefits to the council for a period of more than one year.

Measurement

Assets are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the council. Should they be incurred, the Authority would capitalise borrowing costs incurred whilst major assets are under construction.

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

- Infrastructure, Community Assets, Assets under Construction, and equipment, are held at depreciated historical cost.
- All other assets are measured at current value, determined as the amount that would be paid for the asset in its existing use.

In respect of specialised assets, if there is an absence of market based evidence of value, depreciated replacement cost is used as an estimate of current value.

Valuations are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Assets held in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are credited to the Revaluation Reserve unless they reverse previous losses charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation Reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Depreciation

Non-current assets held for sale are not depreciated. Other property is depreciated over its useful life on a straight line basis. Depreciation is based on the closing value of assets. Components are separately depreciated if

- The total value of the host asset (excluding land) exceeds £0.500m and
- The value of the component exceeds 20% of the asset value (excluding land)

Depreciation periods are as follows:

	years
Property (excluding components separately identified)	5-60
Property components - mechanical	25
Portable office facilities	10-15
Vehicles	3-10
IT equipment	3-5
Other equipment	5-15

Revaluation gains are also depreciated by transfer of the difference between the current valuation depreciation charge and the historic cost depreciation charge, from the Revaluation Reserve to the Capital Adjustment Account.

Impairment
All assets are reviewed annually for impairment. Impairment losses are charged against revaluations held in the Revaluation Reserve. If these are inadequate the loss is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. If an impairment loss is subsequently reversed, the reversal, up to the amount of the original loss adjusted for depreciation, is credited to the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposal and Non-Current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through continuing use, it is reclassified as an Asset Held for Sale and shown within current assets. The asset is re-valued immediately and carried at the lower of this amount and current value less costs to sell. If assets subsequently fail to meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations) and their recoverable amount at the date of the decision not to sell.

On disposal the carrying amount of an asset is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. Receipts exceeding £10,000 from disposal are credited to the same line; lesser receipts are included as service income in cost of services. Any revaluation gains accumulated in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Capital Charges and Council Tax
The postings in the Comprehensive Income and Expenditure Statement in respect of depreciation, impairment, disposal and revaluation are reversed in the Movement in Reserves Statement to avoid impacting on council tax. Capital Receipts exceeding £10,000 are reversed to the Capital Receipts Reserve. Other reversals are to the Capital Adjustment Account.

Provisions

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing is uncertain. Provisions are charged to the appropriate revenue account, Expenditure, when incurred, is charged direct to the provision.

Reserves

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from the reserve is incurred, it is charged to the relevant service in the Comprehensive Income and Expenditure Statement, and the reserve is appropriated back into the General Fund Balance through the Movement in Reserves Statement.

Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement.

If the Authority has determined to use capital resources to meet the cost (as opposed to funding from revenue) a transfer is done in the Movement in Reserves Statement, from the General Fund Balance to the Capital Adjustment Account, so that there is no impact on the council tax.

Value Added Tax

VAT is included in the accounts only to the extent that it is irrecoverable.

Fair Value Measurement

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

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

Valuations of non-financial assets are provided by Royal Institution of Chartered Surveyors (RICS)-qualified valuers, are on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS.

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

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

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

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

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

3. Accounting standards that have been issued but have not yet been adopted

The 2020/21 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

The standards that may be relevant for additional disclosures that will be required in the 2020/21 and 2021/22 financial statements in respect of accounting changes that are introduced in the 2021/22 Code are:

- Definition of a Business: Amendments to IFRS 3,
- IFRS 16 Leases,
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), and
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

The council does not anticipate that the above amendments will have a material impact on the information provided in the financial statements.

4. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 2, the Authority has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Funding
There continues a high degree of uncertainty about future levels of funding for local government. In addition to more general uncertainties, the measures taken to address the impacts of the Covid-19 pandemic have produced an unusual pattern of funding for 2020/21 itself, with continuing implications for future years, most specifically in respect of managing the large deficit that has arisen on business rates income and the grant income received to compensate for this. Some of the variations in funding patterns encountered in 2020/21 have continued into 2021/22, albeit on a much reduced scale. However, the principal impact of the pandemic on local government funding has been the further postponement of the funding review, originally due for 2019/20 and subsequently delayed by a year to 2020/21, by another year to 2021/22. The expectation had been that, by now, local authorities would have the certainty that came with the announcement of a new three-year settlement, but this has not been the case and the 2021/22 settlement was again for a single year only. The potentially significant shifts in funding that may come with the completion of the review remain extremely difficult to forecast. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and/or reduce levels of service expenditure.

Investment Properties
Investment properties have been assessed using the identifiable criteria under the international accounting standards of being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation, to determine if there is an operational reason for holding the property, such as regeneration. Where properties have been categorised as investment properties the council is satisfied that they are held solely for capital appreciation or income generation.

Leases
The council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the council has estimated the implied interest rate within the lease to calculate interest and principal payments.

Group Accounts
The council's group boundaries have been assessed using the criteria outlined in The Code. The council has assessed relationships and found none which require the preparation of group accounts.

Fair Values
When measuring the fair value of a non-financial asset, the council uses judgement to ascertain a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. It also uses judgements regarding inputs to valuation techniques, particularly whether they are applicable and relevant to the assets or liabilities, either directly or indirectly, being valued.

Business Rates Appeals

With business rates, ratepayers who consider the rateable values of their properties to be too high can lodge an appeal with the Valuation Office to have it reviewed. Any resulting reduction in bills can be backdated, perhaps over several years. This creates an uncertainty, because it means that the amount of income for the year from business rates, which has been included by the council in this Statement of Accounts, may later be reduced. Given that the gross income (before reliefs) in each

financial year is over £40m and that the provision is required to cover several years, even a relatively low percentage allowance produces a material amount, so the council must acknowledge this in its Statement.

Given that the uncertainties involved, ie the numbers of future appeals, their value and how far they will be backdated are all unknown, the question arises as to whether this should be treated as a provision or as a contingent liability. It is considered that it should be recognised as a provision, rather than as a contingent liability, because it meets the definition of a provision under IAS 37, in that there is:

(1) a present obligation arising from a past event;
(2) payment is probable;
(3) the amount can be estimated reliably.

In respect of (1), the 'present obligation' can (under IAS 37) be either legal or constructive. For appeals already lodged the present obligation would be legal. However, for appeals not yet lodged, the present obligation is constructive, on the basis that the past practice of the council, in processing liability adjustments and associated refunds, creates a valid expectation on the part of the business rates payer that refunds will be granted in the future, as a result of equivalent liability adjustments. The past event is the raising of the business rates charge.

In respect of (2), there is a probability of payment, although there is a chance that refunds may not be payable, if individual businesses no longer exist. However, the number of such credits written off IS very low. Any credits that are written off require liability adjustment (effectively re-raising the debt for refunds that are not payable). As such they are included in the data that feeds into the provision calculation.

In respect of (3), because of the nature of the revised appeals process introduced from April 2017 onwards, there are particular issues in estimating the potential value of appeals against valuations effective from that time onwards. The pattern of liability movements resulting from successful appeals across the years from 2010/11 to 2016/17 have been reviewed, together with information on the numbers and potential values of cases at the 'Check' and 'Challenge' stages of the process for 2017 list appeals. These, together with comments by the Valuation Office that the approach adopted for the 2017 revaluation was the same as for earlier valuations and a review of the approaches adopted by other authorities, supports the view that the level of provision made by the council at the end of 2020/21 is of an appropriate level.

The need for local authorities to consider making a business rates appeals provision developed as a result of the change to 'Business Rates Retention' within the local government finance system from 2013/14 onwards. Prior to this, the impact of appeals was absorbed within the amounts paid by the council into the then national business rates pool. The relevant CIPFA guidance clarified the view on whether authorities should include an element for refunds on appeals not yet lodged. It quoted IAS 37, paragraph 39 which deals with situations involving large populations where the obligation is estimated by weighting all possible outcomes by their associated probabilities. It is considered that the appeals provision methodology adopted by the council is entirely consistent with this 'expected value' methodology.

5. Assumptions about the future and other major sources of estimation uncertainty

The Statement of Accounts contains figures estimated on the basis of historical experience, current trends and other relevant factors. The following table notes items for which there is a significant risk of material future adjustment:

Item	Uncertainty	Effect if actual results differ
Pensions liability and assets	The estimated liabilities depend on a number of complex judgements. These include future retirement ages, mortality rates, salary increases, returns on investments and discount rates. A firm of consulting actuaries is engaged to provide advice on these assumptions. The scheme holds a varied portfolio of assets, details of which are shown at Note 37h. The valuations shown in this Statement are those assessed as at 31 March 2021 and again these are provided by a firm of consulting actuaries.	Sensitivity to the factors contributing to this estimate is shown in Note 37i. Small changes have major impacts on the pension deficit. At 31 March 2021, a 1% increase in the council's pensions obligations would increase the net liability by £1.392m, while a 1% increase in the scheme's asset would reduce the net liability by £0.992m. The council anticipates that it will spend £1.144m on current pension contributions in 2021/22 (see Note 37j). A 1% upward variation on this would produce an increased cost of £11k.
Pensions Assets	The scheme holds a varied portfolio of assets, details of which are shown at Note 37h. The valuations shown in this Statement are those assessed as at 31 March 2021 and again these are provided by a firm of consulting actuaries.	A 1% variation in asset values would increase or decrease the estimated net pensions liability by
Debtors	The most significant debtor issue for the council is its responsibility for collecting £93.345m in business rates and council tax. It is however mainly an agent for government and major preceptors. The major recovery risk resulting from shortfalls in collection falls to these bodies. Various notes present debtor information. Note 18a and 18c shows net total of £2.083m for debtors which are classed as financial instruments. The gross total is £3.403m against which a bad debt provision of £1.320m has been made. This total debtors figure includes Housing benefit debtors of £0.974m (i.e. recovery of overpayments). Changes in the administration of benefits are pending which may affect recovery in future years. The provision made for these debts has therefore been maintained at over 90% to reflect this. In assessing the appropriate level of provision against general debts, then as well as the usual factors such as the age of the debt, consideration has been given to the circumstances of the Covid-19 pandemic and their implications for debt recovery. With this done, the level of coverage on general debts has been set at just under 62%.	Any additional impairment will be a charge to the Comprehensive Income and Expenditure Statement. A 1% increase in the impairment of doubtful debts would result in an additional charge of £0.034m to the CI&ES.

Item	Uncertainty	Effect if actual results differ
Asset valuations	Note 15e shows that fixed assets valued at £27.557m (£27.450m of Operational Land and Buildings and £0.107m of Community Assets) are carried at either current value (£10.281m) or depreciated replacement cost value (£17.276m). Note 16 shows that investment properties valued at £10.144m are carried at current value. The valuations have been carried out by qualified valuers in accordance with Royal Institution of Chartered Surveyors Guidance.	The values are only estimates and thus could over or understate the actual values realisable if sale actually occurred. The valuations in respect of Investment Properties are those most subject to market variations. A fall in the value of these would result in a charge to the CI&ES. Every 10% fall in the total value of the council's investment properties would result in a £1.014m charge to the CI&ES. Likewise, a 10% in the value of other assets valued at current cost would produce a variation of £1.208m. How much, if any, of this would be chargeable to the CIES would depend on the individual assets affected and on whether or not there were associated balances in the Revaluation Reserve.
Provisions	A provision of £2.081m has been recognised for the best estimate of the amount that businesses have been overcharged business rates up to 31 March 2021. The estimate in respect of appeals against the rating lists prior to that for 2017 has been calculated using the Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date. In respect of the 2017 list, there have, as yet, been only a very limited number of appeals at a national level and so the appropriate level of provision is more difficult to gauge. The council's provision has been set at 4% of the net rates payable for each year, after making allowance for reductions in rateable values at the 'Check' and 'Challenge' stages of the 2017 List appeals process. Benchmarking information indicates that this is a little higher than the average for councils of this size and type. See Note 23.	If the value of successful appeals exceeded the provision there would be a reduction in the local share of business rates income available to fund the Authority's services. Similarly, an increase in the provision to cover such appeals would be a charge to the Collection Fund which would also reduce the local share of business rates income available to fund the Authority's services. A 1% increase in the provision would result in an additional charge to the Collection Fund of £0.052m, of which this Authority's share of the cost would be 40% or £0.021m.
Fair value measure-ments	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or	The council uses the market approach to value of some of its investment properties and financial assets. The unobservable inputs used in

Item	Uncertainty	Effect if actual results differ
	liabilities in active markets). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities. Where Level 1 inputs are not available, the council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the council's Senior Valuer). Information about the valuation techniques and inputs used in determining the fair value of the council's assets and liabilities is disclosed in Notes 2, 16 and 18.	the fair value measurement include management assumptions regarding rent yield and growth, vacancy levels (for investment properties). Significant changes in any of the unobservable inputs would result in a lower or higher fair value measurement for the investment properties and financial assets.

6. Material items of income and expense

All material items have been disclosed in the statement or in the notes to the main financial statements. For the purposes of this note the council considers material items to be those greater than £0.620m (2019/20 £0.675m). This equates to 1.5% of the council's gross service expenditure for the preceding financial year and matches the level threshold applied by the council's auditor for the preceding year's audit, although the actual audit materiality level for 2020/21 remains subject to confirmation.

7. Events after the reporting period

The unaudited Statement of Accounts was authorised for issue by the Director of Finance on 31 July 2021. Subsequent events are not reflected in the financial statements or in the notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the Balance Sheet date.

8. Note to the Expenditure and Funding Analysis

The Expenditure and Funding Analysis, which forms Note 1 to the Accounts, can be found on page 46.

2020/21 Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note A) £'000	Net change for the Pensions Adjustments (Note B) £'000	Other Statutory Adjustments (Note C) £'000	Total Statutory Adjustments £'000	Non-Statutory Adjustments (Note D) £'000	Total Adjustments £'000
Chief Executive	0	74	16	90	0	90
Neighbourhoods & Development	(547)	374	74	(99)	(223)	(322)
Planning & Property	343	126	31	500	688	1,188
Finance & Assurance	4	258	(3)	259	(119)	140
Legal, HR & Democratic Services	23	157	44	224	0	224
Customer Experience & Operations	192	146	16	354	63	417
Budgets Not in Directorates	0	56	0	56	0	56
Net Cost of Service	15	1,191	178	1,384	409	1,793
Other income and expenditure from the Expenditure and Funding Analysis	(2,936)	627	5,719	3,410	(409)	3,001
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(2,921)**	**1,818**	**5,897**	**4,794**	**0**	**4,794**

2019/20 Comparative Figures Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note A) £'000	Net change for the Pensions Adjustments (Note B) £'000	Other Statutory Adjustments (Note C) £'000	Total Statutory Adjustments £'000	Non-Statutory Adjustments (Note D) £'000	Total Adjustments £'000
Chief Executive	0	10	0	10	0	10
Neighbourhoods & Development	2,261	93	0	2,354	(253)	2,101
Planning & Property	350	30	0	380	787	1,167
Finance & Assurance	4	1,247	0	1,251	(66)	1,185
Legal, HR & Democratic Services	23	24	0	47	0	47
Customer Experience & Operations	169	55	0	224	64	288
Budgets Not in Directorates	0	118	0	118	0	118
Net Cost of Service	2,807	1,577	0	4,384	532	4,916
Other income and expenditure from the Expenditure and Funding Analysis	(3,050)	760	(815)	(3,105)	(532)	(3,637)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(243)**	**2,337**	**(815)**	**1,279**	**0**	**1,279**

Note A Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service 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
- Finance and investment income and expenditure – the statutory charges for capital financing, i.e. Minimum Revenue Provision (MRP) and other revenue contributions, are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices (GAAP).
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under GAAP. Revenue grants are adjusted from those receivable during the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied within the year.

Note B Net Change for Pension Adjustments

The net change for the removal of pension contributions and the addition of the IAS 19 Employee Benefits pension related expenditure and income are reflected as follows:

- For services this represents the removal of the employer pension contributions made by the authority as determined by statute and their 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 (CIES).

Note C Other Statutory Adjustments
Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute are:

- For financing and investment income and expenditure - the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- For taxation and non-specific grant income - the charge represents the difference between what is chargeable under statute for Council Tax and Business Rates that was forecast to be received at the start of the year, and the income recognised under GAAP. This is a timing difference as any difference is brought forward in the surpluses or deficits on the Collection Fund.

Note D Other Non-statutory Adjustments
Other non-statutory adjustments represent amounts debited/credited to service segments which need to be adjusted against the 'Other income and expenditure from the Expenditure and Funding Analysis' line to comply with the presentational requirements in the Comprehensive Income and Expenditure Statement. These are:

- For financing and investment income and expenditure, adjustments in respect of the income and expenditure on investment properties and in respect of charges for the provision for non-collection of outstanding debts.

9. Expenditure and Income Analysed By Nature

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

Expenditure/Income	2019/20 £'000	2020/21 £'000
Expenditure		
Employee benefits expenses	12,469	12,890
Other service expenses	29,783	29,051
Depreciation, amortisation and impairment	3,857	(357)
Interest payments	3,014	2,998
Precepts and levies	15,539	10,949
Loss on the disposal of assets	0	0
Total Expenditure	**64,662**	**55,531**
Income		
Fees, charges and other service income	(11,639)	(8,671)
Interest and investment income	(2,564)	(2,313)
Income from Council Tax and Non-Domestic Rates	(28,526)	(17,094)
Government grants and contributions	(21,935)	(28,968)
Gain on disposal of assets	(13)	(27)
Total Income	**(64,677)**	**(57,073)**
Surplus or Deficit on the Provision of Services	**(15)**	**(1,542)**

10. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to arrive at the resources that are specified by the statutory provisions as being available to the council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the council are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year and includes Earmarked Reserves (see Note 11).

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2020/21	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pensions costs (transferred to (or from) the Pensions Reserve) (note 25e)	(1,818)	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account) (note 25c)	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account) (note 25f)	(5,718)	0	0
Holiday pay (transferred to the Accumulated Absences Reserve) (note 25g)	(179)	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) (note 25b)	2,214	0	0
Total Adjustments to Revenue Resources	**(5,501)**	**0**	**0**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve (MiRS page 54)	27	(27)	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) (note 25b)	619	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) (note 25b)	2,047	0	0
Total Adjustments between Revenue and Capital Resources	**2,693**	**(27)**	**0**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure (MiRS page 15)	0	27	0
Application of capital grants to finance capital expenditure (MiRS page 15)	(1,986)	0	1,986
Total Capital Resources	**(1,986)**	**27**	**1,986**
Total Adjustments	**(4,794)**	**0**	**1,986**

2019/20	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pensions costs (transferred to (or from) the Pensions Reserve) (note 25e)	(2,337)	0	0
Financial instruments (transferred to the Financial Instruments Adjustments Account) (note 25c)	(1)	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account) (note 25f)	815	0	0
Holiday pay (transferred to the Accumulated Absences Reserve) (note 25g)	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) (note 25b)	(2,140)	0	0
Total Adjustments to Revenue Resources	**(3,663)**	**0**	**0**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve (MiRS page 54)	13	(13)	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) (note 25b)	762	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) (note 25b)	451	0	0
Total Adjustments between Revenue and Capital Resources	**1,226**	**(13)**	**0**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure (MiRS page 54)	0	840	0
Application of capital grants to finance capital expenditure (MiRS page 54)	1,158	0	(1,158)
Total Capital Resources	**1,158**	**840**	**(1,158)**
Total Adjustments	**(1,279)**	**827**	**(1,158)**

11. Transfers to / from earmarked reserves

The movements in earmarked reserves during the year were as follows. The movements in the general reserve are also included, producing the overall total for general fund reserves that appears in the Movement in Reserves Statement on page 43.

	Balance 31 March 2019 £'000	Transfers In 2019/20 £'000	Transfers Out 2019/120 £'000	Balance 31 March 2020 £'000	Transfers In 2020/21 £'000	Transfers Out 2020/21 £'000	Balance 31 March 2021 £'000
My Neighbourhoods	(54)	(13)		(67)	(43)	1	(109)
Borough Council Elections	(114)	(222)	176	(160)	0	0	(160)
Housing Needs Survey	(83)	(17)		(100)	(20)	40	(80)
Local Development Framework	(255)			(255)	(100)	88	(267)
Performance Reward Grant	(46)		19	(27)	0	16	(11)
Organisation Restructure Costs	(27)	(173)		(200)	0	0	(200)
Borough Investment Account	(4,594)		17	(4,577)	0	172	(4,405)
Business Rates Retention	(2,751)	(631)	73	(3,309)	0	165	(3,144)
City Deal Reserve	(1,711)	(340)	200	(1,851)	0	0	(1,851)
Capital Funding Reserve	(3,073)	(734)	293	(3,514)	(45)	1,708	(1,851)
Repairs and Maintenance Fund	(500)			(500)	0	0	(500)
Transformation Fund	(500)		85	(415)	0	185	(230)
Apprenticeship Reserve	(267)		267	0	0	0	0
Climate Change	0	(250)		(250)	0	0	(250)
Credit Union	0	(150)		(150)	0	1	(149)
CIL Administration Fund	0	(248)		(248)	0	248	0
Section 106 Reserve	0			0	(242)	0	(242)
Asset Management	0			0	(400)	0	(400)
Business Grants Reserve	0			0	(150)	0	(150)
Community Wealth Building	0			0	(150)	0	(150)
Mental Health for Young People	0			0	(50)	0	(50)
Covid Recovery Fund	0			0	(675)	0	(675)
Covid Commitments	0			0	(654)	0	(654)
Income Equalisation	0			0	(150)	0	(150)
Leisure Reserve	0			0	(546)	0	(546)
Income Investment Reserve	0			0	(250)	0	(250)
Collection Fund Deficit Distribution Fund	0			0	(5,244)	0	(5,244)
Other Earmarked Reserves	(864)	(436)	349	(951)	(561)	222	(1,290)
Total Earmarked Reserves	**(14,839)**	**(3,214)**	**1,479**	**(16,574)**	**(9,280)**	**2,846**	**(23,008)**
General Reserve	(4,680)	(328)	769	(4,239)	(31)	129	(4,141)
Total General Fund Reserves	**(19,519)**	**(3,542)**	**2,248**	**(20,813)**	**(9,311)**	**2,975**	**(27,149)**

Below is a description of the purpose of each of the earmarked reserves identified above:

Earmarked Reserve	Reason / Use
Community Hubs	An accumulation of unspent core funding allocated to be spent in accordance with the local priorities determined by each of the Community Hub forums.
Elections Provision	An annual transfer from revenue is made to cover the four yearly Borough Elections. The next election is due to take place in May 2023.
Housing Needs Survey	Annual contribution made to fund the costs of carrying out detailed Housing Needs Surveys.
Local Development Framework	To fund one-off costs in relation to the production of planning policy documents in relation to the Local Development Framework.
Performance Reward Grant	External revenue funding held by the council on behalf of South Ribble Partnership set aside for spending on South Ribble Partnership projects in future years.
Organisation Restructure Costs	To be used to assist in funding the one-off costs of any service reviews designed to improve the efficiency of the council.
Borough Investment Account	To facilitate income generation schemes and create a diverse and self-sustaining income portfolio to enable the council to bridge potential funding gaps.
Business Rates Retention	To mitigate the potential risk to the council's medium-term financial strategy by providing funds to smooth out the inherent fluctuations that occur in the Business Rates Retention System.
City Deal	To be used to fund additional costs in relation to the delivery of City Deal projects and outcomes.
Capital Funding Reserve	This is to fund capital expenditure in line with the council's Corporate Plan priorities, as set out in the approved Capital Strategy and Medium-Term Financial Strategy.
Repairs and Maintenance Fund	The revenue budget includes an annual provision for the costs of repairs and maintenance of the council's property assets. The purpose of the reserve is to meet the costs of any major repairs and maintenance works which cannot be met from this base budget.
Transformation Fund	The purpose of the reserve was to provide funding for projects which will generate a payback into the council's revenue budget through sustainable income generation and/or recurring cost savings. The fund has been allocated to the IT Digital Strategy capital costs in the capital programme.
Apprenticeship Reserve	This relates to funding set aside to fund Apprenticeship costs. The reserve is no longer required because the staffing costs for apprenticeship posts have been built into the base budget. Therefore the reserve has been transferred back to the general reserve.
Climate Change	To facilitate spending on initiatives that will reduce the council or the borough's impact on climate change.
Credit Union	To support the creation of a Credit Union within the borough.
CIL Administration Fund	This reserve was created in 2019-20 using the proportion of Community Infrastructure Levy (CIL) which the council is entitled to retain in respect of administration costs. The reserve was released in 2020-21 to reflect the funding of historic costs in administering CIL.
Asset Management	To fund potential future maintenance costs and part-fund future capital expenditure on short-life assets such as ICT and vehicles.
Business Grants Reserve	To deliver an extended programme of support for businesses beyond government grants to ensure that the council is doing as much as possible to help businesses get back on their feet.

Earmarked Reserve	Reason / Use
Community Wealth Building	To implement a plan to retain wealth and grow the local economy through a progressive procurement framework and social value policies.
Mental Health for Young People	To support positive mental health for young people through officer resource to deliver a programme of early intervention activity.
Covid Recovery Fund	To support the borough's recovery from covid-19
Covid Commitments	To cover existing Covid-19 commitments which will only be incurred in 21/22.
Income Equalisation	To cover any potential temporary reliefs and losses on investment income over the recovery period from Covid-19.
Leisure Reserve	To fund one-off costs associated with bringing the leisure service in-house and then transferring it to a newly created trading company, and to offset expected deficits in the first year of operation.
Income Investment Reserve	To fund the costs of developing new income generation projects which may not be able to be capitalised.
Collection Fund Deficit Distribution Fund	In 2020-21, because of the Government support measures in respect of the Covid 19 pandemic, the balance of income relating the Business Rates, between actual rates income and government grants, shifted significantly towards grants. The result was a surplus of £5.107m in grant income, offset by a corresponding deficit on the Collection Fund. But whereas the surplus falls immediately into 2020-21, the impact of the Council's share of the deficit will not be felt until 2021-22 and later years. The surplus has therefore been set aside to meet this. There are also smaller deficits, in respect of both Council Tax and Business Rates, which have arisen from the more general effects of the pandemic. Further grants, totalling £136k, have been received to cover a part of these. (See also under Note 14.)
Other	This reserve comprises three elements: approved carry forwards of underspends that have not yet been allocated, surplus income relating to Sports Development service, and miscellaneous ring-fenced grant income specific to certain service areas.

12. Other operating expenditure

2019/20 £'000		2020/21 £'000
389	Parish Council precepts	440
(13)	(Gains) and losses on the disposal of non-current assets	(27)
376	**Total**	**413**

13. Financing and investment income and expenditure

2019/20 £'000		2020/21 £'000
96	Interest payable and similar charges	120
760	Net interest on the net defined benefit liability (note 37d)	626
(406)	Interest receivable and similar income	(186)
641	Income and Expenditure in relation to investment properties and changes in their fair value (note 16)	(84)
2	Allowance for impairment of outstanding debts	56
(499)	Losses or (surplus) on trading accounts (note 29)	(769)
594	**Total**	**(237)**

14. Taxation and non-specific grant income and expenditure

2019/20 £'000		2020/21 £'000
(8,335)	Council tax income	(8,394)
(5,037)	Non-domestic rates income and expenditure	1,808
(3,302)	Non-ring fenced government grants	(7,518)
0	Covid-19 support grants	(310)
(2,764)	Capital grants and developer contributions	(1,600)
0	Amounts transferred between Capital Grants Unapplied and Capital Grants Received In Advance	1,735
(19,438)	**Total**	**(14,279)**

Impact of Covid-19 pandemic on income from business rates and non-ringfenced government grants

During 2020/21 the council received a range of additional government grants, falling into three main categories:

- Grants to compensate the council for payments made of support grants to local businesses, under schemes established by the government.
- Grants to directly support the council and its activities, both to compensate for reduced income and to support additional expenditure.
- Additional amounts of Section 31 grant to compensate for the loss of business rates income resulting from supplementary statutory business rates reliefs, specifically expanded retail discount and nursery discount.

In respect of the first, in making these payments, the council was effectively acting as an agent, distributing the grants on behalf of the government and was fully reimbursed for the cost. The grants and the associate expenditure are therefore accounted for separately and are excluded from the council's accounts (see also Note 33).

In respect of the second, the Covid-19 support of £310k shown in the table is a grant received in compensation for overall losses of sales, fees and charges. This amount cannot readily be attributed to individual service lines and so appears here. Further grants, totalling £3.106m, are included within the Net Cost of Services (see Note 33), where they directly support related expenditure.

In respect of the third, the amount of additional grant received was £5.107m. The reverse side of this is the reduction shown in business rates income which, after deducting the tariff payable to the government, produced a net cost to the council of £1.808m (for more detail see Collection Fund Note 3 on page 111), although it should be noted that part of the reduction is attributable to the reversion from a 56% share of income in 2020/21 to 40% in 2020/21 (see below). The Collection Fund deficit resulting from reduced rating income will be distributed in 2021/22 and future years. The council's share of the deficit is £5.478m.

A further grant of £113k in respect of more general loss of business rates income is also due to the council. This gives a total of £5.220m, which has been transferred, together with £24k in respect of Council Tax losses, to a newly established Earmarked Reserve (see Note 11). This will be released in future years to match against the distribution of the deficit. In summary, given that there will always be some fluctuations in income, the overall financial impact on the council is broadly neutral.

Non-domestic Rates Income and Expenditure - The Lancashire Business Rates Pool

In 2016/17, 2017/18 and 2018/19 this council was part of the Lancashire Business Rates Pool. In a Business Rate Pool, tariffs, top-ups, levies and safety nets are combined. This can result in a significantly lower levy rate or even a zero levy rate meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government.

The Lancashire Business Rates Pool, which included most but not all of the local authorities in Lancashire, was designated by the Secretary of State for Housing, Communities and Local Government and originally operated with allocations on the basis of the 50% business rates retention scheme.

In 2019/20 the council, along with 14 other authorities in Lancashire, submitted a successful bid to become a 75% Business Rate Pilot Pool. This meant that 75% of collected rates were retained in Lancashire rather than 50%. The Pilot was for one year only and, for 2020/21, the local share reverted to 50%.

A comparison of the business rates income allocations in 2019/20 and 2020/21 are shown in the table below:

	2019/20	**2020/21**
District Authorities	56%	40%
Lancashire County Council	17.5%	9%
Lancashire Combined Fire Authority	1.5%	1%
	75%	**50%**
Central Government	25%	50%
Total	**100%**	**100%**
Unitary Authorities	73.5%	49%

[FURTHER TEXT AND TABLES TO BE RECEIVED FROM POOL LEAD AUTHORITY TO BE INSERTED HERE]

15. Property, plant and equipment

15a Movements in Property Plant and Equipment

2020/21	Other Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure £'000	Community Assets £'000	Assets Under Construction £'000	Total £'000
Cost or valuation						
At 1 April 2020	**28,711**	**13,290**	**3,262**	**131**	**702**	**46,096**
Additions	225	1,788	180	26	1,229	3,448
Revaluations recognised in the Revaluation Reserve (RR)	(2,347)	0	0	0	0	(2,347)
Revaluations recognised in CIES	1,794	0	0	0	0	1,794
De-recognition - disposals	0	(678)	0	0	0	(678)
Assets reclassified	0	396	0	0	(396)	0
Other Movements	0	0	0	0	0	0
At 31 March 2021	**28,383**	**14,796**	**3,442**	**157**	**1,535**	**48,313**
Depreciation and Impairment						
At 1 April 2020	**(4,727)**	**(11,794)**	**(1,310)**	**0**	**0**	**(17,831)**
Depreciation charge	(945)	(734)	(260)	0	0	(1,939)
Depreciation written out of Revaluation Reserve	2,868	0	0	0	0	2,868
Depreciation written out of CIES	995	0	0	0	0	995
Impairment losses recognised in Revaluation Reserve	0	0	0	0	0	0
Impairment losses recognised in CIES	0	0	0	0	0	0
De-recognition - disposals	0	678	0	0	0	678
Assets reclassified	0	0	0	0	0	0
Other Movements	0	0	0	0	0	0
At 31 March 2021	**(1,809)**	**(11,850)**	**(1,570)**	**0**	**0**	**(15,229)**
Net Book Value						
At 31 March 2021	**26,574**	**2,946**	**1,872**	**157**	**1,535**	**33,084**
At 31 March 2020	**23,984**	**1,496**	**1,952**	**131**	**702**	**28,265**

2019/20	Other Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure £'000	Community Assets £'000	Assets Under Construction £'000	Total £'000
Cost or valuation						
At 1 April 2019	**28,209**	**12,625**	**2,896**	**106**	**457**	**44,293**
Additions	269	899	199	24	692	2,083
Revaluations recognised in the Revaluation Reserve (RR)	0	0	0	0	0	0
Revaluations recognised in CIES	(2)	0	0	0	0	(2)
De-recognition - disposals	(22)	(254)	0	0	0	(276)
Assets reclassified	257	22	168	0	(447)	0
Other Movements	0	(1)	(1)	1	0	(1)
At 31 March 2020	**28,711**	**13,291**	**3,262**	**131**	**702**	**46,097**
Depreciation and Impairment						
At 1 April 2019	**(3,663)**	**(11,107)**	**(1,062)**	**0**	**0**	**(15,832)**
Depreciation charge	(1,096)	(942)	(247)	0	0	(2,285)
Depreciation written out of Revaluation Reserve	0	0	0	0	0	0
Depreciation written out of CIES	9	0	0	0	0	9
Impairment losses recognised in Revaluation Reserve	0	0	0	0	0	0
Impairment losses recognised in CIES	0	0	0	0	0	0
De-recognition - disposals	22	254	0	0	0	276
Assets reclassified	0	0	0	0	0	0
Other Movements	1	1	(1)	0	0	1
At 31 March 2019	**(4,727)**	**(11,794)**	**(1,310)**	**0**	**0**	**(17,831)**
Net Book Value						
At 31 March 2020	**23,984**	**1,497**	**1,952**	**131**	**702**	**28,266**
At 31 March 2019	**24,546**	**1,518**	**1,834**	**106**	**457**	**28,461**

15b Depreciation

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

Type of Asset	Years
Other Land & Buildings	5-60
Vehicles, Plant, Furniture & Equipment	3-15
Infrastructure	5-60

15c Capital Commitments

At 31 March 2021 there were 8 significant contractual commitments, totalling £1.783m, relating to capital expenditure, as listed in the table below.

Value (£'000)	Description
386	Refurbishment of Hurst Grange Coach House
164	Conversion of a property into affordable housing units at Tom Hanson House, Station Road Bamber Bridge
90	Creation of a football pitch at St Gerrard's, Lostock Hall
803	Purchase 4 refuse collection vehicles
154	Purchase 1 refuse collection vehicle
57	Purchase 2 tipper vehicles
62	Purchase 1 gang mower
67	Purchase 2 transporter vehicles

15d Effects of Changes in Estimates

There were no material changes in accounting estimates for Property, Plant and Equipment in 2020/21.

15e Property, Plant and Equipment Valuations

The authority carries out a rolling programme that ensures that all property, plant and equipment required to be measured at current value is revalued at least every five years. During 2020/21 the valuations were carried out on behalf of the council by Sanderson Weatherall LLP. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The basis of valuation is set out in Note 2 Accounting Policies.

	Other land & Buildings £'000	Vehicles Plant Furniture & Equipment £'000	Infrastructure £'000	Community Assets £'000	Assets Under Construction £'000	Total £'000
Carried at historical cost	**933**	**14,797**	**3,442**	**50**	**1,536**	**20,758**
Valued at current value as at:						
31 March 2021	17,507	0	0	0	0	17,507
31 March 2020	214	0	0	0	0	214
31 March 2019	2,040	0	0	12	0	2,052
31 March 2018	4,538	0	0	65	0	4,604
31 March 2017	3,151	0	0	30	0	3,181
Total cost or valuation	**28,383**	**14,797**	**3,442**	**157**	**1,536**	**48,315**

16. Investment properties

Details of rental income and operational expenditure are given in Note 29 and have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or its right to receipt of income or the proceeds of disposal.

At 31 March 2021, the council had no contractual obligations to purchase, construct or develop investment property.

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

	2019/20 £'000	2020/21 £'000
Fair Value 1 April	10,679	10,055
Additions – Subsequent expenditure	17	4
Disposals	0	(113)
Net gains / (losses) from fair value adjustments	(641)	198
Transfers (to) / from Property Plant and Equipment	0	0
TOTAL	**10,055**	**10,144**

Fair Value Hierarchy – Investment Properties

All the council's investment properties have been value assessed as Level 2 (other significant observable inputs) on the fair value hierarchy for valuation purposes. See the Fair Value Measurement section of Note 2 Accounting Policies for an explanation of the fair value levels.

Transfers between Levels of the Fair Value Hierarchy

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

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

Significant Observable Inputs - Level 2

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

Highest and Best Use of Investment Properties

In estimating the fair value of the council's investment properties, the highest and best use of the properties is their current use.

Valuation Techniques

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

Valuation Process for Investment Properties

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). During 2020/21 the valuations of investment properties were carried out on behalf of the council by Sanderson Weatherall LLP. The basis of valuation is set out in Note 2 Accounting Policies.

17. Intangible assets

The council accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The following periods have been used in amortising the Authority's significant intangible assets.

Asset Description	Amortisation Period
IT work programme	5 years
Customer Contact Centre and Relationship Management System	5 years
Revenues and Benefits System	5 years
Human Resources System	5 years
Licensing Management System	5 years
Planning & Building Control System	5 years
Committee Management System	5 years
Financial Management Information System	5 years
Performance Management System	5 years

Amortisation is on a straight line basis. In 2020/21 amortisation of £0.102m was charged to the following lines in the Comprehensive Income and Expenditure Statement.

	2019/20 £'000	2020/21 £'000
Customer Experience & Ops	59	77
Finance & Assurance	4	4
Legal HR & Democratic Serv	18	21
Total	**81**	**102**

The movements on Intangible Asset balances during the year are as follows:-

	2019/20 £'000	2020/21 £'000
Cost at start of year	1,418	1,490
Additions in year	72	124
Reclassifications in year	0	0
Gross cost at end of year	**1,490**	**1,614**
Accumulated amortisation at start of year	(1,268)	(1,349)
Amortised in year	(81)	(102)
Accumulated amortisation	**(1,349)**	**(1,451)**
Net carrying amount at the start of the year	150	141
Net carrying amount at the year end	**141**	**163**

At 31 March 2021, there were no significant contractual commitments, and no individual intangible assets the amortisation of which is materially significant to the council.

18. Financial instruments

18a Categories of Financial Instrument

The following categories of Financial Instruments are carried in the Balance Sheet:

Long Term 31 March 2020 £'000	Current 31 March 2020 £'000		Long Term 31 March 2021 £'000	Current 31 March 2021 £'000
		Financial Assets		
		Carried at Amortised Cost		
0	38,071	Short Term Investments	0	29,017
42	486	Debtors	39	2,083
42	**38,557**	**Total Financial Assets**	**39**	**31,100**
		Financial Liabilities		
		Carried at Amortised Cost		
0	(10,000)	Short Term Borrowing	0	0
0	0	Long Term Creditors - Finance lease liabilities	0	0
0	(283)	Creditors - Finance lease (due within 12 months)	0	0
(167)	(2,057)	Creditors	(152)	(3,443)
(167)	**(12,340)**	**Total Creditors**	**(152)**	**(3,443)**
		Memo: Items that are not Financial Instruments		
0	*12,048*	*Cash & cash equivalents (note 21) net of bank overdraft*	*0*	*15,148*
0	*2,477*	*Debtors*	*0*	*10,860*
0	*(8,967)*	*Creditors*	*0*	*(21,612)*

There has been no reclassification of assets and no pledges of collateral have been made in the periods reported in these statements.

In March 2020, with the onset of the Covid 19 pandemic and the implementation of measures to support local businesses, and the need for this to be done promptly, the possibility arose that the council would make substantial payments of grants shortly before receipt of the associated financial support from Central Government. The council's investments, which had been made in accordance with the approved Investment Policy, were mostly committed for longer periods and so the funds were not immediately available without incurring financial penalties. Given that the costs of short term borrowing were less than those potential penalties, short term loans of £10m were taken out to support immediate cash flow requirements. This borrowing was repaid in April 2021 and no further borrowing was entered into in 2020/21.

All of the financial instruments included in the table above are carried at amortised cost and there are no implications in respect of the impact on fair values of the Covid 19 pandemic.

18b Income, Expense, Gains and Losses

The amounts charged in the Comprehensive Income and Expenditure Statement to the Financing and Investment Income and Expenditure line (and shown in Note 13) are as follows:-

	2019/20			2020/21		
	Surplus or Deficit on Provision of Services £'000	Other Comprehensive Income and Expenditure £'000	Total £'000	Surplus or Deficit on Provision of Services £'000	Other Comprehensive Income and Expenditure £'000	Total £'000
Interest revenue on Financial Assets measured at amortised cost	0	(406)	(406)	0	(186)	0
Interest expense	0	96	96	0	120	0
Net (gain) / cost for the year			**(310)**		**(66)**	**0**

18c The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2 of the fair value hierarchy), using the following assumptions:

- For non-PWLB loans payable (such as the council's Leisure Finance Lease), PWLB new borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

All financial assets and liabilities held by the council are carried in the Balance Sheet at amortised cost.

Financial Liabilities

	31 March 2020		31 March 2021	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Short Term Borrowing	(10,000)	(10,000)	0	0
Finance Lease (short and long-term)	(283)	(279)	0	0
Short Term Creditors	(2,057)	(2,057)	(3,443)	(3,443)
Long Term Creditors	(167)	(167)	(152)	(152)
Total Liabilities	**(12,507)**	**(12,503)**	**(3,595)**	**(3,595)**

The Leisure Finance Lease fair value represented the value of the liability if the council were to prematurely repay the debt and so would incur a premium. Given the nature of the calculation of the fair value for this type of asset, it was not affected by potential market fluctuations as a result of the Covid 19 pandemic. By the end of 2020/21, the liability was fully discharged.

Long-term creditors comprises numerous commuted sums relating to grounds maintenance. Any difference between carrying amount and fair value of each of these small sums would be immaterial, and therefore they are carried at cost as a fair approximation of their value.

Financial Assets

	31 March 2020		31 March 2021	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Cash and Cash Equivalents	12,048	12,048	15,148	15,148
Investments - Loans	38,071	38,071	29,017	29,017
Short Term Debtors	486	486	2,083	2,083
Long Term Debtors	42	42	39	39
Total Assets	**50,647**	**50,647**	**46,287**	**46,287**

Long-term debtors comprise a number of small debts such as some small loans. Any difference between carrying amount and fair value of each of these small sums would be immaterial, and therefore they are carried at cost as an approximation of their fair value.

18d Nature and extent of risks arising from financial instruments

Key risks

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

- Credit risk – that other parties might fail to pay amounts due to the council.
- Liquidity risk – that the Authority might not have liquid funds available to make payments when due.

- Market risk – the possibility of financial loss arising from movements in interest rates.

Overall procedures for managing risk

In managing investment risk the council works within the legal framework set out in the Local Government Act 2003 and associated regulations. This requires compliance with the CIPFA Code of Practice, the Prudential Code, and investment guidance issued through the Act. A key requirement is that the council should annually consider its Treasury Management Strategy which incorporates the following:

Prudential indicators specifying:

1. Maximum and minimum exposure to fixed and variable rates;
2. Limits on the maturity structure of the debt portfolio;
3. Limits on total borrowing.

An Investment Strategy specifying:

1. The use that should be made of credit ratings and other indicators to determine the financial standing of counterparties;
2. The use of sovereign ratings to limit investments to specific countries;
3. The maximum amounts that might be deposited with any institution;
4. The lengths of time for which deposits can be made.

Credit risk

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

This risk is minimised through the Annual Investment Strategy, which is available on the Authority's website.

Credit Risk Management Practices

The authority's credit risk management practices are set out in section 8.2-3 of the Annual Investment Strategy, which forms part of the council's Treasury Strategy for the year. With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The Annual Investment Strategy:

- requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services, and
- it also considers maximum amounts and time limits with a financial institution located in each category.

This council uses the creditworthiness service provided by its external treasury management advisors. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies, ie Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads (an indication of the level of risk involved in lending to a particular organisation) to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2020/21 was approved by Full Council on 26th February 2020 and is available on the council's website.

Expected Credit Loss

The council is required to disclose any material expected credit loss on its financial assets held at the end of the financial year, both in the following twelve months and over the lifetime of those assets.

The council's material financial assets consist of a combination of:

- deposits and investments, all of which have a life of less than twelve months, and
- short term debtors for trade receivables

The council's maximum exposure to credit risk in relation to its investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. As noted above, the council's Investment Strategy restricts investments to a narrow range of counterparties. At 31 March 2021 it had deposits totalling £44.163m (£50.118m at 31 March 2020) with a number of different institutions. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. Review of the specific deposits and investments held at 31 March 2021, including consideration of the uncertainties resulting from the Covid 19 pandemic, has indicated that there is no material risk of credit loss.

Assessment of the expected credit loss on the outstanding balance of trade receivables is made using a provision matrix based on the age of the outstanding debt and previous experience of recovery rates. At 31 March 2021, the outstanding gross amount was £3.403m (£1.773m at 31 March 2020) and the maximum exposure to credit loss was assessed as £2.083m (£0.486m at 31 March 2020). The risk of loss has been fully provided for. No collateral is held as security.

Liquidity risk

The authority has ready access to borrowing from the Public Works Loan Board and the money markets. There is therefore no significant risk that it will be unable to raise finance to meet its commitments.

The council manages its liquidity position through the risk management procedures outlined above as well as through cash flow management procedures required by the council.

Market risk

Interest rate risk – The council has limited exposure to interest rate movements on its investments. Short term investments are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate investments do not impact on the Surplus or Deficit on the Provision of Service or Other Comprehensive Income and Expenditure.

To mitigate risk the Treasury Strategy reviews interest rate forecasts and fixes prudential indicators for fixed and variable interest rate exposure.

If all variable interest rates had been 1% higher (with all other variables held constant) the financial effect would have been as shown in the following table:

	£'000
Gain - Increase in interest receivable on variable rate investments	491
Gain - Impact on the Surplus or Deficit on the Provision of Service	491

The impact of a 1% fall in interest rates would be as above but with the movements being reversed (although, in practice, given that the average rate of interest earned in 2020/21 was limited to 0.36% and earnings to £177k, the maximum level of possible loss was limited to this amount).

Price risk

The council has no material exposure to this risk.

Foreign Exchange Risk

The council has no material exposure to this risk.

19. Inventories

	2019/20			2020/21		
	Consumable Stores £'000	Maintenance Materials £'000	Total £'000	Consumable Stores £'000	Maintenance Materials £'000	Total £'000
Balance at 1 April	66	22	88	68	24	92
Purchases	679	236	915	607	281	888
Issued in year	(652)	(234)	(886)	(611)	(279)	(890)
Written off in year	(25)	0	(25)	21	0	21
Balance at year end	**68**	**24**	**92**	**85**	**26**	**111**

20. Short term debtors

	31 March 2020 £'000	31 March 2021 £'000
Trade receivables	286	709
Prepayments	638	2,833
Other receivable amounts	4,392	12,018
Gross carrying amount at the year end	**5,316**	**15,560**
Less provision for bad debts	(2,127)	(2,617)
Net carrying amount at the year end	**3,189**	**12,943**

21. Cash and cash equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2020 £'000	31 March 2021 £'000
Cash held by the Authority	1	1
Bank current and call accounts	12,047	15,147
Total cash and cash equivalents	**12,048**	**15,148**

22. Short term creditors

	31 March 2020 £'000	31 March 2021 £'000
Trade payables	(2,014)	(2,078)
Other payables	(9,293)	(22,977)
Total cash and cash equivalents	**(11,307)**	**(25,055)**

23. Provisions

The movements in provisions during the year were as follows:

	Business Rates Appeals £'000
Balance at 1 April 2019	(1,833)
Re-apportionment of opening balance on move from 50% to 75% local retention	(733)
Additional provisions made in 2019/20	(165)
Amounts used in 2019/20	46
Balance at 31 March 2020	**(2,685)**
Re-apportionment of opening balance on move from 75% to 50% local retention	767
Additional provisions made in 2020/21	228
Amounts used in 2020/21	(391)
Balance at 31 March 2021	**(2,081)**

The council has only one class of provision, this relates entirely to Business Rates Appeals. Due to the localisation of Business Rates, which became effective from the 1st April 2013, the council now bears part of the risk for future appeals against rateable valuations of business premises. Therefore, the council has set aside a provision for any potential liabilities as a result of appeals. At the end of 2020-21, the council is responsible for a 40% share of this liability along with the Ministry for Housing, Communities and Local Government (50%), Lancashire County Council (10%) and the Lancashire Fire Authority (1%). These were borne wholly by the Government under the old scheme. The council's estimate of the value of outstanding appeals up to 31 March 2021 is £5.202m (£4.796m at 31 March 2020). The council has made a provision for 40% of this figure totalling £2.081m (56% (see below) and £2.686m at 31 March 2020). Appeals are assessed and decided by the Valuation Office Agency, an executive agency of HM Revenue & Customs, rather than by the council and as such the timing of the settlement of any successful appeals is uncertain.

The respective shares shown above are different to those for 2019/20, when the council was in a Pilot Area for 75% local retention of Business Rates income. This arrangement ran for only the single year, after which it was discontinued by the government. The council's share in 2019/20 was 56%, that for Ministry for Housing, Communities and Local Government was 25%, with Lancashire County Council 17.5% and the Lancashire Fire Authority 1.5%. Had these percentages remained in place at the end of 2020/21, then the council's share of the provision would have been £2.913m.

24. Usable reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement (page 43).

25. Unusable reserves

	Note	31 March 2020 £'000	31 March 2021 £'000
Revaluation Reserve	25a	(6,172)	(6,476)
Capital Adjustment Account	25b	(29,283)	(34,407)
Financial Instruments Adjustment Account	25c	0	0
Deferred Capital Receipts Reserve	25d	(20)	(20)
Pensions Reserve	25e	29,842	40,006
Collection Fund Adjustment Account	25f	(1,226)	4,490
Accumulated Absences Account	25g	146	326
Total Unusable Reserves		**(6,713)**	**3,919**

25a Revaluation Reserve

The Revaluation Reserve contains the gains arising from increases in the valuation of Property, Plant & Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised

The reserve holds only gains accumulated since 1 April 2007, the date it was created. Gains prior to that date are consolidated in the Capital Adjustment Account.

	2019/20 £'000	2020/21 £'000
Balance at 1 April	**(6,275)**	**(6,172)**
Upward revaluation of assets	0	(1,320)
Downward revaluation & impairment not charged to the Comprehensive Income and Expenditure Statement	0	800
Difference between fair value and historic cost depreciation	103	216
Balance at 31 March	**(6,172)**	**(6,476)**

25b Capital Adjustment Account

This 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 additions to those assets. The account contains the following:

- Sums set aside to finance capital expenditure.
- Accumulated gains and losses on Investment Properties.
- Revaluation gains on Property, Plant and Equipment accumulating prior to 1 April 2007.
- The difference between the charges required by accounting practice for the amortisation of assets (depreciation and impairment) and the de-recognition of assets, and the capital charges required by statute.

	2019/20 £'000		2020/21 £'000	
Balance at 1 April		**(29,266)**		**(29,283)**
Reversal of items relating to capital expenditure debited or credited to the CIES:				
Charges for depreciation of non-current assets	2,284		1,939	
Revaluation (gains)/losses on property, plant & equipment	(7)		(2,916)	
Amortisation of intangible assets	81		102	
Revenue expenditure funded from capital under statute	859		587	
Net cost of disposal of assets	0		113	
		3,217		**(175)**
Adjusting amounts written out of the Revaluation Reserve		(104)		(89)
Net written out amount of the cost of non-current assets consumed in the year		**3,113**		**(264)**
Capital financing applied in the year:				
Capital receipts used to finance new capital expenditure	(839)		(27)	
Grants and contributions used in the year to fund capital expenditure	(1,719)		(1,971)	
Statutory & voluntary provision for the financing of capital investment charged against the General Fund	(762)		(619)	
Capital expenditure charged to the General Fund Balance	(451)		(2,047)	
		(3,771)		**(4,664)**
Movements in the market value of Investment Properties		641		(196)
Balance at 31 March		**(29,283)**		**(34,407)**

25c Financial Instruments Adjustment Account

This account contains postings arising from the difference between the requirements of accounting practice and statute in respect of certain financial instruments. All of the remaining transactions were completed in 2019/20 and there is now no remaining balance on this account.

	2019/20 £'000	2020/21 £'000
Balance at 1 April	**(1)**	**0**
Premiums on early debt redemption	(2)	0
Discounts on early debt redemption	3	0
Balance at 31 March	**0**	**0**

25d Deferred Capital Receipts Reserve

This account shows the sums recognised on the disposal of non-current assets but for which cash settlement has yet to take place.

	2019/20 £'000	2020/21 £'000
Balance at 1 April	**(20)**	**(20)**
Transfer to Capital Receipts Reserve on receipt of cash	0	0
Balance at 31 March	**(20)**	**(20)**

25e Pensions Reserve

This account contains postings arising from the difference between the requirements of accounting practice and statute in respect of pensions. The costs of benefits are charged to the Comprehensive Income and Expenditure Statement when they are earned rather than when they are paid. Statutory arrangements however require that benefits be financed only when the Authority makes contributions to the pension fund. The debit balance on the Pension Reserve therefore shows that benefits earned by employees exceeds the payments made by the authority to fund them. Statutory arrangements require that adequate funding will ultimately be set aside.

	2019/20 £'000	2020/21 £'000
Balance at 1 April	**32,814**	**29,842**
Re-measurements of the net defined benefit liability.	(5,309)	8,346
Reversal of charges posted to the Comprehensive Income and Expenditure Statement.	4,233	3,216
Employer contributions and direct payments to pensioners payable in the year.	(1,896)	(1,398)
Balance at 31 March	**29,842**	**40,006**

25f Collection Fund Adjustment Account

This account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2019/20 £'000	2020/21 £'000
Balance at 1 April	**(413)**	**(1,226)**
Amount by which Council Tax and Business Rate income credited to the Comprehensive Income and Expenditure Statement differs from the amount required by statute.	(813)	5,716
Balance at 31 March	**(1,226)**	**4,490**

The following table breaks down the above total into the amounts in respect of each source of Collection Fund income.

	2019/20 £'000	2020/21 £'000
Amounts in respect of Council Tax	(435)	(17)
Amounts in respect of Business Rates	(752)	4,546
Additional amount in respect of element for Renewable Energy Schemes in Business Rates	(39)	(39)
Balance at 31 March	**(1,226)**	**4,490**

25g Accumulated Absences Account

The cost of compensated absences (e.g. leave entitlement) not taken by employees during the year of account, is charged to the Comprehensive Income and Expenditure Statement. Statutory arrangements require however that the impact on the General Fund Balance is neutralised by transfers to or from this account.

	2019/20 £'000	2020/21 £'000
Balance at 1 April	**146**	**146**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis differs from remuneration chargeable in the year in accordance with statutory requirements	0	179
Balance at 31 March	**146**	**325**

26. Cash flow statement – operating activities

26a Adjust net surplus or deficit on the provision of services for non-cash movements

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

	2019/20 £'000	2020/21 £'000
Depreciation	2,285	1,939
Impairment and downward valuations	(7)	(2,789)
Amortisation	81	102
Increase / (decrease) in impairment for bad debts	125	490
(Increase) / decrease in debtors	(883)	(6,060)
Increase / (decrease) in creditors	2,834	19,658
(Increase) / decrease in inventories	(4)	(19)
Movement in pension liability	2,337	1,818
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	0	113
Contributions (to) / from Provisions	853	(605)
Movement in investment property values	641	(198)
Other non-cash items charged to the net surplus or deficit on the provision of services	0	0
Net adjustment	**8,262**	**14,449**

26b Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities

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

	2019/20 £'000	2020/21 £'000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(13)	(27)
Capital Grants credited to surplus or deficit on the provision of services	(1,765)	(107)
Net adjustment	**(1,778)**	**(134)**

26c Interest received and interest paid

The cash flows for operating activities include the following items:

	2019/20 £'000	2020/21 £'000
Interest received	406	186
Interest paid	(95)	(121)
Net cash flow in / (out)	**311**	**65**

27. Cash Flow Statement – investing activities

The following items have been included within investing activities in the cash flow statement:

	2019/20 £'000	2020/21 £'000
Purchase of property, plant & equipment, investment property & intangible assets	(1,980)	(3,513)
Purchase of short and long term investments	(45,026)	(32,017)
Other payments for investing activities	0	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13	27
Proceeds from short and long term investments	38,026	41,071
Other receipts relating to investing activity (government grants)	1,765	(184)
Total cash flows from investing activities	**(7,202)**	**5,384**

28. Cash Flow Statement – financing activities

The following have been included within financing activities in the cash flow statement:

	2019/20 £'000	2020/21 £'000
Cash Receipts from Short and Long Term Borrowing	10,000	(10,000)
Cash paid to reduce lease liabilities.	(340)	(283)
Other Payments for financing activities - change in indebtedness relating to NNDR (due from Government and Preceptors) and Council Tax (due from Preceptors).	(35)	(7,858)
Total cash flows from financing activities	**9,625**	**(18,141)**

29. Trading operations

The council manages an investment portfolio consisting of 75 industrial units (28 Investment managed, 47 economic regeneration), 53 other properties (Worden, shops, offices and residential), 24 plots of leased land, others (allotments, garages, parking plots, grazing).

2019/20 £'000		2020/21 £'000
(955)	Turnover	(824)
423	Direct costs	422
34	Capital charges	(367)
(498)	**Net (surplus) or deficit**	**(769)**

30. Members allowances

The council paid the following amounts to its members during the year:

2019/20 £'000		2020/21 £'000
363	Allowances	364
363	**Total**	**364**

31. Officers remuneration

2020/21 Remuneration Post Title	Note	Salary and allowances £	Expenses allowances £	Compensation for loss of office £	Benefits In Kind £	Pension Contribution £	Total Remuneration £
Chief Executive	A	56,994	413	-	-	6,324	63,731
Interim Chief Executive	B	103,449	-	35,000	-	16,973	155,422
Director of Communities	C	68,536	1,239	-	-	11,720	81,495
Director of Planning and Development	D	68,320	1,239	-	-	11,683	81,242
Director of Customer Experience and Operations	E	48,712	929	5,780	-	8,330	63,751
Director of Governance	F	75,522	-	-	-	13,090	88,612

A) The Chief Executive left the Authority on 15th July 2021.

B) The Interim Chief Executive was employed by Chorley Borough Council (CBC) up to 27th March 2021 and 50% of the costs were recharged to South Ribble Borough Council (SRBC), which are shown in the table. From 5th April 2021 he will be employed by SRBC as Chief Executive for both councils and 50% of the costs will be recharged to CBC.

C) The Director of Communities was re-designated from Director of Neighbourhoods and Development with effect from 1st January 2021 following the expansion of shared services between the two councils. The post-holder is formally employed by SRBC, and CBC has been charged 50% of the cost of the post from the effective date.

D) The Director of Planning and Development was re-designated from Director of Planning and Property with effect from 1st January 2021 following the expansion of shared services between the two councils. The post-holder is formally employed by SRBC, and CBC has been charged 50% of the cost of the post from the effective date.

E) The Director of Customer Experience and Operations left the authority on 18th January 2021. The post was re-designated as Director of Customer and Digital following the expansion of shared services between the two councils with effect from 1st January 2021. The current post-holder is employed by CBC, and 50% of the costs have been charged to SRBC from the effective date.

F) Following the expansion of shared services, the Director of Governance was established from 1st April 2021. 50% of the costs for the post were charged to CBC. In addition to the posts detailed above, there are two posts that reported directly to the Interim Chief Executive: Deputy Chief Executive and Director of Commercial and Property. Both these posts are formally employed by CBC and 50% of the costs are charged to SRBC.

The comparative information for 2019/20 is shown below.

2019/20 Remuneration Post Title	Note	Salary and allowances £	Expenses allowances £	Compensation for loss of office £	Benefits In Kind £	Pension Contribution £	Total Remuneration £
Chief Executive		123,202	3,407	-	-	18,764	145,373
Interim Chief Executive	A	63,229	-	-	-	-	63,229
Deputy Chief Executive - Regeneration and Growth	B	25,750	310	36,125	-	3,230	65,415
Deputy Chief Executive - Resources and Transformation	B	25,098	310	36,125	-	3,230	64,763
Director of Neighbourhoods and Development		63,361	1,239	-	-	9,441	74,041
Director of Planning and Property		63,361	1,239	-	-	9,441	74,041
Director of Customer Experience and Operations		66,300	1,239	-	-	9,879	77,418
Shared Services Lead – Legal (and Monitoring Officer)	C	20,000	-	-	-	2,980	22,980
Legal Services Manager (and Monitoring Officer)	D	35,757	-	-	-	5,328	41,084
Assistant Director of Neighbourhoods		51,000	1,239	-	48	7,599	59,886
Assistant Director of Projects and Development		51,000	1,239	-	-	7,599	59,838
Assistant Director of Housing and Environmental Services		48,284	1,239	-	-	7,194	56,717
Assistant Director of Scrutiny and Democratic Services		48,739	1,239	-	-	7,262	57,240
Interim Head of Shared Assurance	E	92,776	-	-	-	-	92,776

A) The *Interim Chief Executive* was appointed on 1st June 2019. The post-holder is a Chorley Borough Council employee and SRBC has paid 50% of the staffing costs, which are all shown in the 'salary and allowances' category.
B) The two *Deputy Chief Executives* left on 30th June 2019. The roles were disestablished on 31st March 2020.
C) The *Shared Services Lead – Legal* post was created and filled from 1st December 2019.
D) The *Legal Services Manager and Monitoring Officer* post was disestablished on 30th November 2019.
E) The *Interim Head of Shared Assurance* was paid via a consultancy arrangement up to 31st December 2019 and was then brought onto the payroll from 1st January 2020.

The table below shows the number of employees, other than senior officers listed above, that has a total remuneration of £50,000 or more, excluding pension contributions.

Total Remuneration Banding	Number of employees 2019-20	Number of employees 2020-21
£50,000 to £55,000	0	4
£55,001 to £60,000	0	0
£60,001 to £65,000	0	2
Total	**0**	**6**

The following table gives details of employee exit packages in 2019-20 and 2020-21.

Exit Package cost banding	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages		Total cost of exit packages	
	19-20	20-21	19-20	20-21	19-20	20-21	19-20	20-21
£0 to £20,000	0	0	1	2	1	2	£19,433	£10,934
£20,001 to £40,000	0	0	3	1	3	1	£100,432	£27,635
£40,001 to £60,000	0	0	0	0	0	0	£0	£0
£60,001 to £80,000	0	0	1	0	1	0	£74,099	£0
£80,001 to £100,000	0	0	0	0	0	0	£0	£0
Total	**0**	**0**	**5**	**2**	**5**	**3**	**£193,964**	**£38,569**

32. External audit costs

The Authority has incurred the following costs relating to external audit:

	2019/20 £'000	2020/21 £'000
Fees for statutory inspection and audit	68	34
Fees for the certification of grant claims and returns	10	11
Balance at 31 March	**78**	**45**

33. Grant income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2019/20 £'000	2020/21 £'000
Credited to Taxation and Non-Specific Grant Income		
National non-domestic rates	(2,267)	(6,858)
New Homes Bonus	(1,014)	(660)
Covid-19 Funding Grants	0	(310)
Community Infrastructure Levy & Other Developer Contributions	(2,404)	(197)
Developer Contributions - Amounts Transferred to Grants Received In Advance	0	1,735
Grants & Contributions - Other	(381)	(1,403)
Total	**(6,066)**	**(7,693)**
Credited to Services		
Benefits Related Grants	(17,238)	(15,553)
Covid-19 Funding Grants	0	(3,106)
Other Grants & Contributions	(2,300)	(3,293)
Developer's Contributions payable to City Deal	(2,224)	(2,616)
Total	**(21,762)**	**(24,568)**
Grand Total	**(27,828)**	**(32,261)**

In addition to the above amounts, a further £35.083m was paid to the council, by the government, and distributed to local businesses in the form of small business grants; retail, hospitality and leisure Grant Fund; local restrictions grants; etc. Given that the eligibility criteria for these grants were determined by the government and that the council has been fully reimbursed for the amounts paid out, the council has effectively acted as an intermediary and distribution point for the grants, rather than at its own discretion. In these circumstances, the council is deemed to be an agent acting on behalf of the grant funder, rather than in its own right, so the expenditure and related grant income is accounted for separately to the council's own Statement of Accounts.

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

	2019/20 £'000	2020/21 £'000
Various contributions	107	1,842
Total	**107**	**1,842**

The figure for 2020/21 includes a total of £1.735m of contributions transferred from Capital Grants Unapplied during the year (see Note 14).

34. Related parties

The financial statements must disclose material transactions with related parties, to draw attention to the possible extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

- **Central Government**
  Central government has effective control over the operations of the council as it provides the statutory framework within which it operates and the majority of its funding in the form of grants. Details of government grants received are given in Note 33.

- **Members of the Council**
  Councillors have direct control over the council's financial and operating policies. Elected members are required to complete a Notice of Registerable Interests and notify the council of any changes within 28 days. Declarations of interests in meetings, including the personal interest of partners, relatives or friends, are also recorded in the minutes of the meeting and in a register, both of which are open to public inspection.

  Note 30 refers to the allowances paid to members. A detailed breakdown of these figures can be found on the council's website.

  The council has representation on various voluntary bodies. During 2020/21, the council paid grants totalling £0.015m (2019/20 £0.000m) to one of these organisations.

- **Officers**
  If appropriate, Directors complete a voluntary declaration of transactions involving related parties.

- **Partnerships, Companies and Trusts**
  Shared Services Partnership – In January 2009 this partnership was established under an Administrative Collaboration Agreement entered into by South Ribble and Chorley Borough Councils. Prior to 2020/21 this provided for the provision of accountancy, exchequer, treasury management, procurement and assurance services across the administrative areas of the two Councils.

  The partnership has since been expanded to include a shared Management Team, including Chief Executive as well as the legal, HR, democratic services, communications and visitor economy and transformation and partnerships functions. The agreement between the two councils has been updated to reflect the new arrangements.

  A Shared Services Joint Committee has been established to discharge the Chorley and South Ribble Councils' functions of providing these services.

In 2020/21 gross expenditure of £5.344m (2019/20 £1.825m) was incurred on the shared services which was fully funded by recharges to the two Councils.

An outstanding creditor as at 31st March 2021 amounts to £1.676m.

- **Simple Investment**
  In 2005/06 the Council's leisure centre operation transferred to South Ribble Community Leisure Limited (SRCLL), which is a company with charitable objectives. The Council pay SRCLL a Leisure Services Fee (LSF) for the running of its leisure centres. The contract with SRCLL was for a period of 15 years and 10 months which commenced on 1 June 2005 and ended on 31st March 2021. The operation of the leisure centres has been temporarily brought in-house pending the set-up of a wholly owned company.

Name of Undertaking	South Ribble Community Leisure Limited
Type of Organisation	Limited liability.
Nature of Business	Provision and Development of leisure facilities in South Ribble
SRBC share holding	14.2%
Grant Paid in the Year	£0.024m
Leisure Services Fee	£0.357m
Creditor/Debtor	There were no outstanding balances at 31 March 2021

35. Capital expenditure and financing

The total capital expenditure in the year is shown below, together with the resources that have been used to finance it.

The statement incorporates details of the movements in the Capital Financing Requirement. This is a measure of the capital expenditure historically incurred by the Authority that has yet to be financed. This will be discharged by future charges to the revenue account.

	2019/20 £'000	2020/21 £'000
Opening Capital Financing Requirement	**3,740**	**2,999**
Capital investment:		
Property, Plant and Equipment	2,083	3,449
Investment property	17	4
Intangible Assets	72	124
Revenue Expenditure Funded from Capital under Statute	859	587
Sources of finance:		0
Capital Receipts	(840)	(27)
Government Grants and Other Contributions	(1,720)	(1,971)
Sums set aside from revenue:		0
Earmarked Reserves	(450)	(2,046)
Revenue Financing	0	0
Minimum Revenue provision	(516)	(373)
Voluntary Revenue Provision	(246)	(246)
Closing Capital Financing Requirement	**2,999**	**2,500**
Explanation of movements in year:		
Assets financed by prudential borrowing	0	0
Assets acquired under deferred purchase arrangement	21	120
Provision made for debt repayment	(762)	(619)
Increase / (Decrease) in Capital Financing Requirement	**(741)**	**(499)**

36. Leases

36a Authority as lessee

Finance leases

Works undertaken to leisure centres owned by the Authority under a deferred purchase arrangement. The expenditure incurred, net of repayments made, is shown in the table below:

	31 March 2020 £'000	31 March 2021 £'000
Works to Leisure Centres	390	0

During the term of the lease, the authority was committed to making minimum payments to discharge the outstanding liability plus finance costs that would accrue while the liability remained outstanding. The lease ended on 31st March 2021 and there are no outstanding liabilities.

The agreement committed the lessor to invest £4.819m in their refurbishment in the years 2005/06 to 2020/21. The minimum payments under the lease total £6.638m of which £0.436m remained to be paid in 2020/21. There are no further payments to be made.

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2020 £'000	31 March 2021 £'000	31 March 2020 £'000	31 March 2021 £'000
Not later than one year	436	0	390	0
Later than one and not later than five years	0	0	0	0
Total	**436**	**0**	**390**	**0**

Operating leases

The Authority has operating leases for office equipment and vehicles. The future minimum lease payments are as follows:

	31 March 2020 £'000	31 March 2021 £'000
Not later than one year	1	26
Later than one and not later than five years	0	15
Total	**1**	**41**

The operating lease rentals charged in the Comprehensive Income and Expenditure Statement during the year were as follows:

	31 March 2020 £'000	31 March 2021 £'000
Minimum lease payments	1	27
Total	**1**	**27**

36b Authority as lessor

Finance Leases

The council has leased one property for 125 years. In the following table the gross investment in the lease is reconciled to the present value of the minimum lease payments:

	31 March 2020 £'000	31 March 2021 £'000
Finance lease debtor (present value of minimum lease payments)	20	19
Unearned finance income	87	87
Total	**107**	**106**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2020 £'000	31 March 2021 £'000	31 March 2020 £'000	31 March 2021 £'000
Not later than one year	1	1	1	1
Later than one and not later than five years	4	4	4	4
Later than five years	102	101	102	101
Total	**107**	**106**	**107**	**106**

No contingent rents were receivable in the years of account.

Operating leases

The council lets certain offices and industrial units. The future minimum lease payments receivable are:

	31 March 2020 £'000	31 March 2021 £'000
Not later than one year	795	788
Later than one and not later than five years	1,265	1,438
Later than five years	14,015	14,219
Total	**16,075**	**16,445**

37. Defined benefit pension scheme

37a Governance

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits through the Local Government Pension Scheme. This scheme is administered by Lancashire County Council who have appointed a Pension Fund Committee (comprising a mix of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises on investment strategy and risk management. The scheme is funded and pays defined benefits based on how long employees are active members, and their salary when they leave (a "final salary" scheme) for service up to 31 March 2014 and on revalued average salary (a "career average" scheme) for service from 1 April 2014 onwards.

37b Funding the liabilities

Regulations require actuarial fund valuations to be carried out every 3 years. Contributions for each employer are set having regard to their individual circumstances. Contributions must be set with a view to targeting the Funds solvency (the detailed provisions are set out in the Fund's Funding Strategy Statement). The latest valuation, carried out as at 31 March 2019, showed there was a surplus for all employers of £12m or against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover just over 100% of its liabilities – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31 March 2016 the shortfall was £690m, equivalent to a solvency funding level of 90%.

Employers are paying additional contributions over 16 years to meet the shortfall. For the three year valuation period beginning 1st April 2020 the council opted to pre-pay the new future service rate and deficit recovery payments for the full 3 year valuation period to 2022/23 in return for a small overall discount. The discounted sum paid in April 2020 was £3.434m for the future service rate and £0.217m for the deficit recovery sum, of which £1.144m future service rate and £0.072m deficit recovery relate to the 2020/21 financial year.

37c Risks

The primary risk is that the Fund's assets will, in the long-term, fall short of its liabilities to pay benefits to members.

Investment risk management seeks to balance the maximisation of the opportunity for gain and minimise the risk of loss, on the fund's investments. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk), by

ensuring counterparties meet credit criteria, and that investments are within the limits set by the investment strategy.

Other risks - The fund managers have to ensure that the fund has adequate liquidity to meet its obligations as they arise. They must also be sensitive to any actions of government or changes in European legislation which might affect funding requirements.

Sensitivity to these risks is estimated in paragraph 37i.

37d Transactions relating to retirement benefits

The council recognises the cost of retirement benefits in the revenue account in the Cost of Services, when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge required to be made against council tax is based on the cash payable to the fund during the year. An adjustment is therefore made to the General Fund via the Movement in Reserves Statement. The following table shows the transactions made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2019/20 £'000	2020/21 £'000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Administration	40	49
Current service cost	2,275	2,524
Past service cost	1,158	0
Effect of curtailments	0	17
Net interest on the net defined benefit liability:		
Interest costs	2,918	2,866
Expected return on scheme assets	(2,158)	(2,240)
Total post-employment benefit charged to the (Surplus) / Deficit on the Provision of Service	**4,233**	**3,216**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement		
Re-measurement of the net defined benefit liability		
Return on plan assets, excluding amount included in interest expense	(61)	(7,942)
Experience gain & loss	783	(2,610)
Actuarial gains & losses from changes in demographic assumptions	(4,109)	0
Actuarial gains & losses from changes in financial assumptions	(1,922)	18,898
Total re-measurements recognised in Other Comprehensive Income	**(5,309)**	**8,346**
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**(1,076)**	**11,562**
Movement in Reserves Statement		
Reversal of net charges made to the (Surplus) / Deficit on the Provision of Services	(4,233)	(3,216)
Actual amount charged against the General Fund Balance for pensions in the year	1,896	1,398

37e Pension assets and liabilities recognised in the balance sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows

	Scheme Liabilities Local Government Pension Scheme	
	2019/20 £'000	2020/21 £'000
Present value of the defined benefit obligation	(121,302)	(139,207)
Fair value of plan assets	91,264	99,247
Net liability arising from defined benefit obligation	**(30,038)**	**(39,960)**

37f Reconciliation of fair value of the scheme (plan) assets

	Scheme Assets Local Government Pension Scheme	
	2019/20 £'000	2020/21 £'000
1 April	**88,837**	**91,264**
Adjustment to brought forward balance		196
Revised 1 April Balance		**91,460**
Interest on plan assets	2,158	2,240
Re-measurement gain/(loss)		
Return on plan assets, excluding amount included in interest expense	61	7,942
Employer contributions	1,749	1,444
Employee contributions	439	535
Benefits paid	(1,940)	(4,325)
Other	(40)	(49)
31 March	**91,264**	**99,247**

The actual return on the plan assets was £10.182m in 2020/21 (£0.733m 2019/20).

37g Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	Scheme Liabilities Local Government Pension Scheme	
	2019/20 £'000	2020/21 £'000
1 April	**(121,700)**	**(121,302)**
Current service cost	(2,275)	(2,524)
Past Service Cost	(1,158)	0
Interest cost	(2,918)	(2,866)
Contributions by scheme participants	(439)	(535)
Re-measurement gains and (losses)		
Changes in financial assumptions	1,922	(18,898)
Experience gains & losses	(783)	2,610
Gains & losses from changes in demographic assumptions	4,109	0
Curtailments	0	(17)
Benefits paid	1,940	4,325
31 March	**(121,302)**	**(139,207)**

37h Local Government Pension Scheme assets comprised

	Fair value of scheme assets			
	2019/20 £'000	Percentage total of asset	2020/21 £'000	Percentage total of asset
Cash				
Cash and cash equivalents	0	0.0%	0	0.0%
Cash accounts	2,555	2.8%	2,451	2.5%
Net Current Assets	(1,551)	(1.7%)	(259)	(0.3%)
Subtotal Cash	1,004	1.1%	2,192	2.2%
Bonds				
UK corporate	1,096	1.2%	0	0.0%
Overseas corporate	1,186	1.3%	0	0.0%
Government	0	0.0%	0	0.0%
Overseas fixed interest	0	0.0%	0	0.0%
Subtotal bonds	2,282	2.5%	0	0.0%
Property				
Retail	91	0.1%	98	0.1%
Commercial	1,186	1.3%	1,603	1.6%
Subtotal property	1,277	1.4%	1,701	1.7%
Private equity				
UK	0	0.0%	0	0.0%
Overseas	7,301	8.0%	7,963	8.0%
Subtotal private equity	7,301	8.0%	7,963	8.0%
Other				
Infrastructure	12,594	13.8%	11,902	12.0%
UK Pooled Equity Funds	0	0.0%	1,015	1.0%
Overseas Pooled Equity Funds	41,069	45.0%	45,465	45.9%
Property funds	6,480	7.1%	12,434	12.5%
Credit funds	14,420	15.8%	13,267	13.4%
Pooled income fund	4,837	5.3%	3,308	3.3%
Subtotal alternatives	79,400	87.0%	87,391	88.1%
Total	**91,264**	**100.0%**	**99,247**	**100.0%**

37i Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Mercer Limited, an independent firm of actuaries. Estimates for the County Council Fund are based on the latest valuations as at 31 March 2021.

The main assumptions used in their calculations have been as follows:-

	Local Government Pension Scheme	
	2019/20	2020/21
Mortality assumptions		
Longevity at 65 for current pensioners		
Men	22.3 yrs.	22.4 yrs.
Women	25 yrs.	25.1 yrs.
Longevity at 65 for future pensioners		
Men	23.8 yrs.	23.9 yrs.
Women	26.8 yrs.	26.9 yrs.
Rate of inflation (CPI)	2.10%	2.70%
Rate of increase in salaries	3.60%	4.20%
Rate of increase in pensions	2.20%	2.80%
Rate for discounting scheme liabilities	2.40%	2.10%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes in the assumptions occurring at the end of the reporting period, and for each assumption assumes that other factors remain unchanged.

	Impact on the defined benefit obligation in the scheme £'000
Longevity (increase 1 year)	4,262
Rate of inflation (increase of 0.1% p.a.)	2,230
Salary inflation (increase of 0.1% p.a.)	238
Rate for discounting scheme liabilities (increase of 0.1%)	(2,195)
Change in 2020/21 investment returns (increase of 1.0%)	(1,011)

37j Impact on the Authority's Future Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 16 years. Funding levels are monitored on an annual basis. The next triennial valuation of the Fund is due as at the 31st March 2022. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

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

The authority anticipates paying £1.144m expected contributions to the scheme in 2021/22.

The weighted average duration of the defined benefit obligation for scheme members is 16 years.

38. Contingent assets and liabilities

At 31 March 2021, the Council did not have any contingent assets or liabilities.

Collection Fund Statement

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 (Business Rates).

2019/20 Business Rates £'000	2019/20 Council Tax £'000		2020/21 Business Rates £'000	2020/21 Council Tax £'000
		Income		
0	67,382	Council Tax Receivable	0	69,472
37,123	0	Business Rates Receivable	23,873	0
37,123	**67,382**	**Total Income**	**23,873**	**69,472**
		Expenditure		
		Apportionment of Previous Year Surplus/(Deficit)		
231	0	Central Government	(24)	0
185	98	South Ribble Borough Council (note 14 page 41)	36	113
42	566	Lancashire County Council	16	661
0	78	Police & Crime Commissioner for Lancashire	0	99
5	29	Lancashire Combined Fire Authority	1	34
		Precepts, Demands and Shares		
8,525	0	Central Government	17,625	0
19,095	8,230	South Ribble Borough Council (note 14 page 41)	14,100	8,485
5,967	48,191	Lancashire County Council	3,172	50,515
0	7,209	Police & Crime Commissioner for Lancashire	0	7,628
511	2,487	Lancashire Combined Fire Authority	352	2,556
34,561	**66,888**	**Total Expenditure**	**35,278**	**70,091**
		Transfers from General Fund		
0	0	Discretionary Discounts	0	(653)
		Charges to Collection Fund		
59	122	Write offs of uncollectable amounts	0	210
560	290	Increase / (Decrease) in Bad Debt Provision	933	1,484
0	0	Increase / (Decrease) in Provision for Appeals	975	0
127	0	Cost of Collection Allowance	127	0
		Disregarded Amounts	0	0
190	0	Renewable Energy Schemes	78	0
0	0	Enterprise Zone	170	0
271	0	Transitional Protection Payments	34	0
1,207	**412**	**Total Charges to the Collection Fund**	**2,317**	**1,041**
1,355	**82**	**Surplus / (deficit) arising during the year**	**(13,722)**	**(1,660)**
		Collection Fund Balance		
338	1,709	Surplus / (deficit) brought forward at 1 April	1,693	1,791
1,355	82	Surplus / (deficit) arising during the year	(13,724)	(1,659)
1,693	**1,791**	**Surplus / (deficit) carried forward at 31 March**	**(12,031)**	**132**
		Allocated to		
968	221	Transfer to / (from) Collection Fund Adjustment Account (Note 25f page 57)	(4,546)	17
392	0	Central Government	(6,432)	0
307	1,307	Lancashire County Council	(941)	96
0	196	Police & Crime Commissioner for Lancashire	0	14
26	67	Lancashire Combined Fire Authority	(112)	5
1,693	**1,791**	**Surplus / (deficit) carried forward at 31 March**	**(12,031)**	**132**

Notes to the Collection Fund

1. Accounting for Council Tax

The amount of Council Tax to be credited to the Comprehensive Income and Expenditure Statement for both billing authorities and major preceptors is their share of the accrued income. However, statute requires that the amount to be credited to the General Fund should be the authority's precept or demand for the year plus its share of the previous year's Collection Fund surplus or deficit. The difference between this regulatory charge and the accrued income is taken to the Collection Fund Adjustment Account. This adjustment is included in the Movement in Reserves Statement and also appears in Note 10.

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

Since the collection of council tax is an agency arrangement, debtor and creditor balances belong proportionately to the billing authority and the major preceptors. This results in a debtor/creditor position between the billing authority and each major preceptor.

2. Council Tax details of charge

For the purpose of calculating Council Tax residential properties are classified into eight valuation bands. Each valuation band is proportionate to the central Band D property. This enables calculation of the total tax base. The Council Tax Base for 2020/21 was calculated as follows: -

Band	No. Dwellings	Total No. Equivalent dwellings	Proportion of Band D Charge	Band D Equivalent
A (disabled)	21	19.5	5:9	10.8
A	10,056	8,271.8	6:9	5,514.5
B	13,197	11,539.9	7:9	8,975.5
C	12,346	11,080.1	8:9	9,848.9
D	8,026	7,408.2	9:9	7,408.2
E	4,046	3,817.4	11:9	4,665.7
F	1,618	1,532.2	13:9	2,213.2
G	530	499.8	15:9	833.0
H	23	21.5	18:9	43.0
Total	**49,863**	**44,190.4**		**39,512.8**
Less local Council Tax Support Scheme discounts				**(2,998.3)**
Less adjustments for losses on collection				**(734.0)**
Addition for anticipated changes in the base, reduced discount on second homes and other technical changes				**293.2**
Band D Equivalent Number of Properties				**36,073.7**

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the precepting authorities for the forthcoming year and dividing this by the council tax base. This results in a basic Band D charge (excluding Parish Precepts) of £1,905.87 for 2020/21 (£1,836.40 for 2019/20). The other valuation bands are proportionate to this. The full list of charges is as follows:

Band	Proportion of Band D Charge	Council Tax Levied Excluding Parish Precepts	
		2019/20 £	2020/21 £
A	0.67	1,224.27	1,270.59
B	0.78	1,428.31	1,482.34
C	0.89	1,632.36	1,694.12
D	1.00	1,836.40	1,905.87
E	1.22	2,244.49	2,329.40
F	1.44	2,652.57	2,752.92
G	1.67	3,060.67	3,176.46
H	2.00	3,672.80	3,811.81

3. Accounting for business rates

The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non-Domestic Rates (NNDR) 1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement.

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

The cash collected by the Authority from NDR payers belongs proportionately to all the major preceptors (excluding police bodies) and Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Regulations require that only the deficit or surplus estimated in the annual National Non Domestic Rates (NNDR) 1 Return before the year-end be recovered from or shared with preceptors. Therefore, a surplus of £0.030m was shared between preceptors during 2020/21, being the estimate included in NNDR1 2020/21, whereas the actual amount for 2019/20 was a surplus of £1.693m.

Note 14 Taxation and Non-Specific Grant Income and Expenditure shows net Non-Domestic Rates Income and Expenditure for 2020/21 to be a net cost of £1.808m (2019/20 net income £5.307m). This can be reconciled to South Ribble Borough Council's share of Business Rates Income in the Collection Fund statement in the following table:

2019/20 £'000		2020/21 £'000
19,095	South Ribble Borough Council's share of Business Rates	(14,100)
(15,150)	Tariff Payable to the Lancashire Business Rates Pool	10,327
0	Levy Payable to the Lancashire Business Rates Pool	181
(5)	Amount Payable to County Wide Fund	0
39	Amounts retained by South Ribble Borough Council in respect of Renewable Energy Schemes	(78)
873	South Ribble Borough Council share of accumulated surplus or deficit for year (transferred to Collection Fund Adjustment Account - Note 25f)	5,514
185	South Ribble Borough Council share of previous year's estimated surplus or (deficit) as per NNDR1 under regulation	(36)
5,037	**NNDR Net Income per Note 14**	**1,808**

This council is part of the Lancashire Business Rates Pool which began on 1 April 2016. In a Business Rate Pool, tariffs, top-ups, levies and safety nets can be combined. This can result in a significantly lower levy rate or even a zero levy rate meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government. For more information on the Lancashire Business Rates Pool see Note 14. For 2019/20, the Pool was based on 75% local retention of income, of which 56% was attributed to this council, 17.5% to Lancashire County Council and 1.5% to the Lancashire Fire and Rescue Authority. For 2020/21, this has reverted to 50% local retention, which had previously been the position up until 2018/19, with shares of 40%, 9% and 1% respectively, giving rise to the proportionately lower amounts shown in the table above.

The additional reliefs introduced by the government in response to the Covid-19 pandemic do not affect the amount of business rates income receivable by the council for 2020/21, because this was fixed by the NNDR1 return completed in January 2020. They have, however, had a significant effect on the council's share of the surplus/deficit at the end of the year, producing the deficit of over £5.478m (£5.514m - £0.036m) shown above. In terms of actual income to the council, this deficit is offset by additional government grants. For more detail of this, see Note 14 on page 72.

4. Business rates details of charge

Business Rates are organised on a national basis. In 2005/2006 the Government introduced a Small Business Rate Relief Scheme. This results in there being two multipliers – one for small businesses at 49.9p in 2020/21 (49.1p in 2019/20) and one for larger businesses at 51.2p in 2020/21 (50.4p in 2019/20).

The Business Rates income for 2020/21, after reliefs and provisions, was £21.965m (£36.503m in 2019/20).

The rateable value for the council's area at the end of the financial year 2020/21 was £89.298m (£89.183m in 2019/20).

Annual Governance Statement 2020/21

1. INTRODUCTION

The Annual Governance Statement is a point in time assessment of the council's governance framework. It considers information assembled over the course of the previous 12 months to make an evidence-based assessment of the systems, processes, culture and values that feed into our internal control environment and our compliance with them. This document draws the evidence together and provides a valued judgement of our governance environment.

The AGS 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 these systems and processes operating 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 arrangements. In addition, the Statement contains an update on the areas for improvement identified last year, together with proposed areas for improvement for the coming year.

2. What is Corporate Governance

South Ribble Borough Council is responsible for ensuring that its business is conducted in accordance with the law, to the highest standards and that there is a sound system of governance (incorporating the system of internal control). Public money must be protected and properly accounted for. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and delivering an efficient and effective service.

To meet this responsibility, we have put in place arrangements for overseeing what we do (this is what we mean by governance). These arrangements are intended to make sure we do the right things, in the right way, for the right people, in a fair, open, honest and accountable way.

Our Governance Framework is based on the CIPFA/SOLACE Framework[1] [2]. It promotes and demonstrates our commitment to the principles of good governance and incorporates the council's values that emphasise how we do things at South Ribble Borough Council. It is important to note that a robust governance framework only has value if it is complied with and contains sufficient controls to ensure this.

The adopted Local Code of Corporate Governance incorporates and demonstrates how the 7 principles detailed by the CIPFA/SOLACE Framework, and set out below, are complied with.

Good governance means:-

- behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- ensuring openness and comprehensive stakeholder engagement
- defining outcomes in terms of sustainable economic, social and environmental benefits
- determining the interventions necessary to optimise the achievement of the intended outcomes
- developing the council's capacity, including the capability of its leadership and the individuals within it
- managing risks and performance through robust internal control and strong public financial management
- implementing good practices in transparency, reporting, and audit to deliver effective accountability

Our Local Code was reviewed and updated this year and approved by Governance Committee on 23 March 2021 and can be accessed through this hyperlink here.

[1] The CIPFA / SOLACE (Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers) framework "Delivering Good Governance in Local Government".

[2] South Ribble Borough Council has approved and adopted a code of governance that is consistent with the principles of the CIPFA/SOLACE Framework. A copy of the local code is available on line at www.southribble.gov.uk or can be obtained by contacting D Whelan, Deputy Monitoring Officer - Civic Centre, West Paddock, Leyland, Lancs, PR25 1DH

3. The Council's Governance Framework

The governance framework comprises the systems, processes, culture and values by which we direct and control our activities including those by which we account to, engage with and lead the community. It enables us to monitor how we are achieving our long-term aims and to demonstrate where this has led to improved services that are delivering value for money. The council has responsibility for ensuring that there is a sound system of governance.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot remove all risk of failing to achieve our priorities and aims, so it can only offer reasonable protection. It is based on an ongoing process that is designed to:

- Identify and prioritise the risks that could prevent us achieving our aims and objectives
- Assess the likelihood and impact of the risk occurring
- Manage the risks efficiently, effectively and economically.

The local code should enable members to satisfy themselves that council objectives are being met lawfully, in accordance with the corporate plan, medium term financial strategy and in a way that demonstrates value for money. The framework is the basis for the decision making structures and compliance with it enables members to have sufficient information to test any proposals and / or delivery and to make a reasonable, evidence based decision.

Changes introduced this year enhance the framework. Member led executive decision making ensures that decisions are made appropriately and there are clear processes through open cabinet, public speaking provisions and call in to challenge.

If you had read last year's Annual Governance Statement, you will note a marked difference in the conclusions this year. The action plan to address the corporate governance failings identified has been implemented as planned and councillors and members of the public will note that as a result the concerns raised for a number of years have been addressed and are no longer viewed as significant failings. The culture of the organisation has been reviewed and changes implemented in management structures and organisational development to embed good governance. The internal controls have been reviewed and amended where appropriate and training has been provided to both councillors and members of staff. Recruitment to key statutory roles has been completed, and council processes, procedures and the performance monitoring framework have been updated to ensure that the change can be measured consistently. These actions show the organisation is committed not only to improvement but evidencing that improvement.

Since the compilation of the last Annual Governance Statement, the Council has significantly strengthened its governance arrangements by:

- Officer structure – One of the causes of the issues which arose and were identified in the AGS for 2018/19 2019/20 was a lack of a stable senior management team. The Council has taken significant actions to address this. The three statutory officer roles are now permanently recruited to and a stable senior management team has been introduced. The Chief Executive (Head of Paid Service) is now shared on a permanent basis with Chorley Council. The same postholder has been in place since 2019. The Director of

Governance (Monitoring Officer) has been in post since December 2019. The s151 Officer post was covered by the Deputy Director acting up during 2020/21. The Director of Finance role has now been recruited to permanently, with the new postholder starting in April 2021. In addition, two key roles at service lead level have also been established and filled in December 2019, Communications and Visitor Economy and Transformation and Partnerships. These roles are important in developing and improving the council's culture.

- Organisational development – the council has fully reviewed its OD programme, introducing a new ELearning portal and establishing the Flair Programme to develop staff who aspire to be managers and leaders.
- Review of the constitution and financial procedure rules –the standing orders for Council meetings and the terms of reference for all committees have been reviewed and redrafted. The standing orders are now more streamlined and the constitution, as a document, has been simplified to avoid repetition and make it clearer and easier to understand. A revised process for executive decision making ensures that relevant cabinet members take decisions in a transparent and consistent manner, strengthening the democratic oversight of the organisation. The Financial Procedure Rules have been updated to reflect organisational changes and changes to authorisation levels.
- Performance management framework – Showing the benefit of a stronger organisational corporate centre, a new performance management framework has been developed and adopted, aligning it to the corporate plan and ensuring that the council is able to effectively manage its performance and delivery of its priorities.
- Management of Projects – the Senior Management Team meet as Programme Board quarterly to review the progress of corporate projects.
- Information governance – A GDPR Leadership group has been established to lead on the embedding of the council's information governance policies and processes.
- Governance Training – training on ethical decision making has been given to both members and officers which incorporated decision making processes and report writing (for officers), training has also been given on procurement.
- Risk Management – The Risk Management Strategy has been updated and the council have committed to the use of GRACE as the risk management tool. Internal Audit are leading on the training of staff on the use of the system which in addition to risk will be used to monitor the implementation of management actions taken from audits.

Values of good governance

The Council also promotes and demonstrates the values of good governance by upholding high standards of conduct and behaviour. The following strong arrangements are in place to ensure that appropriate standards of behaviour are maintained:

- Codes of Conduct (Members and Officers)
- Member Officer Protocol
- Suite of HR policies
- Suite of Counter Fraud Policies

Impact of Covid on the Council's governance arrangements

There is no doubt that the COVID pandemic impacted on the Council's governance arrangements, most clearly evidenced by the change in approach to Council committee meetings and decision making. The constitution provided an urgency procedure which was used appropriately to enable council business to continue when meetings could not be held. However, significant work was undertaken to implement remote and hybrid meeting access. This enabled members to participate in meetings even where access to the Civic Centre was not possible. Whilst public participation was more limited this was still enabled and the public could watch the meetings live via the internet.

The pandemic accelerated the roll out technology which has contributed to a more open and engaged culture, which was the cause of some of the previously identified issues. Teams and other technology has been used to improve the sharing of information and building relationships across teams – demonstrated through the implementation extended shared services and Chief Executive Listening sessions, which have enabled the Chief Executive to engage directly with staff across the organisation. The changes to staff policies have improved working conditions and introduced greater consistency across the organisation.

What was changed however was the ability to properly test the internal control and risk management environments. Staff from across the Council including those from Internal Audit, changed roles to facilitate Covid support works. This limited the council's ability to both in terms of undertaking the testing but also of the availability of teams to be tested. This should not be taken as reflecting positively or negatively on performance of the council only that it cannot be evidenced in this way one way or another.

4. How we review the effectiveness of the Governance Framework

This section identifies the structures, committees and officer roles which serve to review the appropriateness of the governance arrangements and their application.

The Council has a responsibility to keep the effectiveness of its governance arrangements under review to ensure continuous improvement. This review is informed by the work of the Governance Committee supported by management, internal and external auditors and other review agencies.

Governance Committee - The Governance Committee provides member oversight and scrutiny of the Council's business controls. The Governance committee undertakes all of the core functions of an audit committee as identified in the relevant CIPFA guidance. An assessment has been undertaken during 2020/21 and this confirmed that the Committee are operating in line with CIPFA's Audit Committees – Practical Guidance for Local Authorities and Police 2018. In addition, the Committee's skills and knowledge have been assessed and training will be arranged to meet any training needs identified.

Shared Services Joint Committee - The Joint Committee monitors service performance of the shared services partnership between South Ribble Borough and Chorley Borough Councils, and is a good example of our effective governance of partnerships.

Standards Committee - the committee's is to promote high ethical standards. Standards Committee reports to full Council on an annual basis on the work that it carried out. There have been no hearings this year.

Scrutiny Committee

Unlike many other councils, South Ribble Borough Council's Scrutiny Committee has continued to meet during the pandemic and provide robust scrutiny. This has included consideration of South Ribble Partnership, the progress of the delivery of the Worden Hall project and executive portfolios. Pre-decision Scrutiny has also taken place of key corporate strategy projects and Budget and Medium Term Financial Strategy. A detailed recommendation tracking process is in place to ensure that responses are provided to the recommendations made.

The Scrutiny Committee has continued to undertake reviews and in 2020/2021 undertook an in-depth review into health inequalities following the Marmott 10 years on report, with a particular emphasis on income deprivation and access to services. Linked with this review the Committee is preparing to scrutinise housing associations within the borough.

The Scrutiny Budget and Performance Panel meets to challenge and comment on the quarterly performance and budget monitoring reports prior to consideration by Cabinet as part of our new rigorous Performance Management Framework.

The Scrutiny Chair attends the Lancashire County Council Health Scrutiny Committee and reports back to each meeting. The Council plays a leading role in the North West Strategic Scrutiny Network which shares learning and best practice amongst Members.

Member Training

The Council holds the North West Employers Member Development Charter and has a cross-party Member Development Steering Group that takes an overview of Member training and development. An innovative Member Personal Development Planning process was piloted and rolled out to all Members, which is informing our Member training plans moving forward.

During the year all Member training was provided on governance/ethical decision-making, code of conduct, equality and diversity and GDPR. Training on the use of I-pads and Microsoft Teams as part of the approach to virtual/hybrid meetings has also taken place with a number surgeries/clinics and other learning opportunities. Member briefings were also held on the residents survey, city deal, corporate strategy, new website, shared services and social media.

A Cabinet development programme was also put together and implemented in collaboration with North West Employers' Organisation.

Members have also attended a number of external training courses and conferences via the LGA and other providers on topics such as social value, equality and diversity, PREVENT, scrutiny, public health, community wealth building and climate change.

Management Team / Leadership Team

In January 2021, a shared senior management team was created with Chorley Council. In addition to the already shared Deputy Chief Executive, Director of Finance and Director of Governance, the Chief Executive is now a shared role permanently alongside four director roles .

The council's Senior Management Team is made up of the Chief Executive, Deputy Chief Executive and Directors, as well as the Shared Service Lead for Transformation and Partnerships and Shared Service Lead for Communications and Visitor Economy. The team meets weekly. They consider the strategic direction of the council, supporting effective organisational management and support for the delivery of the council's agreed priorities. In addition, the senior management team meet on a quarterly basis as a programme board to consider the progress made in delivering the council's corporate plan, address any issues and manage risk.

A shared Senior Leadership Team has also been established. This meets monthly and its membership includes all Assistant Directors and Service Leads in addition to the SMT members. This meeting focusses on overseeing internal communications, organisational development and transformation. In addition, the meeting receives reports on service performance and HR issues.

Section 151 Officer / Director of Finance

The Council has undertaken a review of the requirements of CIPFA Statement on the Role of the Chief Financial Officer into its governance framework and has evidenced its compliance with the guidance. Over the past 12 months, the Deputy S151 officer has fulfilled the role and has been a permanent member of the Shared Management Team.

During 2020/21, local authorities have been working towards compliance with the new CIPFA Financial Management Code in advance of full implementation and compliance in 2021/22. The Council has carried out an initial assessment of compliance with the standards contained within the FM Code, and although there is evidence to support this, areas for improvement have been identified and actions to address these are in the process of implementation.

Statutory Regulation / Monitoring Officer

The main regulatory change in this period related to the introduction of remote attendance at meetings and the facilitation of decision making in this this environment.

Processes were put in place to maintain the transparency of decision making to include reporting to full council where urgency powers were used. The constitution was reviewed and amended to ensure its fitness for purpose to support constraints around decision making during covid. As mentioned the Standing Orders were reviewed and amended to temporarily reduce public participation in meetings due to the constraints imposed by the technical solution. However, the public, whilst not being able to speak at meetings could still view them remotely.

Training was provided to both Members and Officers on ethical decision making, the code of conduct and in relation to procurement processes.

Corporate Governance Group / Officer arrangements

In developing this Annual Governance Statement, the council's senior officers have worked collectively to understand and assess the effectiveness of the implementation of the council's governance framework. This work has been overseen by a Corporate Governance Group comprising:

- Chief Executive
- Deputy Chief Executive
- Director of Governance (Monitoring Officer)
- Director of Finance S151 Officer
- Shared Service Lead (Transformation and Partnerships)
- Shared Service Lead Audit and Risk

The Corporate Governance Group (CGG) have worked with the council's Senior Management Team who have individually produced and collectively reviewed service assurance statements which assess compliance with and understanding of the council's governance framework. This assessment has supported the production of this document.

It is also important to note the ongoing role that a council's senior officers have in ensuring that good governance is enacted in the working of the organisation.

A terms of reference for the CGG have been developed which will further enhance the governance monitoring and reporting arrangements.

Programme Board

The Corporate Strategy was refreshed to reflect the local context and streamlined with a focussed number of projects and performance measures to ensure deliverability. The Performance Management Framework was also fully reviewed and refreshed in September 2020 to outline clear processes, expectations, roles and responsibilities including data quality. A corporate programme board has been established and meets quarterly to review and monitor the performance of the Corporate Strategy projects and performance measures ahead of reporting to Cabinet. The board is made up of the Senior Management Team as those accountable for overall programme delivery and ensuring compliance with the Performance Management Framework. The board receive an update report highlighting issues, concerns and risks by exception. The board will discuss issues and identify solutions before cascading directions back to project managers and teams.

Internal Audit and the Head of Audit Opinion

Internal Audit is responsible for providing assurance on the quality and effectiveness of the system of governance and internal control. A risk based Internal Audit Plan is produced. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service. This report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers.

The Internal Audit Annual Report contains a statement/ judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).

It has been reported to members over the course of 2020 that the impact of COVID-19 on the Internal Audit Service has been considerable. A a consequence, the results of the work carried out by internal audit, taken together with other sources of assurance, are not sufficient to support an annual opinion on the overall adequacy and effectiveness of the organisation's framework of control**.**

An opinion has been provided on the overall adequacy and effectiveness of the organisations framework of risk management and governance. The Head of Audit has confirmed that the arrangements are of an **adequate** standard. This is due to the following:

Over the past 12 months, a significant amount of work has been undertaken to introduce and strengthen the governance and risk management arrangements throughout the whole council and this is clearly evidenced within the Local Code of Governance. The work undertaken by Internal Audit to support the

compilation of the Annual Governance Statement Action Plan confirms that the framework of governance policies is now in place however there is further work to do to ensure that these are fully embedded.

Although, it has not been possible to form an opinion on the control environment of the Council, the Head of Audit has provided the following assurance:

- the work carried out during 2020-21 did not identify any control failures that have not been previously reported to the Committee;
- robust actions plans are in place for any legacy issues with actions owners assigned and implementation dates agreed;
- advisory work has been undertaken on new processes introduced as a result of COVID 19;
- despite the lack of a systematic monitoring process for the implementation of agreed management actions emanating from Internal Audit Reports, a large proportion of actions have been implemented.

GDPR Leadership Group / Information Governance

The Leadership GDPR Group is established now and have been monitoring progress towards full GDPR compliance. Various initiatives have been initiated via the GDPR Officers Group to assess ongoing compliance. This work indicates good staff awareness and secure methods of working whilst working from home. This work is ongoing. The Data Protection Officer is monitoring the Brexit situation to ensure that the Council responds in a timely manner to any developments as regards GDPR status.

Organisational Development

An Organisational Development Strategy was developed and approved in October 2020 to with key objectives to: support the needs of the workforce; to facilitate staff engagement through a variety of mechanisms; to demonstrate investment in staff and their personal development; to underpin consistent management and to develop the leadership team. A package of interventions has been designed and rolled out including the Flair talent development programme; staff listening days and virtual briefings with the Chief Executive and Senior Management Team; staff listening day working groups to address key themes and issues collaboratively; a new digital learning management system to facilitate e-learning; Senior Management Team executive coaching; and a management development programme to commence in July ensuring a baseline of management fundamentals. All staff receive a fully tailored induction when joining the shared service and the performance review process has been reinforced for all staff to ensure a clear link from organisational priorities through to individual staff objectives.

Corporate Complaints / Local Ombudsman

Whilst the number of customer complaints processed as stage one complaints have increased year on year, 111 in 2019/20 increased to 169 in 2020/21, the percentage of complaints upheld fell significantly from 31% to 15%.

The Council are aware of 7 complaints which were made to the Local Government Ombudsman in the year 2020/21. In 2 of those, the Ombudsman decided not to investigate and in the remaining 5 there were no findings against the Council.

This is suggestive of an improvement of levels of service and compliance with council processes and the Council can take some assurance from the independent testing of the Council by the Local Government Ombudsman.

External Audit

The Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

We have been advised of the results of the reviews of the effectiveness of the governance framework and statement of internal control by these bodies and plan to address the weaknesses identified and will ensure continuous improvement of the system is in place through the proposed action plan in section 5.

5. Governance Environment: Areas to Strengthen

A detailed action plan to address significant governance failings identified at that time was approved by Governance Committee last year and reported to council. Progress against the actions have been reported to Governance Committee throughout last year.

There are 2 outstanding actions

1. Development of a consultation framework and community engagement strategy; and
2. Development of a Key Partnerships Framework.

These are not judged to be significant governance failings in themselves and are due to be completed in accordance with the action plan this year.

Implementation of the other identified actions has enhanced the council's governance framework. This has been demonstrated by the outcomes of the reviews of compliance outlined in section 4 above. As a result no significant governance issues have been identified. It must be recognised however, that the Head of Internal Audit has been unable to provide an opinion on the control environment. This is not to say that the environment is inadequate, but there has simply not been the audit testing work undertaken necessary to evidence a valued opinion. Given the changes implemented in year this should not be surprising.

The review exercises which have been completed have identified the following areas which are not viewed as significant issues but require strengthening.

Themes	Improvement Required
Recruitment/Induction	To ensure all new employees receive a comprehensive induction covering all core areas, the corporate induction will be updated to include welcome videos from the senior management, introduction to the borough and mandatory training covering core policies and health and safety. Continued focus on HR System transformation is required to ensure a robust administrative process is operational and suitable controls are in place for all aspects of Human Resources and Organisational Development

Themes	Improvement Required
Governance & Management	Management Development Programme has been designed to establish a baseline level of management competency as well as providing ongoing support to maintain performance. The aim is to commence delivery with cohorts of managers from September 2021 through a range of methods including e-learning, which will also form part of the induction process for future managers. Introduce a standardised DMT agenda with agreed standing items to ensure a consistent approach is adopted across the Council. This will incorporate items of Corporate significance identified by the Communications team within their forward plan.
Fraud and Corruption	Fraud awareness training to be delivered to all relevant officers using e-learning modules Fraud reports to be presented to Governance Committee Fraud risk register to be compiled and monitored on a regular basis
Corporate Information Source for Officers (Connect)	To improve the user experience for employees and ensure essential information is easy to access. The following improvements to Connect should be considered: • Defined area on Connect for all core policies. • Service areas to review information they have published on Connect and to remove outdated material. • Create a manager zone within Connect to ensure all essential guidance and resources for managerial responsibilities are easily sourced.
Risk Management	Ensure risk management is embedded throughout the organisation and within all Council activities.
Budget Monitoring	To re-establish budget monitoring reports to aid budget holders after a further analysis of the report content is undertaken. Reports will be tailored to ensure that they meet the needs of the service area.
GDPR	The GDPR Leadership Group should undertake a full review to ensure that the register is up to date with data responsibilities correctly defined and continue to monitor and expedite the outstanding data disposal actions to ensure they are implemented imminently.

Themes	Improvement Required
Equality	The equality scheme should be revised and refreshed including revised equality objectives to ensure that it is up to date and fit for purpose.
Key Corporate Policies	Devise and implement a corporate process to ensure all staff revisit key policies so a good level of awareness is maintained across the organisation.
Value for Money	Adopt an organisation wide Transformation Strategy & Programme incorporating a value for money elements to deliver efficient services through service reviews and shared services.
Inventories	Directors to ensure that inventories are compiled and maintained in accordance with the Councils guidance notes for service unit fixed assets registers.
Transparency Act	Publish up to date information and include all mandatory criteria.

When considering the issues it is important to note that the some go to the embedding of the improved governance environment.

- Policy documents are there, but not easily accessible.
- Asset registers are kept but they are not centralised or published correctly.
- The personal development review process was only introduced this year and remains paper based rather than digital.

It should also be recognised that these issues have already been identified for improvement.

- The induction for staff process under review;

It is also clear that some actions reflect the changes in working environment imposed by Covid and remote working as well as the management structure changes implemented.

- GDPR compliance cannot be demonstrated, which in part must be due to the absence from the office;
- Budget monitoring has not taken place due to changes in responsibility.

All the improvements identified will be considered by the Senior Management Team. The actions agreed will have individual implementation plans and allocated to a Responsible Officer. Each plan will be placed on the GRACE system and progress will be reviewed by SMT and ultimately reported to Governance Committee.

6. Conclusion

The council is fully committed to ensuring that its governance arrangements are and continue to be as robust as possible. As part of that process the council will monitor implementation of all actions set out in our Action Plan.

…… …….

Leader of the Council Chief Executive

Date: …….

On behalf of the Members and Senior Officers of South Ribble Borough Council.

GLOSSARY

Annual Audit Letter	An External Audit report presented to Council and containing the findings of the Audit Commission's work. It is a requirement of the Code of Practice for Auditors.
Assurance	An evaluated opinion based on evidence and gained from review.
CIPFA	Chartered Institute of Public Finance and Accountancy
Control Environment System of Internal Control	Comprises the organisation's policies, procedures and operations in place to : Establish and monitor the achievement of the organisation's priorities; Identify, assess and manage the risks to achieving the organisation's objectives; Facilitate policy and decision making; Ensure the economical, effective and efficient use of resources; Ensure compliance with policies, legislation and regulations; Safeguard the organisation's assets; Ensure the integrity and reliability of information, accounts and data.
Corporate Governance	Corporate governance is the system by which local authorities direct and control their functions and relate to their communities.
Corporate Governance Group	In 2017 this involved the following officers: Chief Executive; Section 151 Officer; Monitoring Officer; Head of Shared Assurance; Corporate Governance Manager; Corporate Improvement Manager.
SOLACE	Society of Local Authority Chief Executives

Glossary of Terms

Accounting Policies
The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

Accruals Basis
The accruals principle 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.

Agency Services
These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.

Appointed Auditors
From 1 April 2015 the appointment of External Auditors to Local Authorities is undertaken by Public Sector Audit Appointments Limited (PSAA), an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. This role was previously undertaken by The Audit Commission. Grant Thornton UK LLP is the council's appointed Auditor.

Balances
The balances of the Authority represent the accumulated surplus of income over expenditure on any of the Funds.

Capital Adjustment Account
The Account accumulates (on the debit side) the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

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

Capital Financing Charges
This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals.

Capital Financing Requirement (CFR)
CFR is a measure of the capital expenditure historically incurred by the Authority that has yet to be financed. This will be discharged by future charges to the revenue account. In determining Council Tax charges, authorities have to make a specific provision for the financing of capital expenditure. The outstanding amount for which provision has to be made is known as the Capital Financing Requirement.

Capital Receipts
Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

Carrying Amount
The Balance Sheet value recorded of either an asset or a liability.

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is the leading professional accountancy body for public services.

Code of Practice on Local Authority Accounting in the United Kingdom (The Code)
The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the council. The Code has statutory status via the provision of the Local Government Act 2003.

Collection Fund
The council as a billing authority has a statutory obligation to maintain a separate Collection Fund. This shows the transactions of the council in relation to the collection from taxpayers of Council Tax and Non-Domestic Rates (NDR) and its distribution to local government bodies and the Government.

Community Assets
These are non-current assets that the council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.

Contingency
This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.

Contingent Liabilities or Assets
These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the council's accounts.

Council Tax
A local tax on residential properties within the council's area, set by the charging (South Ribble Borough Council) and precepting authorities. The level is determined by the revenue expenditure requirements for each authority divided by council tax base for the year.

Council Tax Base
The amount calculated for each billing authority from which the grant entitlement of its share is derived. The number of properties in each band is multiplied by the relevant band proportion in order to calculate the number of Band D equivalent properties in the area. The calculation allows for exemptions, discounts, appeals and a provision for non-collection.

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

Creditors
Amounts owed by the council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

Current Service Cost
Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

Current Value
The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

Curtailment
Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Debtors
These are sums of money due to the council that have not been received at the date of the Balance Sheet.

Deferred Capital Receipts
These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.

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

Department for Communities and Local Government (DCLG)
DCLG is a Central Government department with the overriding responsibility for determining the allocation of general resources to Local Authorities.

Depreciation
This is the measure of the wearing out, consumption, or other reduction in the useful economic life of property plant and equipment assets.

Derecognition
Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Discounts
Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.

Earmarked Reserves
The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

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 Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value
Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease
A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed 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 and trade payables and the most complex ones such as derivatives and embedded derivatives.

Financial Regulations
These are the written code of procedures approved by the council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

General Fund
This is the main revenue fund of the Authority and includes the net cost of all services financed by local taxpayers and Government grants.

Highways Network Asset
A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land. District Council's such as South Ribble Borough Council rarely hold such assets as they are not Highways Authorities.

Housing Benefit
This is an allowance to persons receiving little or no income to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowance.

Impairment
A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

Infrastructure Assets
Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

Intangible Assets
These are assets that do not have physical substance but are identifiable and controlled by the council. Examples include software, licenses and patents.

International Financial Reporting Standard (IFRS)
Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Inventories
Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:
• Goods or other assets purchased for resale

• Consumable stores
• Raw materials and components
• Products and services in intermediate stages of completion
• Finished goods

Investment Properties
Property, which can be land or a building or part of a building or both, that is held solely to earn rentals or for capital appreciation or both, rather than for operational purposes.

Joint Venture
A joint venture is a joint arrangement whereby the parties who have joint control of the arrangement have rights to the net assets of the arrangement.

Leasing Costs
This is where a rental is paid for the use of an asset for a specified period of time. Two forms of lease exist: finance leases and operating leases.

Materiality
Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

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. At South Ribble Borough Council this usually covers a four year timeframe.

Minimum Revenue Provision (MRP)
The council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge. MRP is the minimum amount which must be charged to an Authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989 and calculated in accordance with The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

Non-Domestic Rate (NDR) (also known as Business Rates)
NDR is the levy on business property, based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines national rate poundage each year which is applicable to all Local Authorities.

Net Book Value (NBV)
The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Realisable Value (NRV)
NRV is the open market value of the 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.

Operating Lease
This is a type of lease, usually of computer equipment, office equipment, furniture, etc. where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

Precept
The amount levied by various Authorities that is collected by the council on their behalf. The major precepting Authorities in South Ribble are Lancashire County Council, the Police and Crime Commissioner for Lancashire, and the Lancashire Combined Fire and Rescue Authority. Parish precepts are also collected on behalf of a number of Parish and Town Councils in the area.

Premiums
These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

Prior Period Adjustments
These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

Property, Plant and Equipment (PPE)
PPE are tangible assets (i.e. assets that have physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one year.

Provisions
Amounts set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and/or the timing of such costs are uncertain.

Public Works Loan Board (PWLB)
An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities.

Related Parties
Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:

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

Remeasurement of the Net Defined Benefit Liability
Remeasurement of the Net Defined Benefit Liability (asset) comprises:

b) actuarial gains and losses
c) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and
d) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Reporting Standards
The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

Regulation(s)
Various Acts of Parliament, Statutory Instruments and Bills that require local authorities to account for transactions in a particularly way which might depart from proper accounting practice, IFRS or other Reporting Standards.

Reserves
Amounts set aside to help manage future risks, to provide working balances or that are earmarked for specific future expenditure priorities.

Revaluation Reserve
The Revaluation Reserve records the accumulated gains on the non-current assets held by the Authority 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 Support Grant
The main Government grant paid to local authorities. It is intended to adjust for differences in needs between areas so that, if all local authorities were to spend at the level which the Government assess that they need to spend, the council tax would be the same across the whole country.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)
Expenditure incurred during the year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES.

Royal Institution of Chartered Surveyors (RICS)
The Royal Institution of Chartered Surveyors (RICS) is a professional body that accredits professionals within the land, property and construction sectors worldwide.

Members holding RICS qualifications may use the following designations after their name: MRICS (Member), FRICS (Fellow), AssocRICS (Associate). Those with the designation MRICS or FRICS are also known as chartered surveyors.

Service Reporting Code of Practice (SeRCOP)
Prepared and published by CIPFA, the Service Reporting Code of Practice (SeRCOP) is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

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

Treasury Management Strategy (TMS)
A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the council.

Voluntary Revenue Provision
The council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required, this is the Voluntary Revenue Provision (VRP).

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