Governance Committee

Wednesday, 28th July 2021, 2.30 pm
Council Chamber, Town Hall, Chorley and YouTube

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

Agenda No	Item	
3	**2019/20 Audit Findings Report** To receive and consider the report from external auditor Grant Thornton	(Pages 43 - 74)
4	**2019/20 Statutory Accounts** To receive and consider the report from the Director of Finance.	(Pages 75 - 226)
5	**Charity and Trust Account** To receive and consider the report of the Director of Finance	(Pages 227 - 234)
7	**2020/21 Audit Plan** To receive and consider the report from external auditor Grant Thornton	(Pages 235 - 258)
8	**Treasury Management Annual Report 2020/21 And Quarter One Monitoring 2021/22** To receive and consider the report of the Director of Finance.	(Pages 259 - 294)

Gary Hall
Chief Executive

Electronic agendas sent to Members of the Governance Committee

If you need this information in a different format, such as larger print or translation, please get in touch on 515151 or chorley.gov.uk

Meeting contact Matthew Pawlyszyn on 01257 515034 or email matthew.pawlyszyn@chorley.gov.uk

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Grant Thornton

The Audit Findings for Chorley Borough Council

Year ended 31 March 2020

July 2021

Contents

Your key Grant Thornton team members are:

Michael Green
Key Audit Partner
T: 0161 953 6382
E: Michael.Green@uk.gt.com

Simon Hardman
Manager
T: 0161 234 6379
E: simon.hardman@uk.gt.com

Isaac Awomokun
Assistant Manager
T: 0161 234 6388
E: Isaac.Awomokun@uk.gt.com

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Issues faced by the Council have included: • Many of the Council's officers, including the Finance Team, have had to adapt to working from home • Additional tasks were given to the Council, for example payment of business grants, whilst trying to ensure services continued to be provided • Potential income loss from the Council's key assets, such as Market Walk, as businesses remain closed during lockdowns. Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	Our audit risk assessment considered the impact of the pandemic on our audit. We issued an audit plan in September 2020, where we reported an additional financial statement risk in respect of Covid 19 and highlighted the impact on our VfM approach.. Restrictions on non-essential travel has meant both Council Finance staff and audit staff have had to work remotely throughout the period of the year-end audit. This has created challenges for the completion of our audit, for example in relation to accessing evidence and verification of assets. Through the use of Teams, we have met regularly with the Council's finance team throughout the audit. We have also made use of our Inflo system to ensure the safe transfer of your audit evidence.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during February to July 2021 . Our findings are summarised within this report. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters; • final review of our audit procedures in relation to valuations of Property, Plant and Equipment; • review of the final set of financial statements; • completion of final review and file closure procedures; and • receipt of management representation letter. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting material uncertainties related to the valuation of land and buildings and property investments of the Local Government Pension Fund.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have yet to complete our risk based review of the Council's value for money arrangements. Our work in response to the identified risk related to the purchase of Logistics House is ongoing and we are working with management to finalise our reporting in this area over the coming weeks.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We continue to consider reporting responsibilities as part of the finalisation of our VFM conclusion procedures. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our VFM Conclusion work.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and, subject to the outstanding matters set out on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 28 July 2021.

Our approach to materiality

The concept of 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.

Materiality levels remain the same as reported in our audit plan

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,029k	This equates to 1.9% of the previous year's audited gross cost of services expenditure and is considered to be the level above which the users of the accounts would wish to be aware of any misstatement.
Performance materiality	£772k	Assessed at 75% of financial statements materiality
Trivial matters	£51k	Assessed at 5% of financial statements materiality
Materiality for senior officer remuneration disclosures	£20k	This item merits a lower materiality than the financial statements as a whole due to being of particular interest to the public

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to the identified risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported.; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid-19. We have noted that the Council valuer has reported a material uncertainty within their report as a result of the impact of the global pandemic. The uncertainty has been reflected by management within the Council financial statements, in line with our expectations. Management have also agreed to include a material uncertainty in relation to the net Local Government Pension liability as a result of uncertainty around the valuation of the Council's share of the pension property assets of Lancashire Pension Fund. Both of these material uncertainties will be referenced in the audit report as an 'emphasis of matter' paragraph. This is not a modification or qualification and is reflective of the auditor drawing attention to a disclosure within the financial statements that we believe is of significant importance. We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement of the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override 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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have undertaken the following procedures in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied that were made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.
Improper revenue recognition 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 Authority, we determined at the planning stage 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 Chorley Borough Council, mean that all forms of fraud are seen as unacceptable	The presumed risk was rebutted at the planning stage of the audit for the reasons given. We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation 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 Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated 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. The following issues were identified in our work: • The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts • When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. More detail on this matter can be seen on page 10. • Our review of valuation movements identified that a number of assets including Market Walk, Strawberry Fields and Primrose Gardens were valued at cost. This is not consistent with the requirements of the CIPFA Code and not an appropriate measure as confirmed by our own independent external valuers. • Following discussion, management engaged their new external valuer to re-consider the valuation of these assets as at 31 March 2020 resulting in an impairment in value of £10.181m. Management have adjusted the accounts to reflect the reduction in value and we have summarised this in Appendix A.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority'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 is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.	Our audit work included, but was not restricted to: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • obtained 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. The auditor of Lancashire Pension Fund included an emphasis of matter paragraph in their audit report to reflect the "material estimation uncertainty" that exists in the Fund's property investment portfolio due to Covid-19. Management at the Council updated their disclosures in note 5 (Assumptions made about the future and other major sources of estimation uncertainty) to the financial statements to make reference to this uncertainty and given the unknown impact on the valuation, we intend to include an emphasis of matter in our audit report. There are no further matters we wish to bring to your attention regarding the valuation of the net pension liability on the Council's balance sheet. Based on the procedures completed as above, we have gained assurance that the net pension liability is fairly stated.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Purchase of Logistics House and creation of a new wholly owned subsidiary In July 2019 a decision at the full Council meeting approved the purchase of Logistics House for £33.7m. Approval was also given for additional PWLB borrowing to fund the total purchase costs as well as agreeing to change certain treasury management limits and indicators. The Council also agreed to the establishment of a wholly owned commercial property management company to operate the asset. The purchase of the asset was made shortly after the approval whilst the subsidiary was finalised in March 2020. No transfer of the asset had taken place during the year and we understand no group accounts will be prepared given the subsidiary has not undertaken any transactions or has any assets/liabilities on its balance sheet. We also understand that a revaluation of the property has taken place for the 2019-20 financial statements. Income has also been received during the year from the lease of the property. The transaction gave rise to a number of material accounting transactions in the financial statements which, given the value of the transaction, needs to be considered.	Our audit work included, but was not restricted to: • Agreed the value of the purchase to sale documentation • considered the accounting for the purchase to ensure it met proper practice • reviewed the revaluation of the property through correspondence with the valuer and consideration of the accounting treatment as at 31 March 2020 • considered how the Council has accounted for the income in the 2019-20 accounts • reviewed the Council's conclusion that group accounts were not required in 2019-20 and considered associated disclosure notes. Logistics House had been purchased for £31.45m and we have been provided with suitable documentation and evidence in relation to the purchase. The subsequent valuation of the property for the purposes of preparing the 2019-20 financial statements, valued the asset significantly less than the purchase price based on a key assumption relating to yield. The Council engaged another independent valuer to review the valuation of Logistics House and this supported a higher value based on a different yield percentage. The original valuer subsequently re-considered their valuation following management challenge and revised their valuation of the asset upward to £34.4m using the same yield assumption as the second independent valuer. Given the material nature of this asset and the change in valuation noted above, we engaged our own independent external valuer to consider the appropriateness of the assumptions used to value Logistics House. Our expert has provided us with the assurances to conclude that the valuation of Logistics House within the financial statements is materially correct and is based on reasonable assumptions. Logistics House was classified as an operational building within the draft financial statements of the Council. Based on our understanding of the rationale for the purchase of the asset, to secure an income stream for the Council, we challenged management on this classification as the purpose for holding the assets suggested that it met the criteria for classification as an investment property. Management have considered and agreed with this and have reclassified the asset as an investment property. Review of the rental income associated with Logistics House identified that the draft accounts did not recognise any income due to the Council and instead reflected a debtor/creditor relationship in the balance sheet that netted to nil. Following discussion, management have accepted that rental income due for the period to 31 March 2020 of £0.949m is income of the Council and adjusted the accounts to recognise this in the CIES. The impact of this is that useable reserves of the Council have increased by £0.949m. The Council has not prepared group accounts for 2019-20 on the basis that the wholly owned subsidiary was not active during the year and Logistics House was not transferred to the company. We concur that this is appropriate We understand that the Council still intends to make use of the subsidiary company and to transfer the asset to it. The Council should ensure that the accounting treatment applied to this transaction is appropriate and engage with external audit as part of the process.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other	During 2019/20 the valuations were carried out by Jacobs RICS qualified Surveyors. The basis of valuations is on that recommended by CIPFA and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by RICS Land and Buildings are revalued sufficiently regularly to endure that their carrying amount is not materially different from their current value at the year-end. Revaluations take place every five-years on a rolling programme. During 2019/20 £118m, from a total of £130m, of the Council's Land and Buildings were revalued. All Property, Plant and Equipment balances, including Land and Buildings are held at an estimate of current value with the exception of infrastructure, community assets, assets under construction and equipment where the valuation is based on a depreciated historical cost. For specialised land and buildings, for example leisure centres, there is an absence of market based value, so a depreciated replacement cost is used as an estimate of current value In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. The valuations provided by Jacobs were the subject of considerable challenge by the Council, particularly in relation to Logistics House. The valuations were not completed until November 2020.	The following issues were identified in our work: • The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts • When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. Logistics House had been purchased for £31.45m, however Jacobs valuation was almost £10m less than this due to the use of a yield rate of 7.6%. Given the material uncertainty, both the Council and Grant Thornton engaged with other valuers to consider the valuation, which centred on the use of a yield rate of 4.83%. After consideration of a number of factors including location and yield rates of similar properties elsewhere in the north-west, our work concluded that the yield of 4.83% adopted as part of the 31 March 2020 valuation appear reasonable. • Within the financial statements, Logistics House was classified as Land and Buildings within the Plant, Property and Equipment (PPE) balance. However the asset meets the definition of an investment property as it is held solely for earning rentals rather than the provision of services or administrative purposes. The Council agreed to change the classification of the assets within the financial statements • Further challenge was provided over the valuation of other land and building assets, including Market Walk, Strawberry Fields and Primrose Gardens. As discussed on page 8, this has resulted in a £10.181m reduction in asset values due to an inappropriate valuation approach being applied by the valuer.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be materially misstated
- ● We consider management's process is appropriate, but found material issues
- ● We consider management's process is appropriate and there are no errors in the land and buildings balance

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £43m	Regulations require actuarial fund valuations to be carried out every 3 years. Chorley Council are member of the Lancashire County Pension Fund and the Actuary service is provided Mercer. The latest valuation, carried out as at 31 March 2019 showed there was a surplus of £12m against the Fund's solvency funding target, so the Fund's assets were sufficient to cover just over 100% of its liabilities At the previous valuation at 31 March 2016 the shortfall was £690m, equivalent to a solvency funding level of 90%. From 2019/20 the figures include an implicit allowance for the estimated cost of the McCloud judgement. The McCloud judgement refers to a legal challenge in relation to historic benefit changes for all public schemes being age discriminatory. For the three-year valuation period beginning 1st April 2020 the Council opted to pre-pay the new future service rate as a single amount in April each year of the 3 year valuation period to 2022/23. The Council also opted to pay the full three-year deficit recovery payment for the period 2020/21 – 2022/23. These were both done in return for a small overall discount.	Management at the Council rely on the work completed by Mercer, who are Fellows of the Institute and Faculty of Actuaries. Given the specialised nature of this area, we determined that an auditor's expert is required to evaluate the appropriateness of key assumptions used in calculating the pension liability. We use pwc as an auditor's expert through arrangements set up originally by the Audit Commission and novated to the National Audit Office. Whilst pwc complete their review, we perform a review to ensure we are satisfied with the outcomes of the actuary's report as well as following up issues highlighted by pwc. .	●

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.3%	●
Pension increase rate	2.1%	2.1%	●
Salary growth	3.6%	3.35% - 3.6%	●
Life expectancy – Males currently aged 45 / 65	23.8 / 22.3 years	22.5 – 24.7 years / 20.9 – 23.2 years	●
Life expectancy – Females currently aged 45 / 65	26.8 / 25 years	25.9 – 27.7 years / 24 – 25.8 years	●

We have concluded our review and are satisfied with that there are no material errors within the pension fund liability or supporting disclosures.

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Significant events or transactions that occurred during the year.	The most significant transaction during 2019/20 was the Council's purchase of Logistics House. Given the level of investment we have had several discussions with the Council on both the accounting for the transaction and also financial assessments of the purchase. During November 2020 the Council's valuers, Jacobs, produced their assessment of the valuation of Logistics House which was significantly lower than the purchase price. The valuation resulted in further discussions with management.	We have completed our review of the accounting and valuation of Logistics House. Our work included engaging with our own valuer. We concluded that the valuation included in your accounts was appropriate, though we disagreed with the accounting treatment. The asset was included in your PPE balance, however it meets the definition of an investment property. We also concluded that the accounting treatment of the income was incorrect and we have discussed and agreed amendments.

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process The Council assessment of the appropriateness of the use of going concern included considering: • Medium to long-term planning • Implications of government policy and legislation • Forecasts and budgets • Working capital and cashflow • Reserves • Provision and contingent liabilities	Our review of the assessment prepared by management concluded that the use of the going concern assumption is appropriate We are satisfied that the assessment reviewed the appropriate available evidence and the use of the going concern assumption appears appropriate.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Governance Committee papers
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the financial institutions used by the Council for banking purposes. We received all confirmations, with the exception of one which we are following up with the finance team.
Disclosures	Our review found no material omissions in the financial statements, though we made some recommendations
Audit evidence and explanations/significant difficulties	The accounts were submitted to the audit team later than planned due to the valuations not being completed by Jacobs until November 2020. The audit was delayed as both the Council and Grant Thornton had to engage additional experts in relation to the valuation of Logistics House and other key Land and Buildings. Management have engaged with the audit team very well during the period of the audit and have provided suitable supporting evidence in response to audit requests.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We currently have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Chorley Borough Council as our work on VFM is ongoing.

Value for Money

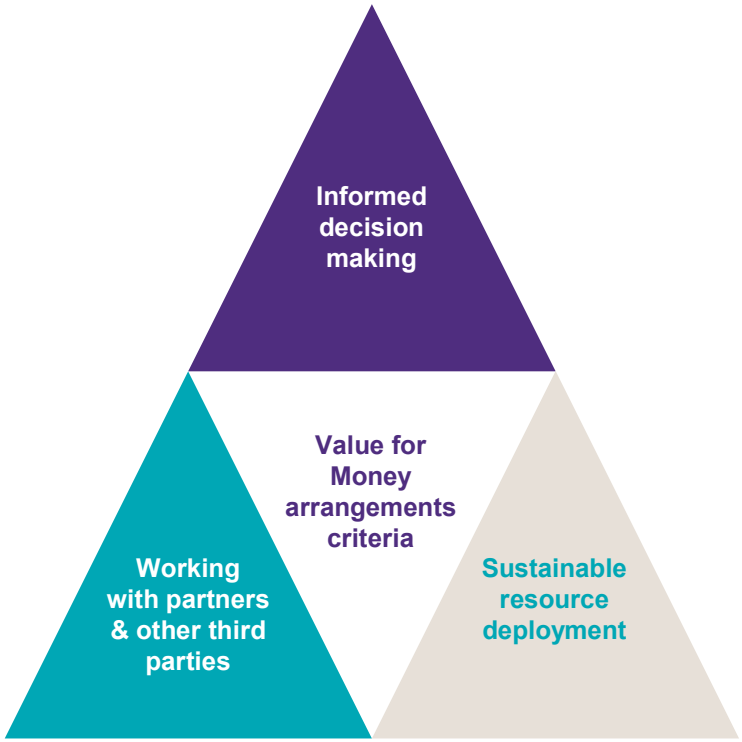
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in September 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated September 2020

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

We identified two significant risks in relation to the VFM Conclusion and these are:

- Financial Sustainability
- The purchase of Logistics House

Our work has not yet been completed and further evidence has been requested from the Council in relation to the governance and decision making processes in advance of the purchase of Logistics House. We will report our findings on the VFM Conclusion once we have completed our review.

Independence and ethics

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 and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix B

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit related services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	16,000	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 in 2019-20 was £16,000 in comparison to the original proposed fee for the audit of £44,316 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.

No non-audit related services were identified which were charged from the beginning of the financial year to July 2021

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Reclassification of Logistics House from Property, Plant and Equipment to Investment Properties	-	Investment Properties - 34,395 PPE - (34,395)	-
Recognition of rental income due for the period to 31 March 2020 in respect of Logistics House	Financing and Investment Income – (949)	Creditors - 949	(949)
Impairment of assets incorrectly valued at cost in the draft financial statements	Expenditure on provision of services – 10,181	PPE – (10,181)	10,181
Reclassification of credit note incorrectly included within creditors on the balance sheet	-	Creditors – 668 Debtors – (668)	-
Overall impact	**£9,232**	**£(9,232)**	**£9,232**

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Presentational and disclosure matters	Our review and audit of the draft accounts identified a small number of presentational changes to the notes to the accounts which has added clarity of the accounts for the reader	We shared the areas for presentational changes and these have been reflected in the revised accounts which will be reviewed on receipt.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements to bring to your attention.

Fees

We confirm below our final fees charged for the audit and provision of non-audit service.

Audit fees	Proposed fee	Final fee
Council Audit	£44,316	TBC
Total audit fees (excluding VAT)	**£44,316**	**TBC**

The final fee for the audit is still to be finalised however it is likely to be substantially higher due to the additional work undertaken in respect of property valuations and value for money work. Any fee variations will be discussed with management and will be subject to approval by PSAA.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Housing Benefit Subsidy Grant	16,000	16,000
Non- Audit Related Services	0	0
Total non- audit fees (excluding VAT)	**£16,000**	**£16,000**

Management letter of representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Chorley Borough Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and we acknowledge the material valuation uncertainty the valuer has noted in the valuation report. This is on the basis of uncertainties in markets caused by Covid-19 and we are satisfied that there have been no material impairment of asset values as assessed by the valuers. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code, subject to the matter raised in the Audit Findings Report.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

i. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

ii. We have communicated to you all deficiencies in internal control of which management is aware.

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

iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

vii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

viii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

ix. We have disclosed to you all of the group relationships of the Council and after reviewing the group boundary we do not consider that group accounts are required to be prepared.

x. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS. The final version of the AGS will be provided to you when available and before publication.

Management letter of representation

Narrative Report

i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements. The final version of the Narrative Report will be provided to you when available and before publication.

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 28 July 2021.

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Our ref: LM/19/20
Your ref:

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Chorley Borough Council

Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

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iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Chorley Council

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and we acknowledge the material valuation uncertainty the valuer has noted in the valuation report. This is on the basis of uncertainties in markets caused by Covid-19 and we are satisfied that there have been no material impairment of asset values as assessed by the valuers. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

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ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

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Chorley Council

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a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

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and

c) access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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Chorley Council

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i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements. The final version of the Narrative Report will be provided to you when available and before publication.

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 28 July 2021.

Yours faithfully

Name……

Position…….

Date…….

Name……

Position…….

01257 515151
chorley.gov.uk

Date……

01257 515151
chorley.gov.uk

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Chorley Council

Report of	Meeting	Date
Director of Finance	Governance Committee	28th July 2021

Statement Of Accounts 2019/20

Purpose of report

1. To present for approval the audited Statement of Accounts for 2019/20

Recommendation(s)

2. That the Committee should approve the audited Statement of Accounts for 2019/20 (Appendix A), subject to any amendments which in the opinion of the Director of Finance (Section 151 Officer) are minor in nature, such minor amendments to be defined as non-material to the financial position of the authority. The Director of Finance will exercise this delegation in consultation with the Chair of Governance Committee. In the event that the Director of Finance is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.

3. That the Committee should authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation (Appendix B).

Executive summary of report

4. Approval of the audited Statement of Accounts and its publication is a requirement of The Accounts and Audit Regulations 2015, as amended by The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The approved and signed Statement should be published on the Council's web site. The required date for publication of the audited Statement for 2019/20 was 30 November 2020. In instances where it has not proved possible to meet this date, the requirement is for publication 'as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit'. That report appears earlier on the agenda for this meeting.

5. There have been a small number of material changes to the Statement of Accounts from the draft version published on 26 January 2021 and these are set out in more detail below (see paragraph 16). However, these relate to asset classification and valuations and offsetting adjustments between Short Term Debtors and Creditors, so the underlying financial position of the Council, its financial performance for the year and levels of Usable Reserves, are unaffected.

6. The Appointed Auditor anticipates providing the Council with an unmodified audit report.

7. An additional section has been added to the Annual Governance Statement, which accompanies the Statement (see paragraph 18 below).

8. At the time of preparing this report, the Appointed Auditor has some limited, further work to complete. Should this additional work identify the need to make further changes to the Statement of Accounts presented to this meeting, a procedure for agreeing the changes in preparation for publication is required. The recommendation in paragraph 2 requests approval for such a procedure. This procedure would enable the Director of Finance to exercise delegation in consultation with the Chair of Governance Committee in respect of making amendments to the statement which do not have a material effect on the financial position of the Council.

Confidential report Please bold as appropriate		**No**

Corporate priorities

9. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

Background

10. The draft Statement of Accounts 2019/20 was signed by the Deputy Director of Finance Officer on 26 January 2021, and published on the Council's website together with details of public inspection rights. The accounts were then presented to Grant Thornton, the external auditors, for audit.

11. The Appointed Auditor's Audit Findings Report is presented as a separate report on this agenda. This sets out adjusted misstatements, unadjusted misstatements, and misclassification and disclosure changes in the current version of the Statement of Accounts. The audit of the accounts has not yet been completed in full. A few matters are still under consideration and so there is a possibility that further changes to the Statement of Accounts might be required.

12. The Accounts and Audit Regulations 2015, as amended by The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, require that the statement should be approved by a meeting of members by 30 November 2019, or should that not prove possible, 'as soon as reasonably practicable after the receipt of any report from the auditor which contains the auditor's final findings from the audit which is issued before the conclusion of the audit'. The full statement for 2019/20 is attached as Appendix A.

13. Following consideration and approval by this Committee, the Chair should sign and date the Statement, which should also be re-certified by the Director of Finance as soon as practicable. The Statement of Accounts will be published on the Chorley Council web site, www.chorley.gov.uk.

14. The Director of Finance and the Chair of Governance Committee should also sign the Letter of Representation.

15. As the audit has not been completed in full, it is recommended that the Director of Finance, in consultation with the Chair of Governance Committee, should approve non-material amendments to the Statement of Accounts before it is signed and dated. In the event that

the Director of Finance is of the opinion that the amendments are considered material to the financial position of the Council, Governance Committee will be reconvened to approve the new Statement of Accounts.

Changes To Signed Statement Of Accounts Published On 26 January 2021

16. Appendix A of the Audit Findings Report sets out the main adjustments made to the Statement of Accounts from the version published on 26 January 2021. These adjustments are for significant amounts. However, they relate to asset classification and valuations and offsetting adjustments between Short Term Debtors and Creditors, so the underlying financial position of the Council, its financial performance for the year and levels of Usable Reserves, are unaffected. The material changes are:
    - The reclassification of Logistics House, purchased during 2019/20, from Property, Plant & Equipment to Investment Properties (£34.395m).
    - Removal of a technical adjustment in respect of rental income from Logistics House (£941k).
    - Transfer of amounts in respect of credit notes for Logistics House rental income between Short Term Debtors and Creditors (£668k).
    - Amendments to valuations in respect of Market Walk Extension (£10.281m).

17. There are a small number of other minor amendments to text and figures.

18. The Annual Governance Statement is unchanged from that approved by the Committee on 1st July 2021, except that additional section has been inserted in respect of the impacts of the Covid-19 pandemic (see page 132 of Appendix A).

Audit Findings

19. The Audit Findings report by the Appointed Auditor (Grant Thornton) includes a draft audit opinion. This indicates that the Council will be provided with an unmodified audit report which is, in other words, an unqualified opinion.

20. At the time of preparing this report and the version of the Statement of Accounts it introduces, the auditors are still undertaking a limited amount of further work. Due to the audit not having been finalised, it is possible that they could identify further changes that would be required to core statements or supporting notes after Governance Committee has resolved to approve the Statement of Accounts. As a consequence, it is recommended that the Director of Finance, in consultation with the Chair of Governance Committee should agree any changes which have no material impact on the financial position of the Council before recertifying the Statement of Accounts. Should there be any changes which do have a material impact on the financial position of the Council, it would be necessary to reconvene Governance Committee to agree the changes.

Implications of report

21. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

Risk

22. No risk has been identified in respect of the contents of this report.

Comments of the Statutory Finance Officer

23. All relevant comments are included within the report.

Comments of the Monitoring Officer

24. Approval and publication of the 2019/20 Statement of Accounts, by 30 November 2020, or as soon as practicable thereafter, is required in order to comply with The Accounts and Audit Regulations 2015, as amended by The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Louise Mattinson
Director of Finance

Report Author	Ext	Date
Tony Furber	5027	20 July 2021

Statement of Accounts 2019/20

Chorley Borough Council

chorley.gov.uk

Chorley Council

APPENDIX A

Contents

APPENDIX A

APPENDIX A

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 2019/20 (The Code), which is based on International Financial reporting Standards.

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

Page 5 **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 10 **Narrative Report of the Chief Finance Officer** - The purpose of the narrative report is to give the reader an understanding of the most significant matters reported in the accounting statements, as well as a review of the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

Page 47 **Statement of Responsibilities for the Statement of Accounts** – This summarises the responsibilities of the Council and the Chief Finance Officer in relation to the Statement of Accounts.

Page 127 **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.

APPENDIX A

Independent auditor's report to the members of Chorley Borough Council

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APPENDIX A

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APPENDIX A

Narrative Report of the Chief Financial Officer

Introduction

Throughout this document, Chorley Borough Council may be referred to as the Council or the Authority.

This Statement of Accounts presents the financial results of the Council's activities for the year ended 31 March 2020 and provides a picture of the Council's overall financial position as at that date. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

The purpose of the narrative report is to give the reader an understanding of the most significant matters reported in the accounting statements, as well as a review of the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

The narrative report is structured as follows:

- Key facts about Chorley Borough and Chorley Borough Council
- Chorley Council Corporate Strategy, its achievements, future projects, performance and risks
- The Structure of the Council
- Context for 2019/20 Accounts
- Financial Performance in 2019/20
- Looking ahead to the future including the challenges and opportunities facing Chorley Council

Louise Mattinson ACA
Director of Finance Officer and Section 151 Officer
Date: 29 July 2021

APPENDIX A

Key Facts About Chorley

- Chorley's population of 118,216 mostly live in urban areas;
- The Borough of Chorley covers 205 square kilometres;
- It is estimated that between 2016 and 2041 the population of Chorley will increase by 16.4%, the highest predicted growth rate by far in Lancashire. The number of households in the authority is projected to increase by a substantial 23.2% between 2016 and 2041.
- There are approximately 51,600 households in Chorley;

Chorley Borough is located in Lancashire, at the centre of the North West Region, with the M6, M61 and M65 motorways running through it. It has easy access to the West Coast Mainline and Manchester and Liverpool Airports. These good transport links make it an attractive area for people to live in for people working across the North West. This is reflected in its steadily increasing population level.

The Borough of Chorley benefits from a vibrant voluntary and community centre network that supports and enhances the community.

The Borough of Chorley consists of 20 wards, represented by 44 elected councillors and a member of parliament.

The electorate is 75,938. Following elections in May 2019, the Council is led by a majority Labour Party administration.

APPENDIX A

Chorley Borough Council Corporate Strategy

The overall aim of the Medium Term Financial Strategy (MTFS) is to identify resources to meet the objectives, targets and measures contained in the Corporate Strategy. The Corporate Strategy vision and our strands of focus are set out below:

The delivery of the Corporate Strategy is supported through a series of key projects and service level projects contained within the business plans. In each case, the resources required to deliver the projects and plans were broadly developed through the business planning process, and resources identified during the budget planning process.

The Corporate Strategy for 2019/20 to 2021/22 was approved by Council on 19th November 2019. It includes 13 key projects, with a particular focus on delivering some of the large scale, ambitious schemes that will have a significant impact on local outcomes. Key performance measures for each service have been set so that targets remain challenging and reflective of the Council's ambitions.

The following pages outline the Council's achievements in 2019/20 against the delivery of the Corporate Strategy and key performance indicators up to the end of 2019/20.

APPENDIX A

Involving residents in improving their local area and equality of access for all

The long-term outcomes for this priority are:

- Residents who take pride in where they live and their achievements
- Residents who are all able to take an active part in their local and wider community
- Easy access to high quality public services, both face to face and online

ACHIEVING THE LONG TERM OUTCOMES IN 2019/20

Work to deliver a programme of community resilience building has progressed during the year. This project aims to support residents in improving their local area and equality of access for all. The community resilience framework was approved by Executive Cabinet in January 2020, which sets out the approach that will be taken to achieve a change in relationships between individuals, communities and public services. These changes will mean that communities are in a stronger position to support themselves independently with the potential for better health and wellbeing outcomes and help reduce the demand for public services over the long term. The Community Development team have been successfully piloting the approaches within the framework, for example taking time to build up trust between group members and services, allowing them to decide which services they feel the community needs, and providing ongoing support. In turn, residents are guiding service providers to develop more effective ways to reach those who need their help.

The refresh of the Council's website continued, which aims to transform the current Council website, improving the customer journey and the experience our users have when using the site through a range of devices. This should encourage increased usage of Council online services, and in turn enable better access to high quality public services online. The procurement of the content management system solution, which is a system that will help create and manage the information presented on the website, was undertaken during the year. Recruitment for an additional resource to build and publish the content was started in quarter 4 of 2019/20, however, this process has been impacted by COVID-19.

By the end of 2019/20, 790 people had successfully completed basic digital skills training against a target of 400. Basic digital skills such as using a mouse and keyboard, internet confidence, accessing public services online, sending and receiving emails, using social media, and using skype or other communication platforms, as well as understanding digital security have become more important during the COVID-19 lockdown. For many people this has enabled them to communicate with friends and family, colleagues and service providers, work from home, shop for essential items and continue in their day to day lives from the safety of their own homes as advised by central government.

APPENDIX A

Performance of Key Projects

There are three key projects included in the 2019/20 Corporate Strategy under this priority, and at the end of the year overall performance is good.

One project is rated as green, meaning it is progressing according to timescale and plan:

- Deliver a programme of community resilience building work

Two projects are rated amber which is an early warning that there may be a problem with the project and more detailed information on this can be found below:

Project Title		Project Status
Undertake renovation works at Astley Hall		AMBER
Explanation	This project will deliver vital improvements to maintain the structural integrity and safety of the Hall, as well as transforming the visitor experience to ensure a sustainable long-term future for the facility, with associated benefits for tourism and the local economy. This phase of the project focusses on the delivery of the structural conservation improvements, transformation of the visitor experience and the delivery of a museum shop. While all elements of the project are progressing, there has been a review of the timeframe for starting physical works on the Hall, and the project remains rated as Amber due to continued delayed progress of the recruitment of the external project manager.	
Action Required	Early in 2020/21, work will focus on finalising the improvement work plan for the Hall with detailed timescales which will include the appointment of a project manager. Commencement of the works has been delayed because of the Covid-19 outbreak and the detailed timescales for progression will be subject to the ongoing restrictions. In addition to revising timescales, work in 2020/21 will also include applying for listed building consent which is to seek approval for the physicals works on the Hall and tendering work packages for the development work.	

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Project Title		Project Status
Refresh the Council's website		AMBER
Explanation	The Website Refresh project aims to transform the current Council website, improving the customer journey and the experience our users have when using the site in order to help increase usage of Council online services. The project has progressed well with consultation, user research and testing with internal and external partners all now complete, followed by the shared procurement process with South Ribble Council for the content management solution being undertaken. The content management system, once in place, will help us achieve a fully accessible compliant, mobile responsive website, by allowing easy creation and management of the website pages for an improved customer journey. There have been delays to the contract award for the winning tender of the content management system which has included delays to reaching an agreement and finalising the negotiations. The contract negotiations will ensure that the new content management system solution can be delivered both on time and within budget. Therefore, this project is rated as Amber.	
Action Required	During quarter one of 2020/21, negotiations will be finalised to allow the contract award to take place with the content management system supplier. It is imperative that negotiations covered include the supplier's ability to deliver the solution within timescales. Following this, the design and development of the content management system can commence. In addition to this, work will continue to review and update the existing website content which is currently at 50% completion; in order to achieve 100% completion, the recruitment of additional resource will need to be formalised, and the project programme will be reviewed and updated.	

Clean, safe and healthy homes and communities

The long-term outcomes for this priority are:

- Clean and safe streets
- Reduced health inequalities
- A wide range of quality recreational activities
- High quality, affordable and suitable housing
- High quality play areas, parks and open spaces in both urban and rural locations

APPENDIX A

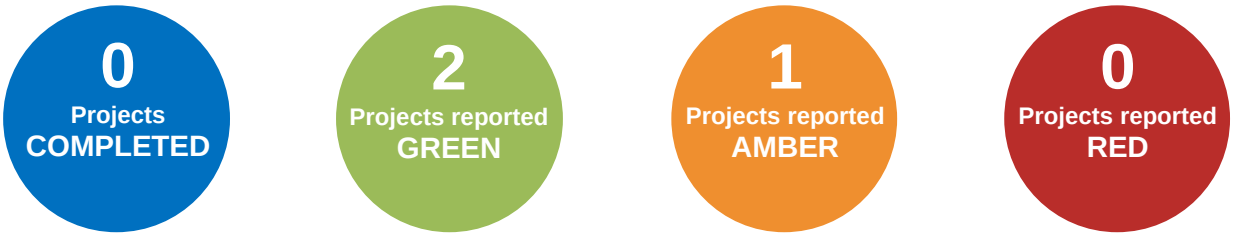
ACHIEVING LONG TERM OUTCOMES IN 2019/20

Good progress was made on the project to progress improvements to Tatton recreation ground and the surrounding area. The Council was awarded revenue funding through the One Public Estate Funding Programme to complete a feasibility study and business case for the redevelopment of the former bus depot on Eaves Lane and Tatton Community Centre, which will also incorporate the redevelopment of Tatton Recreation Ground. Once completed this will provide vital facilities for local residents, including improved health provision and open spaces, supporting wellbeing outcomes and wider benefits such as community cohesion and reduced anti-social behaviour. Work completed included the completion of RIBA Stage 2 design and reporting which includes completion of surveys, ecological works, drainage, site and archaeological investigation. This now means that work can move on to progress the next stage. The procurement of the next stage, RIBA Stage 3 architectural services had commenced at the end of the year. Funding of £3.7m from Homes England and £5.2m from the Lancashire Enterprise Partnership has been secured. Technical surveys are to be completed by the end of April 2020. This will contribute the wider outcomes of this project to reduced health inequalities and provide high quality suitable housing for residents.

Significant progress was made to improve play and community spaces across the borough to provide high quality play areas, parks and open spaces in both urban and rural locations. Work continued across the various sites included in this project such as Westway Sports Campus, Kem Mill Lane playing field, Twin Lakes playing field, The Meadows Heskin, Manor Road play area, and Orchard Drive play area. Across the majority of the sites the tender and/or tender evaluations were completed, however contractor appointments and site works were suspended at the end of the year due to rules around social distancing enforced under the COVID-19 lockdown. Good progress was made with the paths at Lodge Bank play area, which were surfaced creating a usable walking route all year round, with a tender and tender evaluation completed for the play area refurbishment. A funding bid has been submitted to the Lancashire Environment Fund Bid for match funding towards a new toddler play area. Carr Brook linear park has progressed with River Ribble Trust appointed as the project lead which includes the River Lostock enhancement, working with the ecologist and the Environment Agency on the specification for green engineering of the river banks aiming to reduce pollution and promote sustainability making the area cleaner and safer. Match funding was confirmed for the site at Longfield Avenue to supplement the funding already secured from developer contributions which will enable improvements to be made to the play area to provide a high-quality play area.

Work to implement the Housing Strategy action plan also progressed. The Housing Strategy 2019-24 was established in order to respond to the pressure of a growing and aging population while ensuring that the supply of housing within the borough remains high quality and balanced, by helping to secure quality housing across all housing tenures, supporting people to remain independent in their own homes, preventing homelessness and supporting a balanced housing market. The actions and timescales as set out in the strategy were reprofiled and leads identified to ensure that the project moved forward. Some needed to be further reviewed due to proposed legislation to licence private landlords, including introducing a programme of inspection of privately rented properties, not being brought forward. Investigation of the delivery of these actions commenced in 2020/21.

Performance of Key Projects



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There are three key projects included in the 2019 Corporate Strategy under this priority, and at the end of the year overall performance is good.

Two projects are rated as green, meaning they are progressing according to timescale and plan:

- Progress improvements to Tatton recreation ground and surrounding area; and
- Improve play and community spaces across the borough.

One project is rated amber which is an early warning that there may be a problem with the project and more detailed information on this can be found below:

Project Title		Project Status
Implement the Housing Strategy action plan		**AMBER**
Explanation	This project is rated as amber due many of the actions included in the action plan not progressing as planned as a result of staffing issues over the year, which have now been resolved, has had a knock-on effect on delivery. In addition to this, some progress was affected at the end of the year due to key officers for the delivery of the action plan being redeployed and/or engaged on other Council activity relating to the COVID-19 pandemic. Despite this there was progress, which included compiling a list of all actions to be delivered from January 2020 to January 2021. This list was circulated by the project manager to all service leads and team leaders for them to agree the various actions required to ensure that the project can move forward. This was approved. Progress began on some of the actions during the final quarter of 2019/20 with the action to investigate the impact of the vacation rental online marketplace on the borough and identify any necessary actions has been completed. It was also realised that the proposed legislation to licence private landlords, including introducing a programme of inspection of privately rented properties, had not been brought forward therefore the action needed to be reviewed. It was anticipated this will take place in quarter one of 2020/21.	
Action Required	It was expected that this project will continue to be delivered in quarter one of 2020/21, when the capacity is once again available to redeploy/focus on reacting to the immediate demand caused by the pandemic. Work in quarter one of 2020/21 will focus on re-engagement with key action owners to re-establish the estimated timescales for delivery and review the actions to ensure these are still achievable. Once these have been agreed, delivery on the actions will re-commence.	

APPENDIX A

A strong local economy

The long-term outcomes for this priority are:

- A vibrant town centre and villages
- A strong and expanding business sector across the whole of the borough
- Access to high quality employment and education opportunities across the borough

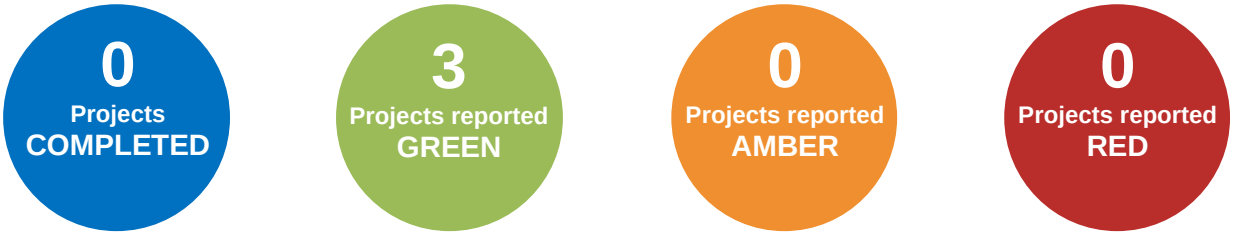
ACHIEVING THE LONG TERM OUTCOMES IN 2019/20

Good progress was made with the project to bring forward employment land at Alker Lane, which will seek to finalise site plans, secure planning permission, and establish a project team ahead of the site's future development. The site will accommodate the thriving and expanding local business sector and provide high quality employment opportunities for local residents. The discussions with United Utilities regarding the relocation the water mains at the site, which is key to the development of the site, continued, with negotiations ongoing. The procurement process for the architect appointment to further develop designs for the site, as well as the appointment of a technical team to undertake site investigations to inform the relocation of the watermain, has commenced.

The project to deliver improvements to the town centre made good progress. This project aims to deliver improvements that will enhance the retail and visitor experience of the town centre to ensure it remains an attractive and vibrant commercial hub. Meetings with key stakeholders were conducted in order to gain insight and ideas on how the markets can be improved, which fed into the decision-making process and future delivery of the project. In addition, surveys were completed of properties on Chapel Street which will determine areas for development and investment as part of the wider town centre improvement project.

Good progress was achieved towards the project to develop the business plan for the wholly owned company. The company will enable the Council to effectively acquire and manage its portfolio of assets and be more proactive in driving forward economic development across the borough. During quarter four of 2019/20, the company was officially registered and project meetings hosted to facilitate the development of the investment strategy and business plan. Following the purchase of a distribution warehouse, site visits were conducted to the property to identify future investment opportunities and the lease agreement finalised with the tenant. This fits into our wider investment strategy, which aims to increase the Council's revenue and support job creation.

Performance of Key Projects



There are three key projects included in the 2019 Corporate Strategy under this priority, and at the end of the year overall performance is excellent.

All three projects are rated as green, meaning they are progressing according to timescale and plan:

- Bring forward employment land at Alker Lane;
- Deliver improvements to the town centre; and
- Develop the business plan for the wholly owned company.

An ambitious council that does more to meet the needs of residents and the local area

The long-term outcomes for this priority are:

- A Council that consults and engages with residents
- An ambitious Council that continually strives to improve
- Cohesive communities in and around our rural and urban areas

ACHIEVING THE LONG-TERM OUTCOMES IN 2019/20

The project to deliver shared Council services progressed well during 2019/20. The project aims to create shared services between Chorley Council and South Ribble Borough Council to improve resilience for both Councils and create developmental opportunities to enhance the skillset and capabilities of staff. Plans were finalised for the relocation of employees between both Councils to enable effective relocation of the shared services employees and the new equipment and furniture purchased will enable staff to operate from the new working locations. A shared induction and development programme that will provide staff with support through the transition and provide developmental opportunities was drafted. This was not completed as services were not working from their new bases due to the Covid-19 lockdown. Consequently, the induction was under review to reflect different induction needs. Moreover, a Digital Governance Board was established with preparations made for a shared IT system that will allow staff to work effectively across both Councils and a review of HR policies commenced, including of terms and conditions, with preparations made for a review of pay scales.

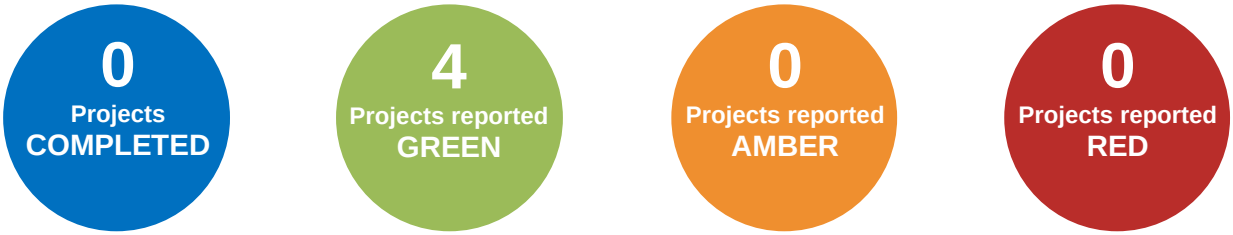
Progress was made towards making our borough cleaner and more attractive, which seeks to further enhance the borough as a great place to live, work and visit. Some key milestones completed included the completion of the winter work schedule and the successful delivery of the first phase of double shifting, which will produce efficiency savings and improve Streetscene services. The planting of wildflower meadows was delivered which will provide visually appealing enhancements to the green spaces and will also promote biodiversity and sustainability for the green space of the borough.

Good progress was achieved towards working with our partners to deliver sustainable public services. This project focuses on how we share intelligence to help design services that improve outcomes for residents, addressing the wider social factors that influence overall wellbeing. In quarter four of 2019/20, the partnership delivered a digital careers event at the Strawberry Fields Digital Office park in collaboration with Runshaw College, Lancashire Teaching Hospital and a range of private sector businesses. The event was attended by the

majority of Chorley schools and over 300 individuals looking to explore or progress in their digital career. Additionally, members of the Chorley Public Service Reform Executive visited and took part in the Chorley Experience, an interactive organisational development exhibit aimed at recognising achievements and engaging staff on future shared values and behaviours.

Delivering a project to support the Council's commitment to the green agenda, which seeks to improve the Council's environmental performance, continued to make good progress. The final report of the green agenda task group, which sought to produce recommendations based on research and specialist advice, was approved by Overview and Scrutiny and Executive Cabinet. The Council also approved a budget of £500,000 to deliver four key initiatives based on the recommendations of the task group, including a tree for every resident, home energy efficiency, investment in renewable energy and improving air quality. These will help the Council towards achieving carbon neutrality by 2030. An action plan was approved, which has determined the timescales for delivery of the key initiatives over the next twelve months.

Performance of Key Projects



There are four key projects included in the 2019 Corporate Strategy under this priority, and at the end of 2019/20 overall performance is excellent.

All four projects are rated as green, meaning they are progressing according to timescale and plan:

- Make our borough cleaner and more attractive including wildflower meadows;
- Work with our partners to deliver sustainable public services;
- Deliver a project to support Chorley Council's commitment to the green agenda;
- Deliver shared Council services.

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Performance of Corporate Strategy Key Measures – 2019/20

The Corporate Strategy includes key measures to make it possible to monitor progress towards achieving priorities and long-term outcomes. The measures were selected to demonstrate the progress made in achieving the ambitions of the council. Performance in 2019/20 was good, with most indicators performing above target. Areas of underperformance are generally where more challenging targets have been set and where there are significant external influences.

★ **Performance is better than target** ● **Worse than target but within threshold** ▲ **Worse than target, outside threshold**

Indicator Name	Polarity	Target	Performance Quarter 3	Symbol
Number of people who have successfully completed basic digital skills training	Bigger is better	400	**790**	★
Number of community groups supported to improve by the Council	Bigger is better	75	**112**	★
Number of affordable homes delivered	Bigger is better	100	**81**	▲
Number of long-term empty properties in the borough	Smaller is better	150	**144**	★
Number of parks, open spaces and playing pitches improved linked to strategy delivery	Bigger is better	12	**23**	★
Household waste sent for reuse, recycling or composting	Bigger is better	38.7%	**39.64%**[2]	★
Overall employment rate	Bigger is better	80%	**77.3%**	●
Growth in the business rate base	Bigger is better	1.0%	**0.7025%**	▲
Number of projected jobs created through Chorley Council support or intervention	Bigger is better	120	**572**	★
The % of 16-17 year olds who are not in education, employment or training (NEET)	Smaller is better	3%	**2.7%**	★
% service requests received online	Bigger is better	35%	**37.54%**	★
% customers dissatisfied with the service they have received from the council	Smaller is better	20%	**12.73%**	★

For those performance indicators that are worse than the target performance, the following reasons and action plans were proposed to Executive Cabinet in June 2020:

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	Performance Indicator	Target	Performance
▲	The number of affordable homes delivered	100	81
Reason below target	The main reason for this performance is due to a reduction in Registered Providers (RPs) delivering grant funded schemes within the borough. Registered Providers have slowed down investment activity in Chorley and there may be a variety of reasons for this, one of which could be the lack of large remaining allocated housing sites and land values. The introduction of the new Central Lancashire Local Plan will enable some bridging of the gap in the medium term as this new plan will be allocate new sites for housing with specific policies on affordable requirements which will contribute and encourage further development in the borough.		
Action required	The Council is responding to this by committing to the delivery of affordable homes as a developer and social landlord in its own right, the first example of which is Primrose Gardens Retirement Living which delivered in 2018/19 65 new apartments. There are also more schemes in the pipeline which will build on this success going forward. The Registered Provider preferred partnership framework in Chorley is in the process of being established. This will ensure that Registered Providers selected to benefit from future section 106 developer contribution sites will have demonstrable commitment to investment in the borough in addition to the provision of good quality management arrangements and customer focused service. Chorley Council as a Registered Provider will be applying to join this framework. The robust application of our planning policies will continue in order to secure developer contributions, and importantly, social rent units.		

	Performance Indicator	Target	Performance
▲	Growth in the business rate base	1.0%	0.70%
Reason below target	Performance for the growth in the business rate base is lower than anticipated, with performance at 0.70% against a target of 1%. However, it should be noted that there has been a significant increase in performance in 2019/20 compared to 2018/19 when performance was at -0.13%. Therefore, there has been an increase in performance of 0.8325% between 2018/19 and 2019/20. This is likely due to the growth in the commercial stock across the borough which includes the construction and opening of Lidl, KFC Buckshaw Village, and the Market Walk Extension. The lower than anticipated performance is due to a number of key premises that were delivered in 2019/20, of which would have added significantly to the business rate base, have not been rated yet by the Valuation Office Agency (VOA). These include Escape Entertainments, Reel Cinema and Marks & Spencer. In addition to this, variations in the NNDR rating list with new assessments, deletions and changes to rateable values contributing towards the gross rateable value. There have been some reductions in the value of certain premises over 2019/20, due to natural fluctuations in valuations, which have contributed to the lower than anticipated performance. The business rate base data shows that properties taken out of the Ratings list during 2019/20 resulted in a loss of Rateable Value of £443,325.00, however properties brought into the Ratings list during 2019/20 resulted in an increase to the Rateable Value of £1,166,304.00. This resulted in a net difference of £722,979.00. While this demonstrates a net increase in the rateable value, overall, there has been a growth of 0.70% across the year which performance to just under target of 1%.		

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Action required	The weekly list of validated planning application is closely monitored so that the VOA is promptly informed of new commercial assessments and potential increases in existing NNDR rateable values. A combination of the key premises discussed above being rated by the VOA and the construction of a number of new commercial developments across the borough in 2020/21 is likely to result in a substantial increase in the gross rateable value in 2020/21.

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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

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The below table outlines the highest scoring risks on the Strategic Risk Register for 2020.

Risk No.	Description of Risk (any changes marked in red)	Matrix Score May 2020	Change in inherent risk level from 2019
R1	Failure to realise the value of large budget investments and achieve return on investments	**16** (High)	➔ (increased residual risk)
R2	Failure to achieve desired outcomes through partnership working and deterioration in relationships	**16** (High)	➔
R3	Budget cuts in key public and third sector partners having a negative impact on local level service delivery	**16** (High)	➔
R4	Failure to optimise opportunities for new ways of working and alternative business models including options for income generation	**16** (High)	➔
R16	Not managing the recovery after COVID-19 effectively	**12 (High)**	➔

The majority of strategic risk levels have remained similar to 2019 as mitigating actions and controls have ensured that the risks have been effectively managed and have therefore not escalated across the year. However, all actions and controls have been reviewed and updated against these risks and any changes recorded within the GRACE system.

A new risk has been added for this year to reflect managing the recovery from COVID-19. This risk is regarding the organisational response to manage the recovery as a result of the impact of COVID-19 and effectively delivering the recovery of our communities, business functions and other services. This risk is currently rated as high as plans for recovery are still evolving and this is an unprecedented situation for the Council.

It should be noted that other risks have been reviewed in light of COVID-19 and amended appropriately to reflect the long-term impact that this crisis will have on the Council and services it delivers.

The highest scoring risks (R1-R4) continue to focus on delivering Council priorities, including large scale investment projects, new ways of working and alternative business models including options for income generation. There are significant challenges facing the organisation within the coming year including budgetary pressures and internal and external change, coupled with an ever-increasing demand for services.

Whilst some budget savings have been achieved over 2019/20, the Council continues to face significant financial challenges as we move towards 2020/21 and preparing for these challenges means we must continue to transform the way in which we deliver services to achieve a more efficient organisation that can continue to meet the need of local residents through providing quality services. The work of the Transformation Team continues to focus on achieving the financial savings that need to be made towards a sustainable operational and financial position, informing the corporate planning process and is therefore listed as a control/action measure against many of the highest scoring strategic risks.

The risk score for R1 ‘failure to realise the value of large budget investments and achieve return on these investments’ continues to be the highest rated risk for the Council. This risk

includes the Council's investment into large scale commercial developments such as the Digital Office Park, Market Walk and investment into key employment sites. This year we have seen a slight reduction in the net return for both Market Walk and Digital Office Park despite continuing to invest in work to bring forward more tenants at both sites and our other units including staff time, advertising, and incentives. Therefore, there has been a slight increase in the residual risk score as the need to see a return on this long-term investment to assist the Council in achieving a sustainable financial position in future years remains crucial.

The risk R2 'failure to achieve desired outcomes through partnership working and deterioration in relationships' continues to be rated one of the highest risks for the Council due to the reliance we have on partnership working to support our sustainability in light of reductions in government funding and to work effectively in partnership with other organisations to provide joined up support for our most vulnerable residents. However, extensive progress has been made this year to continue to strengthen established working relationships that the Council has in place (Public Service Reform and Integrated Community Wellbeing Service). Strong control measures are listed to mitigate this risk over the coming months therefore the risk score for this risk remains the same.

The risk R3, refers to budget cuts in key public and third sector partners having a negative impact on local level service delivery. We continue to work with partners to ensure that we are providing the most cost effective and sustainable solutions possible to sustain local services affected by county level budget cuts. However, despite strong controls and mitigating actions in place internally to mitigate this risk, external financial pressures at both a national and county wide level still exist meaning that this risk level is maintained.

The final risk is the risk R4 which is a 'failure to optimise opportunities for new ways of working and alternative business models including options for income generation'. This risk remains unchanged due to the work of the Senior Leadership Team who continue to manage a programme of work which aims to deliver new ways of working and options for income generation. In 2020/21 several actions are planned to reduce this risk level including the development of an Income Generation Strategy and a refresh of the Transformation Strategy to ensure it reflects the latest position and ambitions for the Council.

APPENDIX A

The Structure of the Council

Chorley Borough Council is part of a two-tier system in Lancashire that consists of a County Council, two Unitary Councils and 12 District Councils. Chorley Borough Council works collaboratively with a wide range of partners to deliver its vision of the Council being:

'**A proactive community leader, supporting the borough and all its residents, whether in urban or rural areas, to reach their full potential through working in partnership to deliver services that achieve the best outcomes for local people and protect vulnerable people.'**

During 2019/20, the Council underwent significant changes in its Senior Management structure as part of the sharing of services with South Ribble Borough Council. The changes are not fully in place at the time of publication of these accounts.

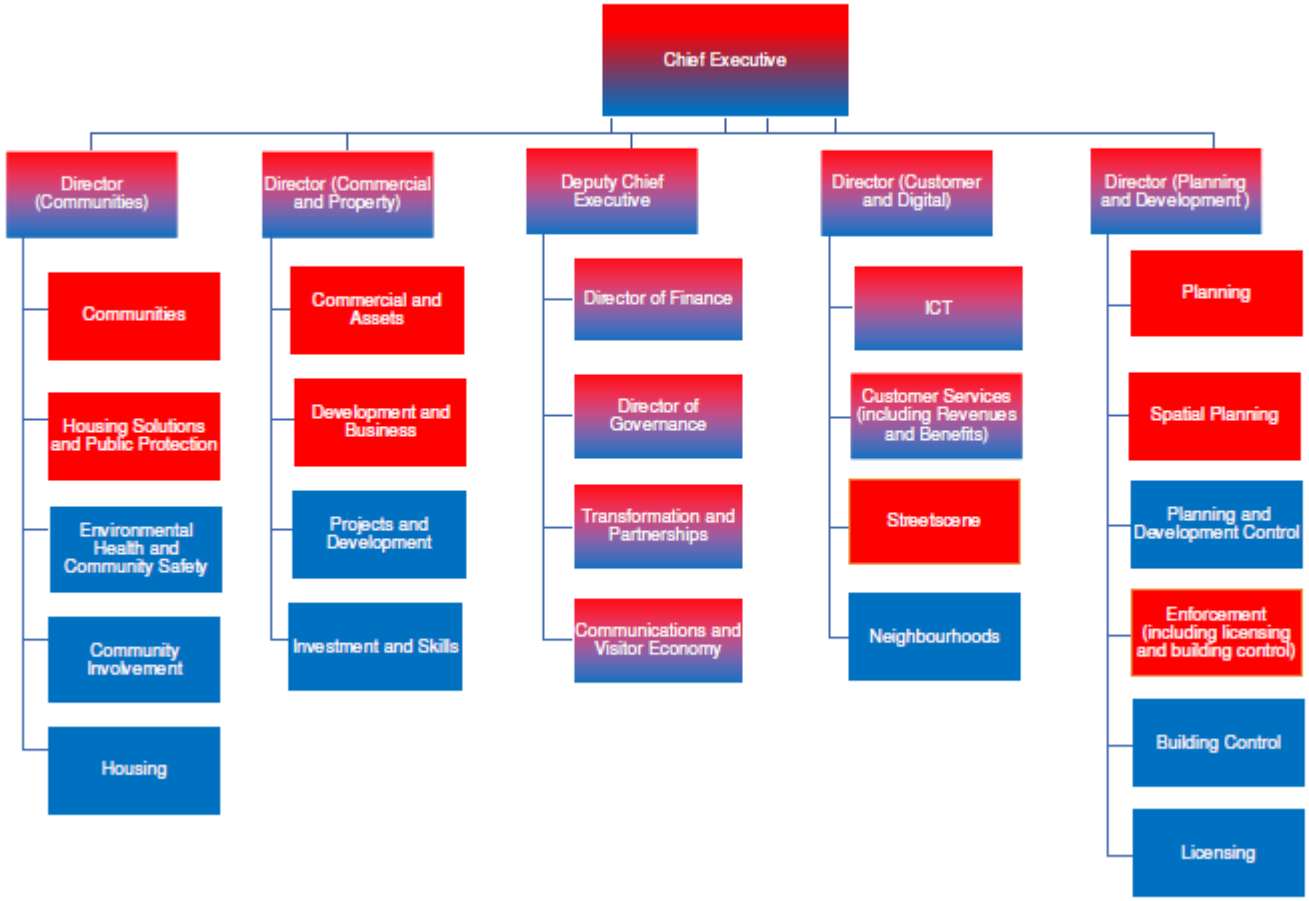
The Council has 44 district councillors elected to cover all the electoral wards across the borough. District councillors represent their communities and bring their views into the Council's decision-making process. Council meetings are publicised on the Council's website alongside agendas, reports and 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 2019/20 year was as follows, with a Labour Party majority administration running the Council:

Party	No.
Labour	36
Conservative	7
Independent	1
TOTAL	**44**

The Senior Management Structure of the Council was reviewed during 2019/20 to enhance service sharing arrangements with South Ribble Borough Council. A recruitment process was underway to recruit to the new structure during 2019/20 but was not yet fully concluded by the end of the year. The Council currently has interim arrangements in place to deliver the Corporate Plan priorities, which were refreshed in 2019/20. This in turn has informed the allocation of resources within the Medium Term Financial Strategy.

The Current Senior Management Team



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Senior Management Team

The Senior Management Team is shared across Chorley and South Ribble Borough Councils and consists of the Chief Executive, a Deputy Chief Executive and Directors as shown at the top two levels above. The Senior Management Team meets monthly and is responsible for developing, identifying resources, delivering and reviewing the delivery of the Council's corporate priorities. The remainder of the posts shown are a mix of shared posts and those individual to each council. Chorley BC posts are shaded red and those specific to South Ribble BC are shaded blue, while the joint posts are shown as a blend of two colours.

The Transformation Board

The Council continues to work towards delivering the transformation strategy with the Transformation Board overseeing its delivery. The purpose of the Transformation Board is to:

- Monitor project progress and issues
- Ensure proposals meet with the overall objectives of the Transformation Strategy and anticipated savings
- Consider dependencies between projects to make sure that activity is coordinated (particularly with regard to consultation/service reviews) and monitor overall demands on capacity

There are currently a number of ongoing projects that the transformation board monitors and supports in order to deliver the transformation strategy.

Context for the 2019/20 Accounts

2019-20 was due to be the final year of the Government's four-year Settlement from 2016 to 2020, however following the Spending Round 2019, councils received a further one-year Settlement, with the planned changes from the Fair Funding Review and implementation of 75% Business Rates retention delayed, at that stage, by one year until April. As a result of the Covid 19 pandemic, this has since been further postponed until April 2022, with another one-year Settlement being put in place for 2021/22.

While the ultimate outcomes of the Fair Funding Review remain uncertain, there remains a concern that, once it is completed, the Council will experience significant reductions in funding over the following three years as well as having to manage inflationary budget pressures. It also appears that the Council will lose its New Homes Bonus allocation of £2m a year in the coming three years. There is also significant uncertainty regarding the level of retained business rates income, due to uncertainty around the expected changes to Business Rates Retention and the Fair Funding Review.

The uncertainties regarding funding levels from 2021/22 onwards are a major issue in effective financial planning. It is expected that over the medium term the Council will experience a reduction in funding of over £3m. This may be a reduction in retained Business Rates, if more income is allocated to upper tier authorities, or it could be the potential elimination of New Homes Bonus if it is brought into the calculation of the Council's baseline funding level. This has exacerbated by the impact in 2019-20 and into 2020/21 of the Covid 19 pandemic. The additional financial commitments which this has placed upon the Council have largely been met by additional grant funding, but the situation has been, and remains, subject to considerable uncertainty and to ongoing changes. At this point in time it is not possible to forecast exactly how the reforms and the pandemic will impact the Council. It is vital that this is kept under close review to ensure the organisation continues to deliver its corporate priorities as well as maintaining its financial sustainability.

Chorley Borough Council has experienced and may continue to experience in the coming three years, large reductions in its major funding sources. The forecast reductions in the largest funding sources are outlined in the chart below.

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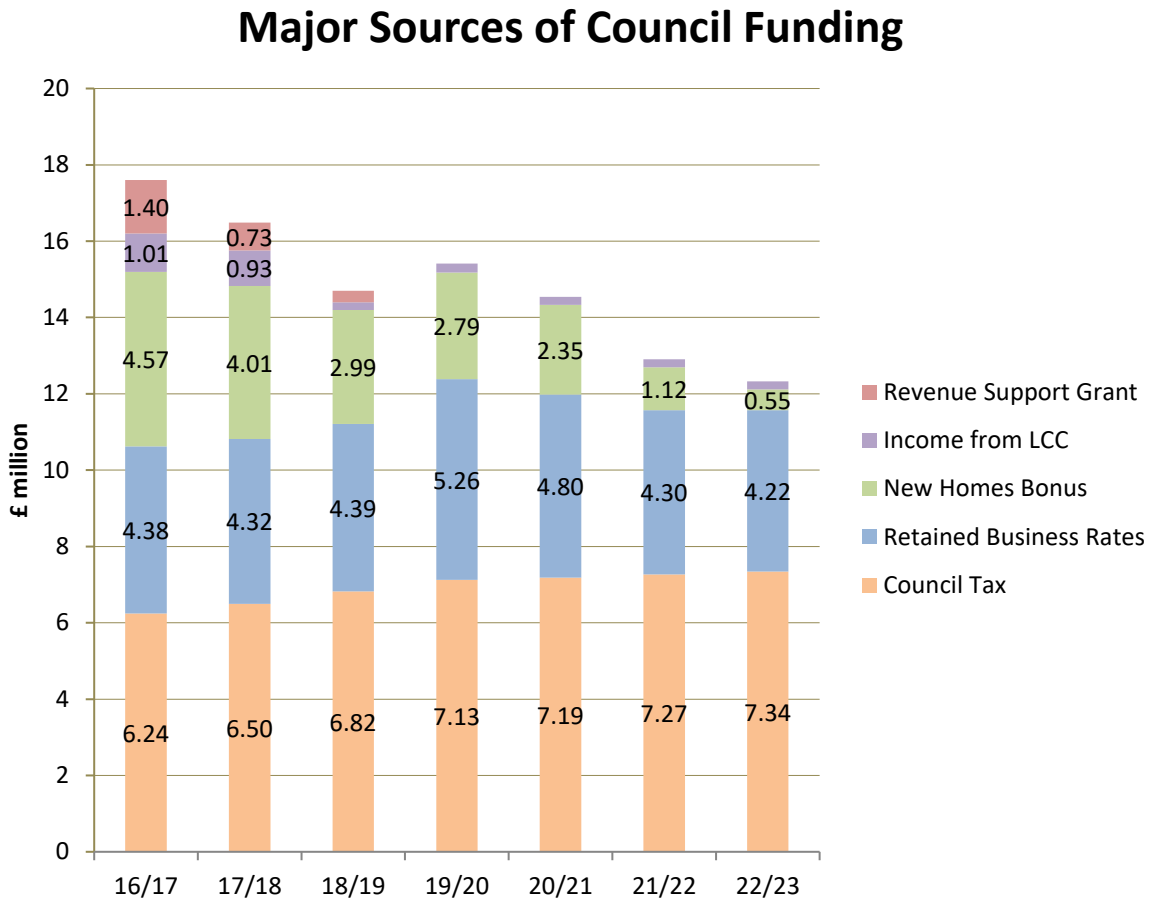

The 2020/21 Medium Term Financial Strategy (MTFS) identified a projected net budget gap over the period 2020/21 to 2022/23 of £3.079m and continued to plan a route by which the budget deficit would be bridged in order to deliver the Council's Corporate Strategy priorities.

As a result of these uncertainties and in order for the Council to manage the changes required over the medium term, the Council will maintain general balances at £4m as well as increasing earmarked reserves to manage the potential short to medium term impact Brexit, Business Rates Reform and Coronavirus may have on the Council, the local economy and residents of Chorley. See the Movement in Reserves Statement on page 50 for more details.

This Council continues to be 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. Up until 2018/19, the Pool was based on 50% local retention of income, of which 40% was attributed to this Council, 9% to Lancashire County Council and 1% to the Lancashire Fire and Rescue Authority. For 2019/20, the Pool was based on 75% local retention, with shares of 56%, 17.5% and 1.5% respectively, giving rise to the proportionately higher amounts. For 2020/21, the position has reverted to 50% local retention. The Lancashire Business Rates Pool, which includes most but not all of the local authorities in Lancashire, has been designated by the Secretary of State for Communities and Local Government. Under 75% local retention, no levy was payable, but participating councils committed to make payments into county-wide and resilience funds. The Council originally expected to pay £213k to these funds in 2019/20, but this arrangement was based on the assumption that the 75% local retention would continue into future years. When this proved not to be the case, the funds were discontinued and payments to them limited to a share of any expenditure which had already committed. For Chorley, this was just over £3k. The net benefit to the Council from the pooling arrangement was £822k. See note 14a for more details.

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Financial Performance in 2019/20

Despite the financial challenges outlined above, the financial standing of the Council is robust, with sound budget setting and monitoring practices. The Council's 2019/20 Revenue Budget, Capital Programme, MTFS and Treasury Management Strategy were approved at Council on 26 February 2019. Thereafter, budget monitoring reports were submitted at quarterly intervals to the Executive Cabinet. The reports are available on the Council's website.

In 2019/20, the Council continued its successful track record in achieving budgetary savings whilst also maintaining services. The 2019/20 budget setting process also identified a further £1.484m of efficiencies that have been delivered. The following year-on-year budget efficiency savings and additional income has been achieved since 2014/15:

	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	TOTAL £m
Productivity Savings	0.367	0.017	0.314	0.207	0.220	0.115	**1.240**
Review of Contracts	0.035	0.200	-	0.059	-	1.100	**1.394**
Review of Income Streams		0.446	-	0.050	0.050	0.145	**0.691**
Review of Base Budget	0.094	0.045	0.128	0.100	0.075	0.020	**0.462**
Review of Financing	0.442	-	-	-	-	-	**0.442**
Lancashire Business Rates Pooling	-	-	0.725	-	-	-	**0.725**
Review of Investment Projects	-	-	-	-	-	0.104	**0.104**
SAVINGS AND ADDITIONAL INCOME	**0.938**	**0.708**	**1.167**	**0.416**	**0.345**	**1.484**	**5.058**

Council Spending in 2019/20

The Council's provisional revenue outturn for 2019/20 forecasts a £466k underspend against a provisional final budget of £15.654m. A proposal was made to Executive Cabinet in July 2020 to transfer:

- £63k from in-year revenue underspends to the Change Management Reserve to finance one-off redundancy and pension strain costs arising from transformation and shared service strategies. This will bring the reserve to £250k;
- £100k from in-year revenue underspends to fund the revenue implications of future planning appeals. This will bring the reserve to £100k;
- £100k from in-year revenue underspends to fund crucial works to the council's CCTV operations centre; and
- £203k from in-year revenue underspends to increase the business rates retention reserve.

The £466k underspend is analysed below.

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	Provisional Adjusted (Income)/ Expenditure Budget	Outturn	Underspend/ (Overspend)
Expenditure	**£'000s**	**£'000s**	**£'000s**
Customer & Digital	5,688	5,554	134
Policy & Governance	4,632	4,697	(65)
Early Intervention	2,301	2,226	75
Business, Development & Growth	1,518	672	846
Directorate Total	**14,139**	**13,149**	**990**
Pension Account & Deficit Recovery	1,186	1,181	5
Benefit Payments	(130)	(133)	3
Market Walk Shopping Centre (excluding borrowing costs)	(1,826)	(1,919)	93
Investment Properties	(67)	(67)	(0)
LCC Transition Fund	90	73	17
Primrose Gardens	69	30	39
Strawberry Fields	160	307	(147)
Net Financing Transactions & Contributions to Capital	1,348	1,822	(474)
Parish Precepts	685	685	0
Total Expenditure	**15,654**	**15,128**	**526**
Financing			
Council Tax	(7,883)	(7,883)	(0)
Business Rates	(4,577)	(4,642)	65
Government Grants	(668)	(627)	(41)
CIL Admin	(50)	(134)	84
New Homes Bonus	(2,790)	(2,790)	0
Use of Earmarked Reserve	(471)	(372)	(99)
Commercialisation of Council Owned Assets	485	485	0
Support for Local Businesses and Corporate Priorities	300	300	0
Slippage to 2020/21	0	69	(69)
Total Financing	**(15,654)**	**(15,594)**	**(60)**
Total Variance Reported in Budget Monitoring Report	**0**	**(466)**	**466**

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Analysis of Outturn

The following explains the main variances during 2019/20:

An underspend of £129k on staffing costs during the year arose as a result of savings in the Early Intervention Directorate. This was due to a combination of vacancies and external funding. The Council can claim back staffing and other eligible costs as part of the Syrian resettlement programme from Lancashire County Council. Eligible costs were recovered from the County Council during 2019/20 leading to a saving against staffing budgets.

The Council will make an additional contribution to bad debts of £220k in 2019/20 to manage the expected higher level of general fund (excluding council tax and business rates) debtors. This will increase this provision to £300k. The Council maintains a separate equalisation reserve for Market Walk to help manage voids and rent-free periods at the Centre. This reserve is £468k at the end of 2019/20.

The Council purchased Logistics House in August 2019, following approval by Full Council on 23rd July 2019. The net income, after accounting for borrowing costs, from this in 2019/20 was £460k.

There were other variances during the year. Details were included in the Provisional Revenue and Capital Outturn report to Executive Cabinet on 30th July 2020.

Requests to carry forward underspends into 2020/21 are approved by the Chief Finance Officer. In 2019/20 there has been £69k of approved ‘slippage’ requests. This includes funds identified for waste and street scene hand tools, scoping for the provision of a replacement finance, payroll and HR system, asset valuations for Council properties and to fund a Network Rail feasibility study for a potential solution to car parking issues at Buckshaw Parkway.

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The (surplus) on General Fund balance noted in the Expenditure and Funding Analysis is £688k. This relates to the 2019/20 in-year underspend as well as other movements in reserves described below.

	General Balances £'000s	Earmarked Reserves £'000s	Total General Fund Balance £'000s
Balance at 31 March 2019	**(4,000)**	**(6,074)**	**(10,074)**
Transfers (to) from General Balances			
Budgeted and in-year contributions to General Balances	0	(203)	(203)
Transfers (to) from Earmarked Reserves			
Rephasing of expenditure (slippage)	0	(70)	(70)
Change Management Reserves	0	(63)	(63)
Planning Appeals Reserve	0	(100)	(100)
Capital Financing Reserve		(100)	(100)
Transfer of Revenue Budget Underspend	**0**	**(333)**	**(333)**
Transfer to Business Rates Retention Reserve	0	(203)	(203)
Transfers to Other Earmarked Reserves	0	51	51
Net Transfer to Earmarked Reserves	**0**	**(688)**	**(688)**
(Surplus) on General Fund Balance in Year	**0**	**(688)**	**(688)**
Net Movement in Year	0	(688)	(688)
Balance at 31 March 2020	**(4,000)**	**(6,762)**	**(10,762)**

The net transfer to earmarked reserves is the net result of drawing down and (adding to) earmarked reserves. The net transfer to earmarked reserves is outlined further in note 11.

The outturn for the Council, outlined in the Note 1 Expenditure and Funding Analysis, identifies balances of £10.762m. Of these balances £6.762m are earmarked general balances that will be used to deliver Corporate Strategy priorities and the remaining £4.000m is set aside to enable the Council to manage the peaks and troughs in expenditure and income it may experience throughout the MTFS period.

The figure of £688k reconciles to the £535k shown in the Provisional Outturn Report as follows:

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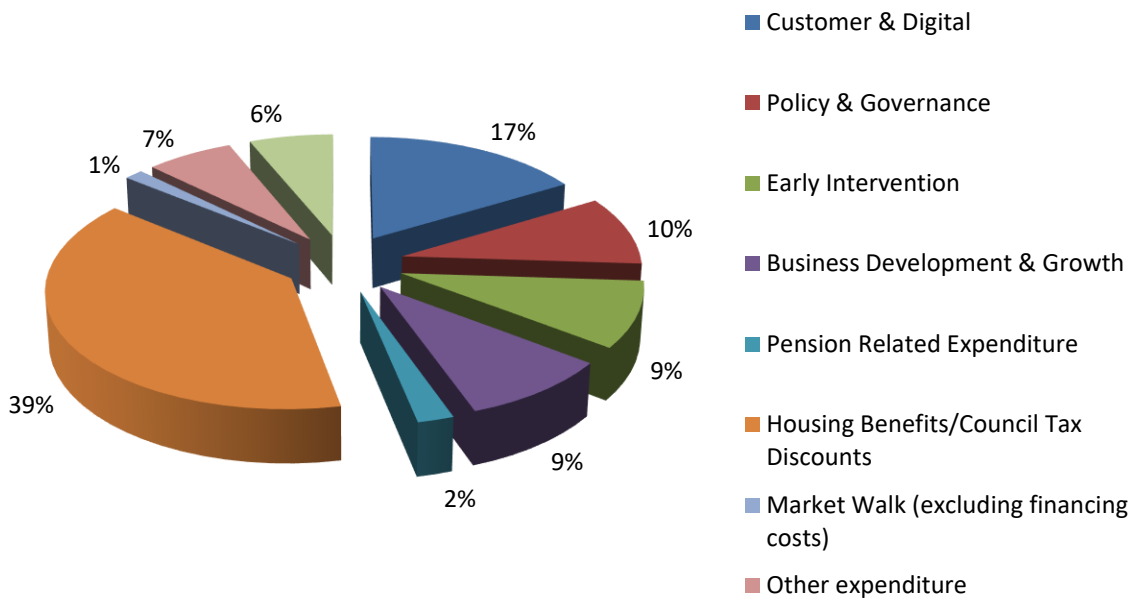
	£'000
Net underspend for the year, as per Provisional Outturn Report, Appendix 1 (see Executive Cabinet 30 July 2020)	(535)
Add back transfer to Earmarked Reserves already included in the budget	(203)
	(738)
Additional transactions and adjustments:	
Adjustment to income from Community Infrastructure Levy administration fee	19
Additional contribution to Capital Expenditure	29
Other adjustments	2
Total change in Reserves as per MiRS and Expenditure and Funding Analysis	(688)

APPENDIX A

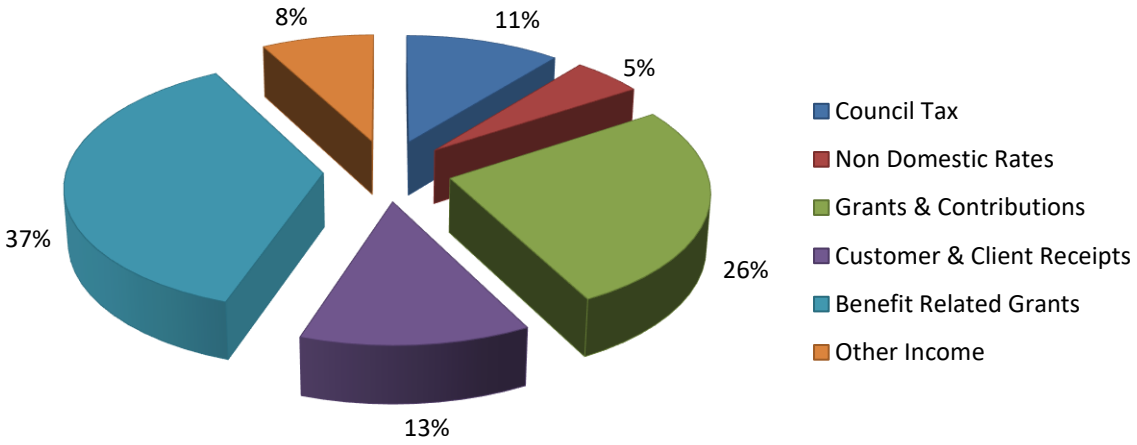
Where the Council's budget was spent

The gross expenditure for the Council is detailed in the Comprehensive Income and Expenditure Statement (page 48). In 2019/20 it consisted of:



How the Council's spend was funded

The gross income for the Council is disclosed in the Comprehensive Income and Expenditure Statement. It consisted of:



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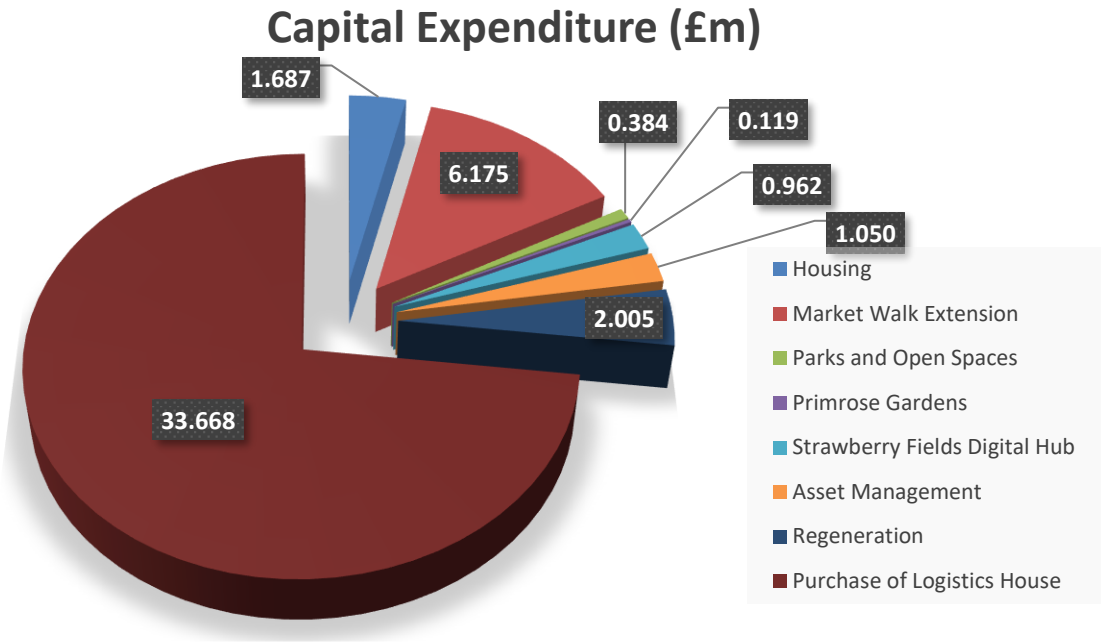
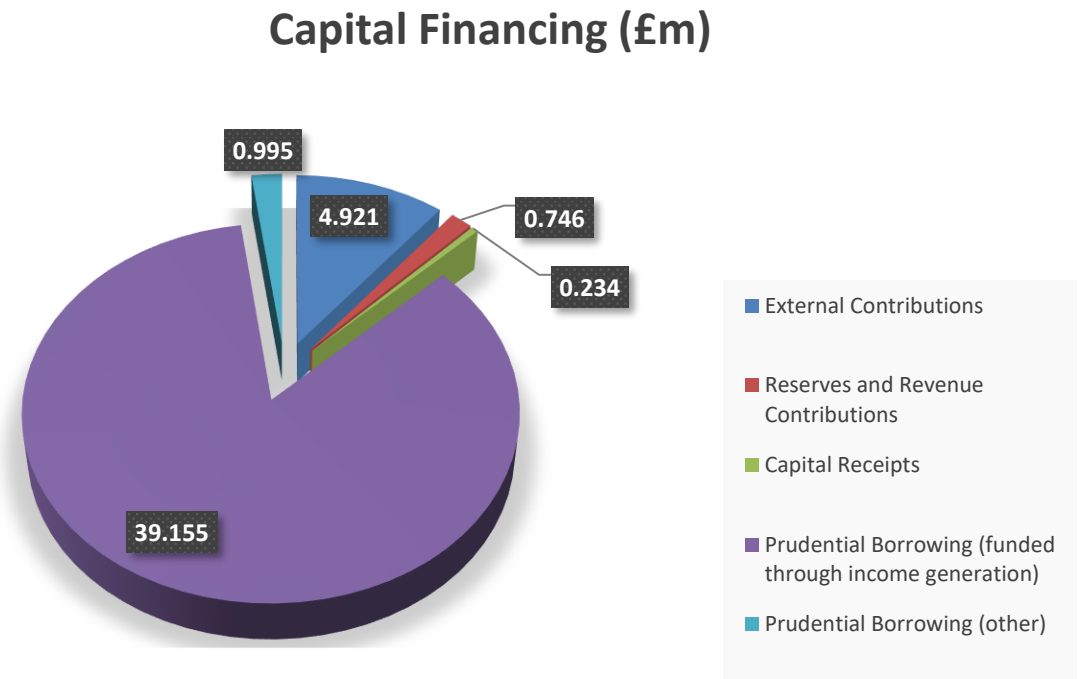
Capital Programme 2019/20

In 2019/20 the Council invested a total of £46.051m of capital expenditure in key projects and areas of development, marking a significant contribution to the economic prosperity of the borough and in the Council's own future service delivery capacity. The single largest item of expenditure was the purchase of Logistics House, at £33.668m. This, together with detail of the spending on other schemes, is set out in the chart below.



The Council has financed this expenditure through a number of different sources outlined in the charts below.



The Council continues to have ambitious plans for future investment. At the end of 2019/20, expenditure for the next three years totalled £53.422.

Reserves and Balances

The Council's 2016/17 Medium Term Financial Strategy specified that general balances should be increased to £4.0m by 2018/19. This was achieved during 2018/19 and has been maintained for 2019/20.

Total earmarked reserves for specific purposes were £6.762m as at 31 March 2020. A full list of these earmarked reserves, together with a description of the purpose of each, can be found at Note 11 to the statement of accounts.

Treasury Management

The treasury operations of the Council are conducted in accordance with its annual Treasury Strategy. This 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 2019/20 were:

- Investments were short-term, in call accounts and money market funds. The maximum period permitted by the Council's Treasury Strategy for term deposits in banks and building societies is one year.
- Cash and cash equivalents net of bank overdraft (note 21) were £8.933m at the end of the year, which was significantly higher than at the end of 2018/19 (£2.917m). The main reason for this was that, at the early stages of the Covid 19 pandemic, there was uncertainty as to whether or not government funding for business support grants would be received before or after payments began to be made. Temporary borrowing of £4.5m was taken out in order to ensure that the cash was available to make those payments.
- The return achieved on investments was 0.64%, on an average cash balance of £8.229m. This was an increase compared to the 0.61% achieved in 2018/19. Cash balances were invested short-term at low interest rates, but use of internal cash for capital financing helped to minimise the use of external borrowing which achieved savings in net interest. The Council's investment performance for the year was only marginally affected by the sharp reduction in interest rates which resulted from the onset of the Covid 19 pandemic, because this occurred very late in the financial year.
- External borrowing increased from £19.990m at the beginning of the year to £64.026m at its end. New borrowing of £45.490m was taken out, while repayments of £1.454m were made. The bulk of the new borrowing (£34m) was to fund a major asset purchase which was undertaken during the year, with the remainder being for a combination of funding for other particular capital projects and to support the capital programme generally.
- 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 (CFR). During the year the CFR increased from £49.3m to £88.9m. This increase again reflects the financing on the major asset purchase and other projects referred to above, with this being partially offset by the provision for debt repayment. Further detail of the financing of capital expenditure is shown in Note 35.

Note 19 Financial Instruments presents details of treasury operations, and the management of risk.

Pension Fund Liability

The pension fund deficit has reduced during the year, by £3.236m, from £45.997m to £42.761m, being the net pension liabilities. 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. In addition, the Council's pension fund has to be revalued every three years to set future contributions into the fund. The latest valuation was 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 to maintain a 100% funding level by making additional Deficit Recovery Contributions over a 16 year period.

This deficit figure is very much an estimate, being 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.

Council Tax Base

The revision to the 2019/20 Tax Base, resulting in an increase of 520.21 to the number of Band D equivalent properties (as shown in the Table below), produced a net increase in Council Tax income of circa. £0.097m.

	2017/18	2018/19	2019/20
Number of Band D equivalent dwellings	35,933.64	36,614.18	37,134.39
Change from previous year	751.92	680.54	520.21

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Collection Fund

Payments out of the Collection Fund for in-year Council Tax from 2017/18 to 2019/20 are set out below showing the funding for each Precepting Body. Further detail is available within the Collection Fund Statement on page 124 of this document.

	2017/18 £000	**2018/19 £000**	**2019/20 £000**
Lancashire County Council	43,901	47,413	50,005
Chorley Council	7,146	7,495	7,814
Police and Crime Commissioner	5,945	6,497	7,481
Lancashire Fire and Rescue	2,354	2,470	2,580
Total	**59,346**	**63,875**	**67,880**

Payments out of the collection fund for in-year Business Rates from 2017/18 to 2019/20 are set out below showing the funding for each precepting body prior to the top up and tariff adjustments being applied. As the collecting body, the tariff reduces Chorley Council's receipt and top ups increase the amount received by Lancashire County Council and Lancashire Fire and Rescue. Further detail is available within the Collection Fund Statement starting on page 124 of this document.

	2017/18 £000	**2018/19 £000**	**2019/20 £000**
Central Government	12,411	12,283	6,106
Lancashire County Council (before Top-Up grant received)	2,234	2,211	4,274
Chorley Council (prior to Tariff deduction)	9,929	9,826	13,678
Police and Crime Commissioner (not part of BRR regime)	n/a	n/a	n/a
Lancashire Fire and Rescue (before Top-Up grant received)	248	246	366
Total	**24,822**	**24,566**	**24,424**

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Coronavirus Pandemic

In March 2020, the whole of the UK was affected by the pandemic and central government issued various instruction and guidance to combat this. Like all Councils, **Chorley Council** took action to protect itself and staff and the community.

As most restrictions were implemented in late March 2020, the financial effects for 2019/20 are minimal. However, for 2020/21 and future years the financial projections reported to Council in February 2020 have required review and adjustment in what has been an ongoing and often rapidly-developing situation. Officers will review the projections closely as part of the 2021/22 budget and MTFS preparation and make adjustments as appropriate.

It should be acknowledged that central government made significant funding allocations to local government in 2020 which are an assistance to the Council's financial position following the pandemic and in the recovery. However, it is unclear whether this welcome funding will offset the increased spending and reduced income during 2020/21 onwards.

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

Provision of Services

Because of the business continuity plans the Council has, front line service provision was largely unaffected by the lockdown instruction. Leisure facilities and some community facilities have been subject to temporary closures and arrangements implemented for re-opening when allowed. All other services were maintained as a result of business continuity arrangements and where possible staff redeployment to high priority areas. Although reception areas were closed, public services were maintained by digital service provision and use of other communication means. The Council has fully implemented government schemes including offering business rates relief, providing council tax hardship support and providing grants to support business, protecting the economic stability of its area.

Workforce

In line with government instruction, the Council issued a 'stay at home' instruction to its staff from 23rd March 2020. 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 might become infected. As staff were protected, the Council was able to deploy its staff where suitably trained to other areas. Also, the pandemic did not have a material impact on sickness levels in the Council.

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 pay undisputed invoices more promptly than before the pandemic. Where possible, arrangements have been made with suppliers offering financial support and maintaining their cashflow. This has been further progressed by the Council assisting with the government grant support for businesses, actively encouraging businesses to take advantage of the grants and support available.

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Reserves, Financial Performance and Financial Position

At 31st March 2020, the Council's usable revenue reserves were £10.762m. Of these, £6.762m were earmarked for specific purposes, leaving £4.000m in general reserve. It is considered this level of reserves is sufficient for the Council at present. It is acknowledged that although government have provided funding this may not be sufficient to offset future increased expenditure and lost income. The Council will closely monitor its financial position and future budget planning to ensure it remains financially sustainable. The Council will reassess its capital programme and funding throughout the year as by their nature capital projects are vulnerable to delay and cost overrun. It is possible these delays could be exacerbated by the pandemic. The pandemic did not directly affect non-current asset valuations in the balance sheet, although the council's valuer has stressed that the valuations should be viewed as being subject to 'material valuation uncertainty' and that, consequently, less certainty, and a higher degree of caution, should be attached to them than would normally be the case.

The Council 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 2021/22 Corporate Strategy and MTFS preparation.

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 will be temporarily offset by the cash payments received from government for business grants. Cash balances will be managed in accordance with the approved treasury strategy. In the last few days of March 2020, the Council entered into £4.5m of temporary borrowing, in order to manage the cash flow implications of payments of support grants to businesses. This borrowing was repaid before the end of April 2020, following receipt of associated government funding.

Major Risks

The major risks to the Council are covered in the Corporate Risk Register. The pandemic has increased the risk of:

- Increased spending on services;
- Loss of service income;
- Delay in capital projects;
- Increase in sickness levels in staff.

The monitoring and arrangements in place to minimise these risks but cannot eliminate them.

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 is now 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.

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Looking Ahead – Future Challenges, Opportunities and Financial Outlook

Challenges

- **A growing and aging population** – it is estimated that between 2016 and 2041 the population of Chorley will increase by 16.4%, the highest predicted growth rate by far across Lancashire. Over the same period, the borough's population will grow older, with the percentage of the population aged over 75 continuing to rise.
- **Supporting Communities** – the council continues to face challenges, in supporting neighbourhoods under stress, and concentrations of unemployment to promote social and economic growth. Our challenge will be to support this activity, alongside reduced public sector funding. Obviously, this has been increased because of the Corona Virus pandemic.
- **Brexit –** the UK's withdrawal from the European Union in January 2020 and the subsequent end of the transition period, leading to full withdrawal, may have implications for the council over the coming year. The key impacts for our council will be around the potential for a reduction in economic growth and the implications for our local economy, the impact on the national workforce and reductions in the supply of local labour and the uncertainty around the replacement for the current EU funding programmes which have previously been vital in the creation of jobs and boosting local growth.
- **Effective partnership working** – The ongoing increase and changing demand placed upon the council, coupled with reducing budgets will increase the need for all public sector organisations to transform the way they work. The council will need to support, invest and maintain its focus on partnership working, ensuring the capacity exists to generate savings, and protect the interests of the borough and residents.
- **Financial climate** – the Council will experience future reductions in funding as the government's austerity measures continue. The 2020/21 MTFS identified a cumulative net budget shortfall of £2.061m by 2023/24. The impact of this deficit will influence the work of the transformation programme that will deliver efficiency savings in services, drive down the cost of its contracts as well as identifying additional income through charging for the services the council provides and generating additional income streams.

  Over the past year, the Council has successfully responded to the significant financial restrictions that have been imposed on local government. Since 2014/15 the council has made savings and generated additional income of £5.058m.

- **Business Rates -** starting in 2022 (this was originally scheduled for 2021), the revaluations of business rates will take place every three years and with new valuations there is a potential for a significant increase in appeals. This change in revaluation frequency and increased appeals could potentially result in further decrease in rateable values and a subsequent erosion of any growth the Council can retain. The largest risk to the value of business rates that the council retains comes in 2022/23 when a new funding methodology is expected to be introduced (this was originally due to happen in 2020/21, but has since been postponed twice). The new system includes a revised calculation as to how much of the retained business rates income the council 'needs' relative to other councils, this could result in the council receiving less of the national 'pool' of business rates income. In addition, the new system could revise the split of retained business rates between district and borough councils, county councils and other preceptors. It is possible that more of the income collected by district and borough councils will be redistributed to county councils.

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Opportunities

- Current levels of **interest rates** for borrowing are low due to the economic situation from the Corona Virus pandemic (currently at 0.1%). This provides the opportunity for the Council to invest in capital projects to deliver Corporate Strategy priorities including the generation of new income streams, and may stimulate further economic growth.

- The development of the **£8m Digital Health Park** will bring growth, jobs and opportunities to the borough, potentially injecting a further £18.5m into the Chorley economy.

- The **development of new employment sites** provides the council with the opportunity to deliver employment and income generating opportunities, possibly through new service delivery models such as joint ventures with other public or private entities.

- The newly created **Integrated Community Wellbeing Service** continues to focus public services that relate to promoting health and wellbeing of individuals, tackling prevention and early intervention.

- Workforces from a range of partners, who deliver reform within Chorley are working collectively to drive forward **new ways of working**, and delivering efficiencies, particularly in the support of the health agenda. This work is now delivering a range of projects that will seek to achieve savings across the public sector through reduced duplication, reduced demand and increased preventative activity.

- **Enterprise** - The Localism Act 2011 enabled councils to seek and develop new income generation opportunities.

Delivering Chorley Council's Priorities – The Medium-Term Financial Strategy

These challenges and risks can have both a significant positive or negative effect on the Council's resources and its ability to deliver services to residents. The Council's annually approved Medium Term Financial Strategy (MTFS) provides a clear and concise view of the Council's future sustainability and the strategies the council will pursue to address any budget gaps whilst translating the Council's corporate strategy into deliverable options for the future.

A balanced budget for 2020/21 was approved at Full Council on 25 February 2020. Despite the budget savings identified in the MTFS there remains a net forecast budget deficit of £1.087m in 2021/22 and £2.061m in 2022/23. To achieve a sufficient reduction in net expenditure the Council's strategy will be:

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1. **To make the Council more financially self-sufficient with specific emphasis on creating investment that generates income. This includes identifying future uncommitted resources and commits the balances to support income generating schemes.**

2. **To realise savings through the procurement of its contracts**

3. **To identify the efficiencies through investment in infrastructure, ICT and through exploring alternative delivery models that will enable the Council to balance the budget whilst seeking to minimise the impact on front line service users**

The summary of the forecast savings and income generation is given below:

	2021/22 £m	**2022/23 £m**
Forecast Budget Deficit	**1.087**	**2.061**
Leisure Management Contract Savings	(0.446	(0.446)
Income Generation – Investment Sites	(0.200	(0.200)
Income Generation - Parking		(0.200)
Efficiency Savings	(0.441)	(1.215)
Forecast Adjusted Medium Term Budget Deficit	**0.000**	**0.000**

The Council will continue to keep the MTFS under review given:

- the level of efficiency savings and income generation required to balance the budget over the medium term. The timing of the delivery of these targets will need to be closely managed and where necessary reserves utilised to meet temporary delays in transformation strategy net budget reductions.
- the high degree of uncertainty surrounding the changes to Government policy such as business rates retention and the fair funding review.

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Going Concern

Chorley Council's MTFS outlines the strategies it will pursue to meet current and future funding shortfalls. The approval of a balanced budget for 2020/21 has already been given and there is no reason to believe that the risks to the approval of the council's budget in future years will not be entirely mitigated through the transformation programme. We have accordingly considered it appropriate to adopt a going concern basis for the preparation of these financial statements.

Receipt of Further Information

If you would like to receive any further information about these accounts, please contact Chorley Borough Council on 01257 515151.

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Statement of Responsibilities

This statement defines the responsibility of the Council and the Responsible Financial Officer in respect of the Authority'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 Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for preparing 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 2019/20 (the Code).

In preparing this Statement of Accounts, he has:

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

He has also:

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

Certificate

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2020 and its Income and Expenditure for the year ended 31 March 2020.

Louise Mattinson ACA
Director of Finance Officer and Section 151 Officer
Date: 29 July 2021

APPENDIX A

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 Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19				2019/20		
Gross Expenditure* £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
10,569	(3,387)	7,182	Customer & Digital*	10,756	(3,149)	7,607
5,806	(1,130)	4,676	Policy & Governance*	6,293	(1,679)	4,614
4,431	(1,602)	2,829	Early Intervention*	4,686	(1,861)	2,825
6,038	(2,869)	3,169	Business, Development & Growth*	5,137	(3,040)	2,097
		0	Budgets excluded from Directorate monitoring			
1,275	0	1,275	• Pensions-related	3,161	0	3,161
23,199	(23,379)	(180)	• Housing Benefits/Council Tax Discounts*	20,155	(20,265)	(110)
2,304	(2,071)	233	• Market Walk (excluding financing costs)*	5,000	(2,328)	2,672
177	0	177	• Other expenditure	8,504	(327)	8,177
53,799	**(34,438)**	**19,361**	**Cost of Services**	**63,692**	**(32,649)**	**31,043**
684	0	684	Other operating expenditure (note 12)	556	0	556
4,434	(2,564)	1,870	Financing and investment income and expenditure (note 13)*	4,881	(3,726)	1,155
6,336	(34,161)	(27,825)	Taxation and non-specific grant income (note 14)	10,119	(29,821)	(19,702)
		(5,910)	**(Surplus)/deficit on provision of services**			**13,052**
		(35)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(5,700)
		(699)	Re-measurement of the net defined benefit liability (note 37d)			(6,510)
		(734)	**Other Comprehensive (Income) and Expenditure**			**(12,210)**
		(6,644)	**Total Comprehensive (Income) and Expenditure**			**842**

* To meet the latest accounting requirements, amounts set aside to provide for non-recovery of outstanding debt is now shown against 'Financing and investment income and expenditure', rather than against the individual service lines. The resulting changes in the Gross Expenditure figures shown above for 2018/19, compared to those which appeared in the 2018/19 Statement of Accounts, are shown in the table below. These amounts have also been added the accounting adjustments shown in Notes 1 and 8 and the net expenditure for each service, as shown in the Expenditure and Funding Analysis at Note 1, is unchanged from figures shown in the 2018/19 Statement.

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Gross Expenditure 2018/19			
	Amount as per Statement of Accounts 2018/19 £'000	**Gross Income £'000**	**Adjusted amount £'000**
Customer & Digital	10,881	(312)	10,569
Policy & Governance	5,801	5	5,806
Early Intervention	4,435	(4)	4,431
Business, Development & Growth	6,080	(42)	6,038
Budgets excluded from Directorate			0
• Pensions-related	1,275	0	1,275
• Housing Benefits/Council Tax Discounts	23,204	(5)	23,199
• Market Walk (excluding financing costs)	2,308	(4)	2,304
• Other expenditure	177	0	177
Cost of Services	**54,161**	**(362)**	**53,799**
Other operating expenditure (note 12)	684	0	684
Financing and investment income and expenditure (note 13)	4,072	362	4,434
Taxation and non-specific grant income	6,336	0	6,336
(Surplus)/deficit on provision of services	**65,253**	**0**	**65,253**

Movement in Reserves Statement

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

	General Fund Working Balance £'000	General Fund Earmarked Reserves (note 11) £'000	Total General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves (note 24) £'000	Unusable Reserves (note 25) £'000	Total Reserves £'000
Current Year								
Balance at 31 March 2019	**(4,000)**	**(6,074)**	**(10,074)**	**(1,071)**	**(14,030)**	**(25,175)**	**(796)**	**(25,971)**
Movement in reserves during 2019/20								
Total Comprehensive Income and Expenditure	13,052	0	**13,052**	0	0	**13,052**	(12,210)	**842**
Adjustments between accounting basis and funding basis under regulations (Note 10)	(13,740)	0	**(13,740)**	98	807	**(12,835)**	12,835	**0**
Increase or decrease in 2019/20 before transfers to/(from) earmarked reserves	**(688)**	**0**	**(688)**	**98**	**807**	**217**	**625**	**842**
Movement in Earmarked Reserves (Note 11)	688	(688)	**0**	0	0	**0**	0	**0**
Increase or decrease in 2019/20	**0**	**(688)**	**(688)**	**98**	**807**	**217**	**625**	**842**
Balance at 31 March 2020 carried forward	**(4,000)**	**(6,762)**	**(10,762)**	**(973)**	**(13,223)**	**(24,958)**	**(171)**	**(25,129)**

	General Fund Working Balance £'000	General Fund Earmarked Reserves (note 11) £'000	Total General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves (note 24) £'000	Unusable Reserves (note 25) £'000	Total Reserves £'000
Comparative Year								
Balance at 31 March 2018	**(4,000)**	**(8,322)**	**(12,322)**	**(1,499)**	**(13,966)**	**(27,787)**	**8,460**	**(19,327)**
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure	(5,910)	0	**(5,910)**	0	0	**(5,910)**	(734)	**(6,644)**
Adjustments between accounting basis and funding basis under regulations (Note 10)	8,158	0	**8,158**	428	(64)	**8,522**	(8,522)	**0**
Increase or decrease in 2018/19 before transfers to/(from) earmarked reserves	**2,248**	**0**	**2,248**	**428**	**(64)**	**2,612**	**(9,256)**	**(6,644)**
Movement in Earmarked Reserves (Note 11)	(2,248)	2,248	**0**	0	0	**0**	0	**0**
Increase or decrease in 2018/19	**0**	**2,248**	**2,248**	**428**	**(64)**	**2,612**	**(9,256)**	**(6,644)**
Balance at 31 March 2019 carried forward	**(4,000)**	**(6,074)**	**(10,074)**	**(1,071)**	**(14,030)**	**(25,175)**	**(796)**	**(25,971)**

APPENDIX A

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 2019 £'000		Notes	31 March 2020 £'000
91,621	Property, Plant & Equipment	15	91,977
2,531	Heritage Assets	16	2,531
885	Investment Property	17	35,677
64	Intangible Assets	18	50
462	Long-Term Debtors	19	4,655
95,563	**Long-Term Assets**		**134,890**
5,645	Short-Term Debtors	20	6,423
2,917	Cash and Cash Equivalents	21	8,933
8,562	**Current Assets**		**15,356**
(2,215)	Short-Term Borrowing	19	(6,663)
(8,992)	Short-Term Creditors	22	(10,241)
(1,194)	Provisions	23	(1,867)
(12,401)	**Current Liabilities**		**(18,771)**
(682)	Long-Term Creditors	19	(1,325)
(18,949)	Long-Term Borrowing	19	(62,159)
(45,997)	Other Long-Term Liabilities – pensions	37	(42,761)
(15)	Other Long-Term Liabilities – other		(15)
(111)	Grant Receipts in Advance - Capital	33	(86)
(65,754)	**Long Term Liabilities**		**(106,346)**
25,970	**Net Assets**		**25,129**
25,175	Usable Reserves	MiRS, 24	24,958
795	Unusable Reserves	25	171
25,970	**Total Reserves**		**25,129**

The unaudited accounts were issued on 26 January 2021.

Louise Mattinson ACA
Director of Finance Officer and Section 151 Officer
Date: 29 July 2021

APPENDIX A

Cash Flow Statement

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

2018/19 £'000		2019/20 £'000
5,910	Net surplus or (deficit) on the provision of services (CI&ES page 48)	(13,052)
6,550	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 26a)	17,963
(14,108)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities (Note 26b)	(4,304)
(1,648)	Net cash flows from Operating Activities (Note 26)	**607**
(3,500)	Investing Activities (Note 27)	(42,229)
6,709	Financing Activities (Note 28)	47,638
1,561	Net increase or (decrease) in cash and cash equivalents	**6,016**
1,356	Cash and cash equivalents at the beginning of the reporting period	2,917
2,917	**Cash and cash equivalents at the end of the reporting period (Note 21)**	**8,933**

Cash and Cash Equivalents at the beginning and end of the 2019/20 reporting period have been defined to be net of the bank overdraft.

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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 cast, cross-cast, or exactly match to the Core Financial Statements or other tables, due to rounding differences.

1 EXPENDITURE AND FUNDING ANALYSIS – NOTE TO MAIN FINANCIAL STATEMENT

The Expenditure and Funding Analysis, which is a note to the Main 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.

2018/19				2019/20		
Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Directorate	Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
6,498	996	7,494	Customer & Digital	5,554	2,053	7,607
4,541	130	4,671	Policy & Governance	4,696	(82)	4,614
2,117	716	2,833	Early Intervention	2,216	609	2,825
1,314	1,897	3,211	Business, Development & Growth	672	1,425	2,097
			Budgets excluded from Directorate monitoring			
1,056	219	1,275	• Pensions-related	1,181	1,980	3,161
(175)	0	(175)	• Housing Benefits/Council Tax Discounts	(133)	23	(110)
(1,686)	1,923	237	• Market Walk (excluding financing costs)	(1,918)	4,590	2,672
177	0	177	• Other expenditure	409	7,768	8,177
13,842	**5,881**	**19,723**	**Net Cost of Service**	**12,677**	**18,366**	**31,043**
(11,594)	(14,039)	(25,633)	Other Income and Expenditure	(13,365)	(4,626)	(17,991)
2,248	**(8,158)**	**(5,910)**	**(Surplus)/Deficit in year**	**(688)**	**13,740**	**13,052**
(12,322)			**Opening General Fund Balance at 1 April**	**(10,074)**		
2,248			**Add (Surplus)/Less Deficit on General Fund Balance in Year**	(688)		
(10,074)			**Closing General Fund Balance at 31 March**	**(10,762)**		

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2018/19				2019/20		
Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Directorate	Net Expenditure Chargeable to the General Fund Balance £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
6,498	996	7,494	Customer & Digital	5,554	2,053	7,607
4,541	130	4,671	Policy & Governance	4,696	(82)	4,614
2,117	716	2,833	Early Intervention	2,216	609	2,825
1,314	1,897	3,211	Business, Development & Growth	672	1,425	2,097
			Budgets excluded from Directorate monitoring			
1,056	219	1,275	• Pensions-related	1,181	1,980	3,161
(175)	0	(175)	• Housing Benefits/Council Tax Discounts	(134)	23	(111)
(1,686)	1,923	237	• Market Walk (excluding financing costs)	(1,918)	650	(1,268)
177	0	177	• Other expenditure	410	1,427	1,837
13,842	**5,881**	**19,723**	**Net Cost of Service**	**12,677**	**8,085**	**20,762**
(11,594)	(14,039)	(25,633)	Other Income and Expenditure	(13,365)	(3,899)	(17,264)
2,248	**(8,158)**	**(5,910)**	**(Surplus)/Deficit in year**	**(688)**	**4,186**	**3,498**
(12,322)			**Opening General Fund Balance at 1 April**	**(10,074)**		
2,248			**Add (Surplus)/Less Deficit on General Fund Balance in Year**	(688)		
(10,074)			**Closing General Fund Balance at 31 March**	**(10,762)**		

See footnote to Comprehensive Income and Expenditure Statement for change in total accounting adjustments on individual service lines, compared to Statement of Accounts for 2018/19.

2 ACCOUNTING POLICIES

These notes explain the policies used to ensure the Council's financial position is fairly presented.

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. 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 2019/20 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.

2.2 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 if balances are material.
- 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.

2.3 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.

2.4 Charges to Revenue for Non-Current Assets

To record the cost of holding non-current assets during the year, services, and support services are debited with depreciation charges, revaluation and impairment losses in excess of accumulated revaluation gains, and amortisation charges in respect of intangible assets.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required 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 Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the Minimum Revenue Provision (MRP) contribution, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

2.5 Council Tax and Non-Domestic Rates

Billing authorities such as Chorley 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.

2.6 Contingent Assets and Liabilities

A contingent asset or liability arises where an event has taken place that gives the Authority a possible asset or obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within its control. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the core financial statements. Contingent assets are disclosed in a note where it is probable that there will be an inflow of economic benefits or service potential.

2.7 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.

APPENDIX A

2.8 Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as 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 by an officer 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.

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

Post-employment benefits

Employees are members of the Local Government Pension Scheme which provides defined benefits to members. Full details of transactions are given in Note 37. 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.

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:

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

APPENDIX A

2.9 Events after the Reporting Period

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

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

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

2.10 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.

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.

The council 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.

2.11 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.

APPENDIX A

2.12 Government Grants and Other Contributions

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

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

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

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

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

<u>Community Infrastructure Levy</u>
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.

2.13 Heritage Assets

Heritage assets are assets held principally for their contribution to culture and knowledge.

Astley Hall

The house was built in the mid-seventeenth century, and extended in 1825. It was given to Chorley Council in 1922 as a memorial following the First World War. It houses a collection of paintings and furniture and has accredited museum status awarded by the Arts Council. The house is valued using the depreciated cost method of valuation. Following a detailed condition survey in 2010/11, its value was reduced to a nominal £1 to reflect the substantial repair liability

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Other Heritage Assets

The council's other heritage assets are all are reported in the Balance Sheet at insurance valuation. The assets are as follows:

- Civic Regalia
- Astley Hall furniture and art collection
- Astley Park Entrance
- Benjamin Disraeli Statue

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, for example where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

Where the Council disposes of heritage assets, the proceeds of these items are accounted for in accordance with the authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

2.14 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 will bring benefits to the Council for more than one financial year. Internally generated assets are capitalised where it is demonstrable that the Council will generate future economic benefits.

The cost is amortised over the economic life to reflect the pattern of consumption, the first year of charge being that in which the expenditure is incurred. 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.

2.15 Investment Properties

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

They are measured initially at cost and subsequently at fair value. They are not depreciated but are re-valued annually by a RICS-qualified valuer. 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).

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

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2.16 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.

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

The Authority as lessee

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.

2.17 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.

2.18 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.

2.19 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.

2.20 Property Plant and Equipment (PPE)

All expenditure on the acquisition, creation, or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, 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. The Authority does 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.
- Surplus assets have a current value measurement base of fair value, which is estimated at highest and best use from a market participant's perspective.
- 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 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, assets under construction, and assets without a determinable finite useful life (such as freehold land and certain community assets) are not depreciated.

Other property is depreciated over its useful life on a straight line basis. Depreciation is based on the opening value of assets, weighted for part-year acquisitions or disposals if appropriate. Components are separately depreciated if:

- The total value of the host asset (excluding land) exceeds £0.5m and
- The value of the component exceeds 20% of the asset value (excluding land)

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Depreciation periods are as follows:

	years
Property (excluding components separately identified)	5-70
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 value 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is recognised for the shortfall. Impairment losses are charged against revaluation gains 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 fair value less costs to sell. If assets subsequently fail to meet the criteria to be classified as Assets Held for Sale, they revert 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, disposals 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

2.21 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 directly to the provision.

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2.22 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.

2.23 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.

2.24 Value Added Tax

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

2.25 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.

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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 2019/20 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 2019/20 and 2020/21 financial statements in respect of accounting changes that are introduced in the 2020/21 Code are:

- 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,
- amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement, and
- amendments to references to the Conceptual Framework in IFRS Standards.
- IFRS 16 Leases

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. This has been increased by the impacts of the Covid 19 pandemic, both in terms of the introduction of greater general uncertainty and, more specifically, 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. 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.

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Leases
Judgement has been applied in accounting for the leasing by the Council to tenants of offices, industrial units and sites, and retail units in Market Walk Shopping Centre as operating leases. The Code defines operating leases as a lease other than a finance lease; whereas a finance lease transfers substantially all the risks and rewards incidental to ownership of an asset, potentially including title. The accounts have been prepared by applying the judgement that ownership of such leased assets would not transfer to the lessees.

Group Accounts
The Authority does not consider that the preparation of group accounts is required. In reaching this conclusion, a particular matter has required careful consideration in respect of the position at 31 March 2020. In September 2019, the Council purchased a major warehousing and distribution facility at a cost of £33.9m (including fees and Stamp Duty Land Tax). Ownership of the asset is to be transferred to a council wholly owned company under the terms of a long-term lease. The intention was that this arrangement would have been in place prior to 31 March 2020, but the disruption caused by the need to respond to the developing Covid-19 pandemic, in terms both of the immediate direct effects on the practicalities of completion and of the diversion of resources to meet the requirements of urgent response measures, meant that this was not ultimately possible. Had the arrangements been complete, then group accounts would have been required. More detail is set out in Note 41 and also in Notes 20 and 22.

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. What is described here is the basis on which fair value is determined and this is not itself affected by the impacts of the Covid 19 pandemic. Please see references in Notes 5 and 17 below in respect of the potential effects on actual valuations.

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 £30m 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. This, 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 2019/20 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	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.	Sensitivity to the factors contributing to this estimate is shown in Note 37j. Small changes have major impacts on the pension deficit. At 31 March 2020, a 1% increase in the council's pensions obligations would increase the net liability by £1.462m.
Pensions Assets	The scheme holds a varied portfolio of assets, details of which are shown at Note 37i. The valuations shown in this Statement are those assessed as at 31 March 2020. Beginning in March 2020, there have been significant fluctuations in equity markets around the world in relation to	At 31 March 2020, a 1% increase in the scheme's asset would reduce the net liability by £1.032m.

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	the Covid-19 pandemic. As a result the valuation of pension fund assets as at this date is subject to material valuation uncertainty. This has potentially far-reaching consequences in terms of funding and risk which will need to be kept under review. The actuary's stated view is that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. The Fund has a risk management framework in place and in particular the investment strategy is reviewed on a regular basis. The stated view is that employer contributions should not be revisited, but the position should be kept under review by the Administering Authority (Lancashire County Council) who will monitor the development of the situation and keep all stakeholders informed of any potential implications, so that the outcome can be managed effectively. For some employers this could mean a review of contributions prior to the next valuation depending on their financial covenant.	The council anticipates that it will spend £1.746m on current pension contributions in 2020/21 (see Note 37h). A 1% upward variation on this would produce an increased cost of £17k.
Debtors	Note 20 shows total debtors of £6.423m, of this figure £1.282m relates to uncollected housing benefit 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 70% to reflect this. In addition to the level of provision that would usually be made, £111k of additional provision has been made in respect of the uncertainties created by the Covid 19 pandemic.	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 £0.018m to the CI&ES.
Asset valuations	Note 15 shows that fixed assets valued at £85.700m (£83.615m of Operational Land and Buildings, £1.612m of Community Assets and 0.473m of Surplus Assets) are carried at either current value or depreciated replacement cost value. Note 17 shows that investment properties valued at £35.678m are carried at current value. The valuations have been carried out by qualified valuers in accordance with Royal Institution of Chartered Surveyors Guidance Assets subject to review had a valuation date of 31st March 2016 or earlier or were subject to assessment by Management that the value may have changed materially. The council also revalued the Market Walk Shopping Centre as the asset was valued at £18.5m at the end of 2018/19 and therefore represented a large proportion of the council's total asset portfolio. The shopping centre's existing use value was reduced to £18.1m at 31 March 2020, reflecting the current conditions in the retail market and a number of leases that remain under review.	The values are only estimates and thus could over or understate the actual values realisable if sale actually occurred. A fall in the value of the council's investment properties will result in a charge to the CIES. Every 10% fall in the total value of the council's investment properties would result in a £3.568m charge to the CIES. Likewise, a 10% in the value of other assets valued at current value would produce a variation of £8.570m. How much, if any, of this would be chargeable to the CIES would depend on the individual assets affected and whether

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	A number of assets that had been at an advanced stage of completion at the end of 2018/19, ie the Market Walk Extension, Strawberry Fields Digital Office Park and Primrose Gardens Retirement Village, were brought into use and so were subject to valuation for the first time. They were valued at a combined total of £31.606m. Logistics House, a major warehousing and distribution facility, which was purchased in 2019/20 for £33.668m (see Note 17) was also valued, with a resulting valuation of £34.395m. These valuations, and most specifically those that are based on current value, are subject to variations as a result of market fluctuations. The Covid 19 pandemic has introduced significantly greater uncertainty into this. The council's valuations were not finalised until November 2020, so some time after the onset of the pandemic. Nonetheless' the valuer has subsequently confirmed that, as a result of the pandemic, the valuations are reported on the basis of 'material valuation uncertainty' and that, consequently, less certainty, and a higher degree of caution, should be attached to them than would normally be the case.	or not there were associated balances in the Revaluation Reserve.
Provisions	A provision of £1.852m has been recognised for the best estimate of the amount that businesses have been overcharged business rates up to 31 March 2020. 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. 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 £0.033m, of which this Authority's share of the cost would be 56% or £0.019m.
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 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	The Council uses the market approach to value of some of its investment properties and financial assets. The unobservable inputs used in the fair value measurement include management assumptions regarding rent yield and growth, vacancy levels (for investment

	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 are disclosed in Notes 2, 17 and 19.	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 £1.029m (2018/19 £1.104m). This equates to 1.9% (2018/19 2.0%) of the council's gross service expenditure for the preceding financial year and matches the threshold adopted by the council's auditor.

7 EVENTS AFTER THE REPORTING PERIOD

The unaudited Statement of Accounts was authorised for issue by the Director of Finance/Section 151 Officer on 29 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 2020, 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, but reference is made to further comments at Note 40.

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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 54.

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

2019/20 **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts**	**Adjustments for Capital Purposes (Note A)**	**Net change for the Pensions Adjustments (Note B)**	**Other Differences (Note C)**	**Total Statutory Adjustments**	**Other Adjustments (Note D)**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Customer & Digital	2,012	83	7	2,102	(49)	2,053
Policy & Governance	56	50	8	114	(196)	(82)
Early Intervention	586	29	(3)	612	(3)	609
Business, Development & Growth	1,400	25	17	1,442	(17)	1,425
Budgets excluded from Directorate monitoring						
• Pensions-related	0	1,980	0	1,980	0	1,980
• Housing Benefits/Council Tax Discounts	0	0	0	0	23	23
• Market Walk (excluding financing costs)	4,584	2	0	4,586	4	4,590
• Other expenditure	7,761	2	5	7,768	0	7,768
Cost of Services	**16,399**	**2,171**	**34**	**18,604**	**(238)**	**18,366**
Other Income and Expenditure from the Expenditure and Funding Analysis	(5,345)	1,102	(621)	(4,864)	238	(4,626)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**11,054**	**3,273**	**(587)**	**13,740**	**0**	**13,740**

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2018/19 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 Differences (Note C) £'000	Total Statutory Adjustments £'000	Other Adjustments (Note D) £'000	Total Adjustments £'000
Customer & Digital	951	32	13	996	(312)	684
Policy & Governance	103	25	2	130	5	135
Early Intervention	702	15	(1)	716	(4)	712
Business, Development & Growth	1,889	11	(3)	1,897	(42)	1,855
Budgets excluded from Directorate monitoring						
• Pensions-related	0	219	0	219	0	219
• Housing Benefits/Council Tax Discounts	0	0	0	0	(5)	(5)
• Market Walk (excluding financing costs)	1,921	1	1	1,923	(4)	1,919
• Other expenditure	0	0	0	0	0	0
Cost of Services	**5,566**	**303**	**12**	**5,881**	**(362)**	**5,519**
Other Income and Expenditure from the Expenditure and Funding Analysis	(14,827)	1,154	(366)	(14,039)	362	(13,677)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(9,261)**	**1,457**	**(354)**	**(8,158)**	**0**	**(8,158)**

Note A Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service lines, 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).

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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 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 charges for the provision for non-collection of outstanding debts.

This adjustment category is additional to those shown in the Statement of Accounts for 2018/19. Please see footnote to Comprehensive Income and Expenditure Statement for more detail.

9 EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows

	2018/19 £'000	2019/20 £'000
Expenditure/Income		
Expenditure		
Employee benefits expenses	12,438	15,539
Other service expenses	37,117	32,761
Depreciation, amortisation, impairment	4,606	15,625
Interest payments	4,072	4,649
Precepts, tariffs and levies	7,007	10,805
Loss on the disposal of assets	13	(130)
Total expenditure	**65,253**	**79,249**
Income		
Fees, charges and other service income	(8,406)	(9,713)
Interest and investment income	(2,566)	(3,733)
Income from council tax and non-domestic rates	(17,178)	(21,948)
Government grants and contributions	(34,208)	(26,653)
Other grants and contributions	(8,805)	(4,150)
Gain on the disposal of assets	0	0
Total income	**(71,163)**	**(66,197)**
Surplus or Deficit on the Provision of Services	**(5,910)**	**13,052**

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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 authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2019/20	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Adjustments to the Revenue Resources Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement				
Pensions costs (transferred to (or from) the Pensions Reserve) (note 25d)	(3,274)	0	0	3,274
Financial instruments (transferred to the Financial Instruments Adjustments Account) (note 25c)	0	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account) (note 25e)	621	0	0	(621)
Holiday pay (transferred to the Accumulated Absences Reserve) (note 25f)	(33)	0	0	33
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)	(14,560)	0	0	14,560
Total Adjustments to Revenue Resources	**(17,246)**	**0**	**0**	**17,246**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve (MiRS)	136	(136)	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) (note 26b)	569	0	0	(569)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) (note 26b)	746	0	0	(746)
Total Adjustments between Revenue and Capital Resources	**1,451**	**(136)**	**0**	**(1,315)**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure (MiRS)	0	234	0	(234)
Application of capital grants to finance capital expenditure (MiRS)	2,055	0	807	(2,862)
Total Capital Resources	**2,055**	**234**	**807**	**(3,096)**
Total Adjustments	**(13,740)**	**98**	**807**	**12,835**

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2018/19	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'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 25d)	(1,457)	0	0	1,457
Financial instruments (transferred to the Financial Instruments Adjustments Account) (note 25c)	0	0	0	0
Council tax and NDR (transfers to or from Collection Fund Adjustment Account) (note 25e)	364	0	0	(364)
Holiday pay (transferred to the Accumulated Absences Reserve) (note 25f)	(10)	0	0	10
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)	6,479	0	(5,752)	(727)
Total Adjustments to Revenue Resources	**5,376**	**0**	**(5,752)**	**376**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve (MiRS)	149	(149)	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) (note 25b)	542	0	0	(542)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) (note 25b)	2,091	0	0	(2,091)
Total Adjustments between Revenue and Capital Resources	**2,782**	**(149)**	**0**	**(2,633)**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure (MiRS)	0	577	0	(577)
Application of capital grants to finance capital expenditure (MiRS)	0	0	5,688	(5,688)
Total Capital Resources	**0**	**577**	**5,688**	**(6,265)**
Total Adjustments	**8,158**	**428**	**(64)**	**(8,522)**

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.

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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.

11 TRANSFERS TO/FROM EARMARKED RESERVES

The movements in reserves during the year were as follows

Type of Earmarked Reserve	Balance 1 April 2018	Transfers		Balance 31 March 2019	Transfers		Balance 31 March 2020
		Out	(In)		Out	(In)	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rephasing of planned expenditure	**(1,221)**	934	(531)	**(818)**	382	(461)	**(897)**
Rephasing of New Investment Projects	**(1,494)**	964	(608)	**(1,138)**	552	(323)	**(909)**
Grants reserved for specific expenditure	**(164)**	59	(164)	**(269)**	126	(155)	**(298)**
Financing of capital expenditure	**(2,702)**	1,653	(441)	**(1,490)**	525	(946)	**(1,911)**
Planning purposes including appeals	**(220)**	157	(185)	**(248)**	29	(127)	**(346)**
Restructuring of services	**(412)**	260	(162)	**(314)**	226	(162)	**(250)**
Retail Investment	**(115)**	18	0	**(97)**	97	(46)	**(46)**
Apprenticeships and Graduates	**(52)**	0	(71)	**(123)**	61	0	**(62)**
Resource equalisation	**(1,114)**	371	(290)	**(1,033)**	0	(589)	**(1,622)**
Maintenance of Council buildings	**(495)**	239	(142)	**(398)**	48	(50)	**(400)**
Maintenance of Grounds	**(14)**	0	(10)	**(24)**	0	(10)	**(34)**
Elections	**(90)**	29	0	**(61)**	30	0	**(31)**
Other	**(229)**	186	(16)	**(59)**	158	(55)	**44**
Total	**(8,322)**	**4,870**	**(2,620)**	**(6,072)**	**2,234**	**(2,924)**	**(6,762)**

Purpose of Earmarked Reserves

- **Rephasing of planned expenditure –** there are a number of directorate initiatives which span more than one financial year or for which funds have been budgeted but not yet started. These reserves will ensure that such initiatives can be completed. They include ICT projects and infrastructure £216k, slippage from 2019/20 and earlier years £240k, Shared Services implementation £72k, transformation challenge and public service reform £48k and neighbourhood working £105k.

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- **Rephasing Investment Projects –** there are a number of specific investment packages included in the Council's annual revenue budget aimed at delivering corporate priorities. As delivery on these schemes will be made over more than one year, these reserves enable unspent balances to be carried forward to future years. They include investment budgets carried forward to 2020/21 £524k and an investment fund for realising income generation £385k.

- **Grants reserved for specific expenditure –** this represents income from government grants received which have no conditions attached or where no expenditure has yet been incurred.

- **Financing of capital expenditure –** In 2019/20 funding from the reserve was used to finance works on a number of schemes, including £329k for general asset improvements and £171k for works to cemeteries. Money was also set aside for the funding of future schemes, producing a year end balance of £1.911m.

- **Planning purposes including appeals –** this reserve has been established to mitigate future costs of planning appeals.

- **Restructuring of services –** this reserve is provided to support the one-off staffing cost implications of service transformation programmes.

- **Retail Investment –** this reserve represents the council's investment in the borough through the Retail Grants Programme which provides specific funding for local businesses in the form of refurbishment grants and business rate subsidy.

- **Apprenticeships and Graduates –** this reserve provides funding over a two year period for apprenticeships within the Customer Transformation service.

- **Resource equalisation –** this represents the Business Rates Retention reserve £1,155k and Market Walk income equalisation reserve £468k established to minimise the risk of fluctuations in future income levels from Business Rates and the Council owned shopping precinct.

- **Maintenance of Council buildings –** this reserve has been established to provide funding for future asset improvement works in relation to the council owned Market Walk retail precinct and other Council properties.

- **Maintenance of Grounds -** this reserve provides for future investment in the council's parks and open spaces.

- **Elections –** this has been established to equalise the costs of holding local elections over the Council's four year election cycle.

- **Other –** this represents other balances set aside in reserves to mitigate the impact of various issues including potential future bad debts on Council Tax Summons/Liability Orders and changes in the Council's pay policy.

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12 OTHER OPERATING EXPENDITURE

2018/19 £'000		2019/20 £'000
671	Parish council precepts	686
162	(Gains)/losses on disposal of non-current assets	6
(98)	Capital receipts from the sale of previously transferred housing stock	(99)
(51)	Other capital receipts	(37)
684	**Total**	**556**

13 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2018/19 £'000		2019/20 £'000
485	Interest payable and similar charges	1,075
1,153	Net interest on the net defined benefit liability (asset)	1,102
(65)	Interest receivable and similar income	(68)
(65)	Income and Expenditure in relation to investment properties and changes in their fair value	(1,192)
362	Allowance for impairment of outstanding debts*	238
1,870	**Total**	**1,155**

* See footnote to Comprehensive Income and Expenditure Statement.

14 TAXATION AND NON-SPECIFIC GRANT INCOME & EXPENDITURE

2018/19 £'000		2019/20 £'000
(7,586)	Council tax income	(7,863)
(3,257)	Non-domestic rates income and expenditure	(3,966)
(4,625)	Non ring-fenced government grants (Note 33)	(5,023)
(12,357)	Capital grants and contributions (Note 33)	(2,850)
(27,825)	**Total**	**(19,702)**

14(a) 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.

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In 2019/20 the council, along with 15 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%.

A comparison of the business rates income allocations in 2018/19 and 2019/20 are shown in the table below:

	2018/19	2019/20
District Authorities	40%	56%
Lancashire County Council	9%	17.5%
Lancashire Combined Fire Authority	1%	1.5%
	50%	**75%**
Central Government	50%	25%
Total	**100%**	**100%**
Unitary Authorities	49%	73.5%

Lancashire Business Rates Pilot Pool Members 2019/20	Authority Type	Tariffs and Top-Ups in Respect of 2019/20 £	Total Growth above Baseline Under 75% Scheme £	Additional Retained Growth above that under the 50% Scheme £
Blackburn with Darwen Unitary Authority	Top-Up	-27,209,155	6,290,545	2,096,849
Blackpool Unitary Authority	Top-Up	-27,136,666	965,342	321,780
Burnley Borough Council	Tariff	8,389,841	3,894,421	1,112,691
Chorley Borough Council	Tariff	10,116,103	2,888,454	825,273
Fylde Borough Council	Tariff	11,921,669	3,971,482	1,134,710
Hyndburn Borough Council	Tariff	5,350,206	644,806	184,230
Pendle Borough Council	Tariff	5,125,168	2,363,324	675,236
Preston Borough Council	Tariff	27,181,715	1,627,197	464,913
Ribble Valley Borough Council	Tariff	6,364,376	2,331,874	666,250
Rossendale Borough Council	Tariff	4,595,868	1,820,769	520,220
South Ribble Borough Council	Tariff	15,149,823	4,667,725	1,333,636
West Lancashire Borough Council	Tariff	13,287,104	2,905,817	830,233
Wyre Borough Council	Tariff	10,760,888	2,011,984	574,853
Lancashire County Council	Top-Up	-164,645,542	9,362,315	4,448,284
Lancashire Combined Fire Authority	Top-Up	-17,656,850	957,163	311,393
Central Government	-	118,405,452	-	
Total		**0**	**46,703,218**	**15,500,551**

In 2019/20 the governance arrangements for the pilot pool were approved such that any retained growth above that which would have been received under the previous 50% scheme was to be split on the following basis:

- Risk Resilience Reserve: The first 5% of any additional growth was to be used to create a new risk resilience reserve to mitigate against any extra loss arising from being a pilot member.
- Strategic Economic Growth and Financial Sustainability Fund: A further 25% of the additional growth was to be set aside to create a Lancashire wide fund to be used to target strategic

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economic growth and improve financial sustainability and allocated based on unanimous decisions of the Pilot Pool Governing Body after the closure of the financial year.

The position on the Pilot Pool for 2019/20, based upon the final submitted NNDR3 returns, is detailed below:

Lancashire Business Rates Pilot Pool Members 2019/20	Additional Retained Growth above that under the 50% Scheme £	5% Due to Risk Resilience Reserve £	25% Due to Strategic Economic Growth and Financial Sustainability Fund £
Blackburn with Darwen Unitary Authority	2,096,849	104,842	524,212
Blackpool Unitary Authority	321,780	16,089	80,445
Burnley Borough Council	1,112,691	55,635	278,173
Chorley Borough Council	825,273	41,264	206,318
Fylde Borough Council	1,134,710	56,736	283,678
Hyndburn Borough Council	184,230	9,212	46,058
Pendle Borough Council	675,236	33,762	168,809
Preston Borough Council	464,913	23,246	116,228
Ribble Valley Borough Council	666,250	33,313	166,563
Rossendale Borough Council	520,220	26,011	130,055
South Ribble Borough Council	1,333,636	66,682	333,409
West Lancashire Borough Council	830,233	41,512	207,558
Wyre Borough Council	574,853	28,743	143,713
Lancashire County Council	4,448,284	222,414	1,112,071
Lancashire Combined Fire Authority	311,393	15,570	77,848
Total	**15,500,551**	**775,028**	**3,875,138**

During the year an advance request for use of the Strategic Economic Growth and Financial Sustainability Fund was considered and agreed by the Governing Body in respect of expenditure to be incurred by Lancashire County Council in the creation of the Greater Lancashire Plan. This was to be capped at £400,000.

At a later point in the year, and in light of the Covid-19 pandemic financial pressures, it was decided by the Governing Body that the expenditure on the Great Lancashire Plan would instead only be funded up to the £50,000 that had been defrayed at that point. It was also agreed that all authorities would retain any remaining balance on the Strategic Economic Growth and Financial Sustainability Fund to help them meet their own financial resilience pressures under the pandemic.

In accordance with the Memorandum of Understanding for the Pilot Pool, the Risk Resilience Reserve would be retained by each Pool member, unless it was evidenced at the end of the financial year through the completion of the NNDR3 returns that such funds were needed.

The outturn position showed that the Risk Resilience Reserve was not needed and that the only payment due to the Strategic Economic Growth and Financial Sustainability Fund was the £50,000 in total towards the Greater Lancashire Plan. The overall position is shown in the table below:

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Lancashire Business Rates Pilot Pool Members 2019/20	Total Growth above Baseline Under 75% Scheme £	Actual Payments Due to the Strategic Economic Growth and Financial Sustainability Fund £	Net Business Rates Growth Above the Baseline Retained by Local Authority £
Blackburn with Darwen Unitary Authority	6,290,545	6,764	6,283,781
Blackpool Unitary Authority	965,342	1,038	964,304
Burnley Borough Council	3,894,421	3,589	3,890,832
Chorley Borough Council	2,888,454	2,662	2,885,792
Fylde Borough Council	3,971,482	3,660	3,967,822
Hyndburn Borough Council	644,806	594	644,212
Pendle Borough Council	2,363,324	2,178	2,361,146
Preston Borough Council	1,627,197	1,500	1,625,697
Ribble Valley Borough Council	2,331,874	2,149	2,329,725
Rossendale Borough Council	1,820,769	1,678	1,819,091
South Ribble Borough Council	4,667,725	4,302	4,663,423
West Lancashire Borough Council	2,905,817	2,678	2,903,139
Wyre Borough Council	2,011,984	1,854	2,010,130
Lancashire County Council	9,362,315	14,349	9,347,966
Lancashire Combined Fire Authority	957,163	1,005	956,158
Total	**46,703,218**	**50,000**	**46,653,218**

As part of the pool arrangements, one authority must be designated as lead authority, which in the case of the Lancashire Business Rates Pilot Pool is Ribble Valley Borough Council. As part of this arrangement a fee of £30,000 is payable, charged equally to all members of the pool by Ribble Valley Borough Council in their role as lead.

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15 PROPERTY PLANT AND EQUIPMENT

	Other land & Buildings	Vehicles & Plant etc.	Infra-structure	Community Assets	Surplus Assets	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 April 2019	**63,270**	**5,843**	**585**	**3,832**	**473**	**25,039**	**99,042**
Additions	1,365	265	164	290	0	8,188	**10,272**
Donations	0	0	0	0	0	0	**0**
Revaluations recognised in Revaluation Reserve	4,332	0	0	(91)	0	0	**4,241**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(14,592)	0	0	(646)	0	0	**(15,237)**
De-recognition – disposals	0	0	0	0	0	0	**0**
De-recognition – other	0	0	0	(6)	0	0	**(6)**
Assets reclassified within PPE	31,008	0	0	1,239	0	(32,247)	**0**
Assets reclassified (to)/from Investment Properties	0	0	0	0	0	0	**0**
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	**0**
Prior Year Adjustment reclassified as REFCUS	0	0	0	0	0	0	**0**
At 31 March 2020	**85,384**	**6,109**	**748**	**4,617**	**473**	**980**	**98,311**
Depreciation and Impairment							
At 1 April 2019	**(2,374)**	**(3,551)**	**(376)**	**(1,119)**	**0**	**0**	**(7,420)**
							0
Depreciation charge	(1,244)	(479)	(21)	(146)	0	0	**(1,891)**
Depreciation written out of Revaluation Reserve	1,498	0	0	461	0	0	**1,959**
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,017	0	0	0	0	0	**1,017**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	**0**
De-recognition – disposals	0	0	0	0	0	0	**0**
De-recognition – other	0	0	0	0	0	0	**0**
Other movements in depreciation and impairment	446	0	0	(446)	0	0	**0**
At 31 March 2020	**(657)**	**(4,030)**	**(397)**	**(1,251)**	**0**	**0**	**(6,335)**
Net Book Value							
At 31 March 2020	**84,727**	**2,079**	**352**	**3,367**	**473**	**980**	**91,976**

Please see Note 5 in respect of the potential impact of the Covid 19 pandemic on asset valuations.

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Comparative Movements in 2018/19	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Assets under construction £'000	Total £'000
Cost or valuation							
At 1 April 2018	**64,178**	**5,668**	**563**	**3,761**	**473**	**7,022**	**81,665**
Additions	3,523	469	22	132	0	18,183	**22,329**
Donations	0	0	0	0	0	0	**0**
Revaluations recognised in Revaluation Reserve	(483)	0	0	0	0	0	**(483)**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,754)	0	0	(61)	0	0	**(3,815)**
De-recognition – disposals	0	(195)	0	0	0	0	**(195)**
De-recognition – other	(194)	(99)	0	0	0	0	**(293)**
Assets reclassified within PPE	0	0	0	0	0	0	**0**
Assets reclassified (to)/from Investment Properties	0	0	0	0	0	0	**0**
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	**0**
Prior Year Adjustment reclassified as REFCUS	0	0	0	0	0	(166)	**(166)**
At 31 March 2019	**63,270**	**5,843**	**585**	**3,832**	**473**	**25,039**	**99,042**
Depreciation and Impairment							
At 1 April 2018	**(2,494)**	**(3,563)**	**(356)**	**(995)**	**0**	**0**	**(7,408)**
Depreciation charge	(1,270)	(276)	(20)	(127)	0	0	**(1,693)**
Depreciation written out of Revaluation Reserve	439	0	0	0	0	0	**439**
Depreciation written out to the Surplus/Deficit on the Provision of Services	713	0	0	3	0	0	**716**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	200	0	0	0	0	0	**200**
De-recognition – disposals	0	195	0	0	0	0	**195**
De-recognition – other	38	94	0	0	0	0	**132**
Other movements in depreciation and impairment	0	(1)	0	0	0	0	**(1)**
At 31 March 2019	**(2,374)**	**(3,551)**	**(376)**	**(1,119)**	**0**	**0**	**(7,420)**
Net Book Value							
At 31 March 2019	**60,896**	**2,293**	**209**	**2,713**	**473**	**25,039**	**91,622**

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Fixed Assets Valuations

During 2019/20 the valuations were carried out by Jacobs RICS-qualified Surveyors. The basis of valuation is set out in the Accounting Policies note.

	Other land & Buildings £'000	Vehicles & Plant etc. £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total £'000
Carried at historical cost	**1,769**	**6,109**	**748**	**3,005**	**0**	**980**	**12,611**
Valued at fair value as at:							
31 March 2020	73,572	0	0	1,580	0	0	**75,153**
31 March 2019	6,168	0	0	5	11	0	**6,184**
31 March 2018	955	0	0	26	230	0	**1,211**
31 March 2017	792	0	0	0	214	0	**1,006**
31 March 2016	2,127	0	0	0	18	0	**2,145**
Total cost or valuation	**85,384**	**6,109**	**748**	**4,617**	**473**	**980**	**98,311**

The Authority has considered whether the carrying value of PPE assets that have not been revalued in the year is materially different to fair value. In revaluing assets during 2019/20, the Council's Surveyor has considered the effect any significant movement in the value of revalued assets on the remaining assets not scheduled for revaluation, and has confirmed that no further adjustments are required.

Capital Commitments

At 31 March 2020, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2019/20 and future years budgeted to cost £1.393m. The major commitments are:

- Diversion of water mains to Alker Lane Site – £0.277m.
- Construction of the pavilion, car parking and access at Westway Sports Hub - £1.116m.

Impairment Losses

There were no impairment losses or reversals recorded during 2019/20.

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Material Items of Expenditure

During 2019/20 the authority made additions to PPE assets of £10.272 million which is comparatively lower than the figure from 2018/19 figure of £22.329 million.

This is mainly due to a number of high value capital schemes which were under construction in 2018-19 and completed in 2019-20.

16 HERITAGE ASSETS

Cost or Valuation	2018/19 £'000	2019/20 £'000
As at 1 April	2,452	2,530
Additions	0	0
Donations	0	0
Revaluations recognised in Revaluation Reserve	78	0
Disposals	0	0
Revaluations recognised in CI&ES	0	0
As at 31 March	**2,530**	**2,530**

HERITAGE ASSETS – FIVE YEAR SUMMARY OF TRANSACTIONS

There were two disposals and no acquisitions during the five years 2014/15 to 2019/20. An asset already held by the authority was recognised as a donated heritage asset during 2017/18 and revalued accordingly.

HERITAGE ASSETS – FURTHER INFORMATION

The assets included within Heritage assets are as follows:

Civic Regalia

This mainly consists of mayoral badges, chains of office, and other regalia used in civic activities. It was last re-valued in 2016.

Astley Hall

The house was built in the mid-seventeenth century, and extended in 1825. It was given to Chorley Council in 1922 as a memorial following the First World War. It houses a collection of paintings and furniture and has accredited museum status awarded by the Arts Council. The house is valued using the depreciated cost method of valuation. Following a detailed condition survey in 2010/11, its value was reduced to a nominal £1 to reflect the substantial repair liability.

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Astley Hall furniture and art collection

A large part of the collection was gifted to the Council with the house, but it has been added to buy gifts and purchases in the following years. The collection consists of numerous minor works of art and furniture. It is included in the statement of accounts at the 2019 insurance value of £1.840m.

Astley Park Entrance

Astley Park was given, along with the Hall, to Chorley Council in 1922 in memory of those who died in the Great War. After this transfer the arch, formerly of nearby Gillibrand Hall, was rebuilt as the main entrance, which it still serves as today. Close to the main gates and arch is a former drinking fountain, inscribed with the words “Erected by Ann Pollard AD 1861”. It was included in the statement of accounts at the 2019 insurance value of £0.587m.

Benjamin Disraeli Statue

The statue was formerly situated on a rooftop on the corner of Chapel Street and Cleveland Street on the building once known as Beaconsfield Buildings. The statue was erected in 1886, after his death in 1881, by the Primrose League who met in the room below. The statue was taken down and restored following problems with the roof and due to the prohibitive cost of returning it to its original position was donated to the council and is now located in the Walled Garden in Astley Park.

Preservation and management

The Council has a ten-year plan for the use and maintenance of the hall and contents. Periodic structural surveys are undertaken, the last during 2014/15. Additions and disposal of the collection is managed in accordance with The Acquisitions and Disposal Policy.

17 INVESTMENT PROPERTIES

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

	2018/19 £’000	2019/20 £’000
Rental Income from Logistics House	941	941
Rental Income from investment property	67	67
Direct operating expenses arising from investment property	0	0
Net gain/(loss)	**1,008**	**1,008**

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. The authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The assets are comprehensively re-valued every five years, and annually reviewed for any indications that changes in yields or void levels warrant a review of fair values. The following table summarises the movement in the fair value of these properties over the past years.

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	2018/19 £'000	2019/20 £'000
Fair value at the start of the year	887	885
Additions	0	33,668
Disposals	0	0
Net gain/(loss) from fair value adjustments	(2)	1,125
Transfers:		
(To)/From Property, Plant and Equipment	0	0
Value at year-end	**885**	**35,678**

During the year, the Council purchased Logistics House, a major warehousing and distribution centre within the Borough. at a cost of £33.668 million.

Fair Value Hierarchy

All the Council's investment property portfolio has been assessed as Level 2 for valuation purposes.

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

Valuation techniques used to determine Level 2 fair values for investment properties

The fair value for the investment properties has been measured using the market approach. The approach is described at paras B5 to B7 of IFRS 13; it uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets.

The inputs to this technique constitute **Level 2 inputs** in each instance. Level 2 inputs are inputs that are observable for the asset, either directly or indirectly. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

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 the 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 set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

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18 INTANGIBLE ASSETS

The Authority accounts for its computer software as intangible assets, to the extent that the software is not an integral part of a particular IT system 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. Useful lives assigned to the major software suites used by the Authority are:

Asset Description	Amortisation Period
Website	3 years
Thin client implementation	7 years
Revenues & Benefits software	7 years

Amortisation is on a straight line basis. In 2019/20 the amortisation charge of £0.014m was charged principally to the Customer & Digital directorate.

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

	2018/19 £'001	2019/20 £'000
Balance at the start of the year		
Gross carrying amount	1,230	1,238
Accumulated amortisation	(1,160)	(1,174)
Net carrying amount at year start	**70**	**64**
Movements in the year		
Additions in year	8	0
Disposals in year	0	0
Amortisation in year	(14)	(14)
Amortisation in respect of disposals	0	0
Net carrying amount at the year-end	**64**	**50**

There are no significant contractual commitments, and no individual intangible assets the amortisation of which is materially significant to the Council.

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19 FINANCIAL INSTRUMENTS

19a Categories of Financial Instruments

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

	Long-Term		Current	
	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Investments				
Cash in hand and at Bank, less Bank Overdraft (Note 21)	0	0	2,917	8,933
Debtors				
Loans and receivables	463	4,655	1,692	3,895
Debtors that are not Financial Instruments	0	0	3,953	2,528
Total Debtors	**463**	**4,655**	**5,645**	**6,423**
Borrowings				
Financial liabilities at amortised cost - Principal	(18,949)	(62,160)	(2,041)	(6,366)
Financial liabilities at amortised cost – Accrued Interest	0	0	(174)	(297)
	(18,949)	**(62,160)**	**(2,215)**	**(6,663)**
Creditors				
Financial liabilities carried at contract amount	(682)	(1,325)	(4,524)	(2,079)
Creditors that are not Financial Instruments	0	0	(4,468)	(8,162)
Total Creditors	**(682)**	**(1,325)**	**(8,992)**	**(10,241)**

In respect of Long Term Debtors, in 2019/20, rent free periods granted and payments made to incoming tenants in the Market Walk and Market Walk Extension commercial units had a net value of £4.197m. At 31 March 2020, the total outstanding in respect of such payments was £4.283m (31 March 2019 £86k). These sums will be recovered from the rental income payable over the lifetime of the tenancies.

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. Short term loans of £4.5m were taken out to support immediate cash flow requirements (the balance of figure of £6.366m is the element of outstanding PWLB borrowing which falls due for repayment within one year).

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.

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19b Income, Expense, Gains and Losses

The amounts charged in the Comprehensive Income and Expenditure Statement are as follows:

	2018/19			2019/20		
	Financial Liabilities at Amortised Cost £'000	Financial Assets Loans & Receivables £'000	Total £'000	Financial Liabilities at Amortised Cost £'000	Financial Assets Loans & Receivables £'000	Total £'000
Interest expenses	485	0	485	1,075	0	1,075
Impairment Increase/ (Reduction)	2	0	2	(398)	0	(398)
	487	**0**	**487**	**677**	**0**	**677**
Interest income	0	(65)	(65)	0	(68)	(68)
Total income	**0**	**(65)**	**(65)**	**0**	**(68)**	**(68)**
Net (gain)/loss for the year			**422**			**609**

19c Fair Values of Assets and Liabilities

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), using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the table sets out the alternative fair value measurement applying the premature repayment rates, highlighting the impact of the alternative valuation;
- For non-PWLB loans payable, PWLB prevailing market 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.

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The fair values calculated are as follows:

Financial Liabilities	2018/19		2019/20	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB Debt	(20,164)	(22,211)	(64,323)	(61,438)
Short Term Borrowing	(1,000)	(1,000)	(4,500)	(4,500)
Short Term Creditors	(4,524)	(4,524)	(2,079)	(2,079)
Long Term Creditors	(682)	(682)	(1,325)	(1,325)
Total Liabilities	**(26,370)**	**(28,417)**	**(72,227)**	**(69,342)**

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £61.438m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at the new borrowing rates from the PWLB.

The Authority has also calculated an exit price fair value for PWLB loans of £83.011m, which is calculated using early repayment discount rates. The Authority has no contractual obligation to pay these penalty costs and would not incur any additional cost if the loans run to their planned maturity date.

Financial Assets	2018/19		2019/20	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Cash and Cash Equivalents	2,917	2,917	8,933	8,933
Short Term Debtors	1,692	1,692	3,895	3,895
Long Term Debtors	463	497	4,655	4,728
Total Assets	**5,072**	**5,106**	**17,483**	**17,556**

Short Term debtors and creditors are carried at cost as this is a fair approximation of their value.

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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 – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates.

Overall procedures for managing risk

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by the financial accounts team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum creditworthiness criteria, provided by the council's treasury advisor Link Asset Services. The creditworthiness service combines the credit ratings from all three ratings agencies (Fitch, Moody's and Standard & Poors) in a sophisticated modelling process. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category.

The key areas of the Investment Strategy are as follows:

- The Council only lends to UK-incorporated financial institutions. This strategy does not therefore specify a minimum sovereign rating.
- The Council may use AAA rated Money Market Funds.
- The Council may lend to the UK Government (which includes the Debt Management Office), and UK Local Authorities.

<u>Sundry Debtors</u>

Assessment of the expected credit loss on the outstanding balance of short-term debtors is made using a provision matrix based on the age of the outstanding debt and previous experience of recovery rates. At 31 March 2020, the outstanding gross amount was £5.694m (£3.379m at 31 March 2019) and the maximum exposure to credit loss was assessed as £1.799m (£1.687m at 31 March 2019).

The risk of loss has been fully provided for. No collateral is held as security.

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Liquidity risk

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

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

Interest rates on its borrowings at 31 March 2020 vary between 1.32% and 4.34%, and the maturity analysis of its borrowing is as follows:

	31 March 2019 £'000	31 March 2020 £'000
Less than 1 year	1,215	6,663
Between 1 and 2 years	883	1,895
Between 2 and 5 years	2,641	5,512
More than 5 years	15,425	54,753
Total	**20,164**	**68,823**

Market risk

Interest rate risk – The Council has limited exposure to interest rate movements on its borrowings and investments. Borrowings and short-term investments are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings and investments do not impact on the Comprehensive Income and Expenditure Statement. To mitigate risk the Council's annual Treasury Strategy reviews interest rate forecasts and fixes prudential indicators for fixed and variable interest rate exposure.

If all 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
Loss - Increase in interest payable on variable rate borrowings	0
Gain - Increase in interest receivable on variable rate investments	(82)
Gain - Impact on Comprehensive Income and Expenditure Statement	**(82)**
Gain - Decrease in fair value of fixed rate borrowing (no impact on Comprehensive Income & Expenditure Statement)	(7,830)

Price risk – The Council has no exposure to this risk, having no available for sale assets.

Foreign Exchange Risk – The Council has no material exposure to the risk of currency movements.

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20 DEBTORS

	31 March 2019 £'000	31 March 2020 £'000
Trade Receivables	463	5,132
Prepayments	634	644
Other Receivables	6,651	2,955
Gross Carrying Amount	**7,748**	**8,732**
Less Bad Debt Provisions	(2,103)	(2,308)
Net Carrying Amount	**5,645**	**6,423**

21 CASH AND CASH EQUIVALENTS

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

	31 March 2019 £'000	31 March 2020 £'000
Cash held by the Authority	348	148
Bank current and call accounts	2,569	9,512
Bank overdraft	0	(727)
Total within Current Assets	**2,917**	**8,933**
Total Cash and Cash Equivalents	**2,917**	**8,933**

22 SHORT TERM CREDITORS

	31 March 2019 £'000	31 March 2020 £'000
Trade Payables	(3,784)	(1,690)
Other Payables	(5,208)	(8,551)
Total	**(8,992)**	**(10,241)**

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23 PROVISIONS

The movements in provisions during the year were as follows.

	Balance 1 April 2019 £'000	Movements: Reapportion-ment of Opening Balance (see below) £'000	Movements: Used £'000	Movements: Added £'000	Balance 31 March 2020 £'000
Municipal Mutual Insurance	**(14)**	0		0	**(14)**
Business rates appeals	**(1,180)**	(471)	26	(227)	**(1,852)**
Total	**(1,194)**	**(471)**	**26**	**(227)**	**(1,866)**

Municipal Mutual – This Company was the Council's insurer prior to it becoming insolvent in 1993. Under a Scheme of Arrangement the Council shares a liability with other Councils to pay back a part of settlements received if the insurer's ongoing liabilities exceed its assets.

Business Rates Appeals – This is held against the possibility of successful backdated appeals against Business Rates valuations. There is a high degree of uncertainty about the amount of any reduction granted, how far back it will apply, and when the appeal will be decided. At 31 March 2020, an overall provision of £3.308m was shared, in the same proportions as the business rates income for the year, between the council (56%),the Ministry for Housing, Communities and Local Government (25%), Lancashire County Council (17.5%) and the Lancashire Fire Authority (1.5%). These shares reflect the fact that in 2019/20 the council was in a Pilot Area for 75% local retention of Business Rates income. This compares to the 50% local retention that was applicable for 2018/19, when the council's share was 40% and the respective shares for the other bodies were Ministry for Housing, Communities and Local Government 50%, Lancashire County Council 9% and the Lancashire Fire Authority 1%. Had these percentages remained in place at the end of 2019/20, then the council's share of the provision would have been £1.323m. For 2020/21, the council has reverted to percentages applicable in 2018/19.

24 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement (page 50). The purpose of General Fund Earmarked Reserves is detailed in Note 11.

	31 March 2019 £'000	31 March 2020 £'000
General Fund Working Balance	(4,000)	(4,000)
General Fund Earmarked Reserves	(6,075)	(6,762)
Total General Fund Balance	(10,075)	(10,762)
Capital Receipts Reserve	(1,071)	(973)
S106 Contributions from developers	(7,634)	(7,500)
Community Infrastructure Levy (CIL)	(6,288)	(5,723)
Other Capital Grants and Contributions	(108)	0
Total Capital Grants and Contributions Unapplied	(14,030)	(13,223)
Total Usable Reserves at year-end	**(25,176)**	**(24,958)**

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25 UNUSABLE RESERVES

	31 March 2019 £'000	31 March 2020 £'000
Revaluation Reserve (Note 25a)	(10,172)	(15,710)
Capital Adjustment Account (Note 25b)	(36,566)	(26,580)
Deferred Capital Receipts Reserve (Note 25c)	(289)	(289)
Pensions Reserve (Note 25d)	45,997	42,761
Collection Fund Adjustment Account (Note 25e)	77	(544)
Accumulated Absences Account (Note 25f)	157	191
Total Unusable Reserves at year-end	**(796)**	**(171)**

25a Revaluation Reserve

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

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

The Reserve holds only gains accumulated since 1 April 2007. Gains prior to that date were consolidated in the Capital Adjustment Account.

	2018/19 £'000	2019/20 £'000
Balance at 1 April	**(10,467)**	**(10,172)**
Upward revaluation of assets	(463)	(7,976)
Difference between fair value and historic cost depreciation	174	162
Downward revaluation and impairment not charged to the Comprehensive Income & Expenditure Statement	427	2,276
Accumulated gains/losses on assets sold or scrapped	157	0
Balance at 31 March	**(10,172)**	**(15,710)**

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25b Capital Adjustment Account

This 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.

	2018/19 £'000	2019/20 £'000
Balance at 1 April	**(26,612)**	**(36,566)**
Reversal of items relating to capital expenditure debited or credited to the CI&ES		
Charges for depreciation & impairment of non-current assets	1,493	1,891
Revaluation losses on Property, Plant and Equipment	3,099	13,720
Amortisation of intangible assets	14	14
Revenue expenditure funded from capital under statute	2,711	2,111
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	162	6
	7,479	**17,742**
Adjusting amounts written out of the Revaluation Reserve		
Difference between fair value and historic cost depreciation	(174)	(162)
Accumulated gains/losses on assets sold or scrapped	(156)	0
	(330)	**(162)**
Net written out amount of the cost of non-current assets consumed in the year	*7,149*	*17,580*
Capital financing applied in the year		
Use of Capital Receipts Reserve to finance new capital expenditure	(576)	(234)
Capital grants & contributions credited to the CI&ES that have been applied to capital financing	(8,208)	(2,057)
Application of grants to capital financing from Capital Grants Unapplied	(5,688)	(2,863)
Statutory & voluntary provision for the repayment of debt	(542)	(569)
Capital expenditure charged to the General Fund Balance	(2,091)	(746)
	(17,105)	**(6,469)**
Movements in the market value of Investment Properties debited or credited to the CI&ES	2	(1,125)
Balance at 31 March	**(36,566)**	**(26,580)**

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25c Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non- current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2018/19 £'000	2019/20 £'000
Balance at 1 April	**(289)**	**(289)**
Transfer to Capital Receipts Reserve on receipt of cash	0	0
Balance at 31 March	**(289)**	**(289)**

25d Pensions Reserve

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

	2018/19 £'000	2019/20 £'000
Balance at 1 April	**45,239**	**45,997**
Remeasurement of the net defined benefit liability	(699)	(6,510)
Reversal of charges posted to the Comprehensive Income & Expenditure Statement	3,685	5,752
Employers contributions and direct payments to pensioners payable in the year	(2,228)	(2,478)
Balance at 31 March	**45,997**	**42,761**

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25e 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.

	2018/19 £'000	2019/20 £'000
Balance at 1 April	**441**	**77**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(364)	(621)
Balance at 31 March	**77**	**(544)**

25f 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.

	2018/19 £'000	2019/20 £'000
Balance at 1 April	**147**	**157**
Settlement or cancellation of accrual made at the end of the preceding year	(147)	(157)
Amounts accrued at the end of the current year	158	191
Amount by which officer remuneration charged to the CI&ES on accruals basis differs from remuneration chargeable in year in accordance with statutory requirements	10	34
Balance at 31 March	**157**	**191**

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26 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2018/19 £'000	2019/20 £'000
Interest received	66	68
Interest paid	(462)	(1,075)
	(396)	**(1,007)**

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

Note 26a: Non-cash movements	2018/19 £'000	2019/20 £'000
Depreciation	1,693	1,891
Impairment and downward valuations	3,066	13,721
Amortisation	14	14
Increase/(decrease) in creditors	(97)	2,825
(Increase)/decrease in debtors	(44)	(3,316)
Movement in pension liability	1,457	3,274
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	161	6
Other non-cash items charged to the net surplus or deficit on the provision of services	300	(452)
	6,550	**17,963**

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

Note 26b: Investing and financing activities	2018/19 £'000	2019/20 £'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(148)	(136)
Any other items for which the cash effects are investing or financing cash flows	(13,960)	(4,168)
	(14,108)	**(4,304)**

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27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

The following items have been included within investing activities in the cash flow statement.

	2018/19 £'000	2019/20 £'000
Purchase of property, plant & equipment, investment property and intangible assets.	(20,169)	(44,233)
Other payments for investing activities	(57)	(4,193)
Proceeds from the sale of assets.	300	136
Other receipts from investing activities	16,426	6,061
Net cash flows from investing activities	**(3,500)**	**(42,229)**

28 CASH FLOW STATEMENT – FINANCING ACTIVITIES

The following have been included within financing activities in the cash flow statement.

	2018/19 £'000	2019/20 £'000
Cash receipts from short- and long-term borrowing	7,000	48,990
Repayments of short- and long-term borrowing	(1,261)	(1,331)
Other receipts from financing activities	970	(21)
Net cash flows from financing activities	**6,709**	**47,638**

Reconciliation of Liabilities arising from Financing Activities

	1 April 2019	Financing cash flows		Other non-cash	31 March 2020
		Acquisitions	Repayments		
	£'000	£'000	£'000	£'000	£'000
Long-term borrowing	18,949	45,077		(1,866)	62,160
Short-term borrowing	2,215	3,913	(1,455)	1,990	6,663
Total borrowing	21,164	48,990	(1,455)	124	68,823
Creditors - Council Tax & NNDR due to Preceptors & Central Government	2,961	(21)			2,940
Total	**24,125**	**48,969**	**(1,455)**	**124**	**71,763**

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29 MEMBERS ALLOWANCES

	2018/19 £'000	2019/20 £'000
Allowances	310	311
Expenses	3	3
Total	**313**	**314**

30 OFFICERS REMUNERATION

Remuneration of Senior Employees was as follows:

Senior Employees Post Title	Year	Salary £'000	Expenses Allowance £'000	Benefits in Kind £'000	Compensation for loss of Office £'000	Total Remuneration (excl. Pension contributions) £'000	Pension Contribution £'000	Total Remuneration (incl. Pension contributions) £'000
Chief Executive (a)	2019/20	117	0	6	0	**123**	17	**140**
Deputy Chief Executive/Director (Early Intervention and Support) (b)	2019/20	56	0	7	0	**63**	8	**71**
Deputy Chief Executive (c)	2019/20	33	0	4	0	**37**	5	**41**
Director (Policy and Governance) (d)	2019/20	35	0	3	0	**38**	5	**43**
Director (Customer and Digital)	2019/20	79	0	0	0	**79**	11	**90**
Director (Business, Development and Growth)/Director of Commercial Services (e)	2019/20	74	0	0	0	**74**	11	**84**
Head of Legal, Democratic and HR Services (f)	2019/20	23	0	2	0	**25**	3	**28**
Chief Legal Officer (g)	2019/20	15	0	1	0	**16**	2	**18**
Director of Governance (h)	2019/20	25	0	1	0	**26**	4	**30**

Note a: The Chief Executive took on the additional role of Interim Chief Executive at South Ribble Borough Council (Head of Paid Service) with effect from 24th May 2019. His time is divided equally between the two councils and an additional payment is received in respect of the additional duties. South Ribble Borough Council are charged 50% of the cost of the post from this date for the duration that the interim arrangements are in place. The postholder has also performed the statutory role of S151 Officer during the period.

Note b: The Deputy Chief Executive/Director (Early Intervention and Support) left this role and was recruited to the new Deputy Chief Executive post with effect from 1st December 2019. Prior to this the postholder received additional payments to cover the role of Director (Policy and Governance) from 16th September following the departure of the previous postholder. From 1st December 2019 the post has been designated solely as Director (Early Intervention and Support).

Note c: This is a new post with effect from 1st December 2019. The cost of the post is shared between Chorley and South Ribble Borough Councils. The post-holder is formally employed by Chorley Borough Council and South Ribble Borough Council is charged 50% of the salary and other remuneration.

Note d: The Director (Policy and Governance) left the authority on 15th September 2019.

Note e: The post was designated as Director of Commercial Services following a senior management review during the financial year. The postholder and remuneration were unchanged.

Note f: This post was deleted on 31st August 2019 following a senior management restructure. The Monitoring Officer role was transferred to the new post of Chief Legal Officer.

Note g: This is a new post created from 1st September following a senior management restructure with responsibility for the Monitoring Officer role. Following the expansion of Shared Services the post was deleted on 30th November 2019.

Note h: This is a new post with effect from 1st December 2019 with responsibility for the Monitoring Officer role. The cost of the post is shared between Chorley and South Ribble Borough Councils. For the duration of the 2019-20 financial year the post-holder was formally employed by Chorley Borough Council and South Ribble Borough Council was charged 50% of the salary and other remuneration. From 1st April 2020 the postholder will transfer formal employment to South Ribble Borough Council who will then charge Chorley Council 50% of the cost.

The comparative information for the preceding year is as follows:

Senior Employees Post Title	Year	Salary £'000	Expenses Allowance £'000	Benefits in Kind £'000	Compensation for loss of Office £'000	Total Remuneration (excl. Pension contributions) £'000	Pension Contribution £'000	Total Remuneration (incl. Pension contributions) £'000
Chief Executive	2018/19	105		5		**110**	15	**125**
Deputy Chief Executive/Director (Early Intervention and Support)	2018/19	82		10		**91**	12	**103**
Director (Policy and Governance)	2018/19	72		2		**75**	10	**85**
Director (Customer and Digital)	2018/19	69		5		**75**	10	**85**
Director (Business, Development and Growth)	2018/19	72		0		**72**	10	**82**
Head of Shared Financial Services (a)	2018/19	7		1	59	**67**	4	**71**
Head of Legal, Democratic and HR Services	2018/19	53		5		**58**	8	**66**

Note a: The cost of the Head of Shared Financial Services post is shared between Chorley and South Ribble Borough Councils. The post-holder left the authority on 13 May 2018. Both councils have covered this vacancy with internal acting up arrangements.

The Head of Shared Assurance post (which is not listed in the table above) was shared between South Ribble and Chorley Councils but the salary is paid through South Ribble Borough Council's payroll. The post was vacated on 2 November 2018 with temporary arrangements in place to cover the vacancy.

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Other employees receiving more than £50,000 remuneration, excluding pension contributions, were as follows:

Remuneration Band	2018/19 Number of Employees	2019/20 Number of Employees
£50,000 - £54,999	1	4
£55,000 - £59,999	5	2
£60,000 - £64,999	-	3
£65,000 - £69,999	-	1
£70,000 - £74,999	1	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	-	1
£140,000 - £144,999	-	-
£145,000 - £149,999	-	-
£150,000 - £154,999	-	-
£155,000 - £159,999	-	-
£160,000 - £164,999	-	1

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31 TERMINATION BENEFITS

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

Packages banded by cost	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band £'000	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	1	0	9	7	10	7	36	57
£20,001 - £40,000	0	0	5	1	5	1	142	36
£40,001 - £60,000	0	0	1	0	1	0	59	0
£60,001 - £80,000	0	0	0	1	0	1	0	70
£80,001 - £100,000	0	0	0	2	0	2	0	175
£100,000 - £150,000	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0
£200,001 - £250,000	0	0	0	0	0	0	0	0
£250,001 - £300,000	0	0	0	0	0	0	0	0
£300,000 - £350,000	0	0	0	0	0	0	0	0
Total	**1**	**0**	**15**	**11**	**16**	**11**	**237**	**338**

32 EXTERNAL AUDIT COSTS

The fees due from the Council to the external auditors for works carried out relating to the year of account 2019/20 were as follows.

	2018/19 £'000	2019/20 £'000
Fees for statutory inspection and audit	37	35
Planned variations (not yet approved)*		9
Fees for the certification of grant claims and returns	7	11
Fees payable in respect of other services**	5	0
Total	**49**	**55**

* The planned variations have been raised by the external auditor with the council's Section 151 Officer at the audit planning stage and and are subject to approval and PSAA agreement.

** Fees payable in respect of other services in 2018/19 includes payment of £5,000 to Grant Thornton UK LLP in relation to the 2018/19 Homes England Audit for the Primrose Gardens affordable housing.

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33 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	2018/19 £'000	2019/20 £'000
Credited to Taxation and Non-Specific Grant Income & Expenditure (Note 14)		
Revenue Support Grant (RSG)	(299)	0
New Homes Bonus grant	(2,989)	(2,790)
Section 31 Grants - Business Rates Reliefs	(1,224)	(1,995)
Other revenue grants	(112)	(238)
Capital Contributions – S106 Contributions	(3,392)	(1,426)
Capital Contributions – Community Infrastructure Levy	(2,570)	(974)
Capital other grants and contributions	(6,395)	(450)
Total	**(16,981)**	**(7,873)**
Credited to Services		
Grants – benefits related	(23,245)	(20,240)
Grants – other	(925)	(1,091)
Contribution – County Council reimbursement	(330)	(271)
Contributions – other	(1,530)	(1,328)
Total	**(26,030)**	**(22,930)**

Given their overall material amounts, a line has been added to the above table to separately disclose the Section 31 Grants received from the Government in compensation for income foregone as a result of granting business rates reliefs, principally Small Business Rate Relief, which amounted to £1.476m in 2019-20 (£1.093m in 2018/19).

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income, because they have conditions attached that could require the monies to be returned to the giver. The balance of such grants is at the end of the year is shown separately on the balance sheet as Grant Receipts in Advance – Capital. At the end of 2019/20 (and also at the end of 2018/19), there were no individual material amounts. The totals were as follows:

Grant Receipts in Advance - Capital	2018/19 £'000	2019/20 £'000
Various grants and contributions	(111)	(86)
Total	**(111)**	**(86)**

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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 general operations of the council as it provides the statutory framework within which the Authority 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**
  Members 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 items relating to the personal interest of partners, relatives, or friends, are also recorded in the minutes of the meeting and the member will leave the meeting. Declarations are open to public inspection.

  Note 29 relates to the allowances paid to members. The amounts paid to individual members are reported on the Council's web site.

- Members are also appointed to represent the Council on various external organisations some of which receive financial assistance from the Council. Significant payments to such organisations are discussed under "Entities Controlled or Significantly Influenced by the Authority"**.** In other cases, the amounts paid were immaterial, and were properly approved.

- **Officers**
  The Staff Code of Conduct requires declaration, to the departmental Chief Officer, of close personal relationships with Councillors and Contractors, financial and non-financial interests in, or membership of, external organisations, and all hospitality or gifts. These arrangements are subject to monitoring and reporting by the Council's HR Department. There were no material related party transactions in respect of officer

- **Chorley Youth Zone**
  Chorley Youth Zone opened on 5th May 2018. Total cost is estimated at £4.7m shared as CBC £1m (excluding the £180k purchase of the site), LCC £1.1m and Onside who will arrange other funding for the remaining balance. Chorley Youth Zone is owned and operated as the Chorley Youth Zone Charitable Trust (CYZCT) with Chorley Council as landowner leasing the land to CYZCT over a 125-year lease at a peppercorn rate.

  Chorley Council makes a £100k annual revenue contribution to the trust to support its operations. Chris Sinnott, Deputy Chief Executive at Chorley Council is one of 9 directors to CYZCT and therefore does not have a controlling interest.

- **Chorley Community Housing Ltd (CCH)**
  In 2006/07 the Council's housing stock was transferred to CCH.

  The Association was formed in March 2007 and immediately joined the Adactus Group Structure as a subsidiary of Adactus Housing Group Limited.

  In 2018 the Adactus Group merged with the New Charter Group and created the Jigsaw Homes Group Limited.

The Council receives a proportion of the receipts from the preserved right to buy sales of dwellings to former Chorley council tenants (see note 39 Contingent Assets). In 2019/20 this totalled £0.098m (2018/19 £0.098m).

An outstanding CCH debtor as of 31st March 2020 amounts to £97,735.87.

- **Partnerships, Companies and Trusts**

Financial & Assurance Shared Services Partnership – In January 2009, this partnership was established under an Administrative Collaboration Agreement entered into by South Ribble and Chorley Borough Councils. From inception to 31st March 2020 this provides for the provision of accountancy, exchequer, treasury management, procurement, and assurance services across the administrative areas of the two Councils and assurance services across the administrative areas of the two Councils.

The partnership will be expanded from April 2020 to also include legal and democratic services, communications and visitor economy and transformation and partnerships.

A Shared Services Joint Committee has been established to discharge the Chorley and South Ribble Councils' functions of providing the services detailed in the Shared Services Agreement.

In 2019/20 gross expenditure of £1.83m (2018/19 £1.74m) was incurred on the shared services, which was fully funded by recharges to the two Councils (£1.00m South Ribble Borough Council and £0.83 million Chorley Council).

An outstanding F&ASSP debtor as of 31st March 2020 amounts to £308,340.35
An outstanding F&ASSP creditor as of 31st March 2020 amounts to £57,449.79

- **Entities Controlled or Significantly Influenced by the Authority**

Chorley and South Ribble Shopmobility
Payment of subsidy of £17k was made to Chorley & South Ribble Shopmobility in 2018/19, to supply Shopmobility services for the community of Chorley and District with wheelchairs and Mobility Scooters for the year 2019/20.

Chorley & South Ribble Shopmobility typically receive £25k to £30k of income per annum and therefore Chorley Council's contribution represents a significant proportion of this income. The council has one councillor who is a trustee of the charity, there are eight trustees in total.

Whittle le Woods and Clayton le Woods Parish Club
Payment of £560k was made in May 2019 to the Trustees of Whittle le Woods and Clayton le Woods Parish Club on the completion of the purchase of 239 Preston Road by Chorley Council.

The purchase was made to facilitate the development of a GP surgery to relocate GP's from Whittle GP surgery currently located at 199 Preston Road that is no longer fit for purpose. The development will involve the demolition of the existing parish centre and the construction of a new purpose-built building.

Whittle le Woods and Clayton le Woods Parish Club typically receive less than £20k per annum and therefore this sale represents a significant receipt to the organisation. The council has one councillor who holds the position of Charity trustee along with four other people.

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35 CAPITAL EXPENDITURE AND FINANCING

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

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

	2018/19 £'000	2019/20 £'000
Opening Capital Financing Requirement	41,507	49,284
Capital investment		
Property, Plant and Equipment (Note 15)	22,329	43,940
Less 2017/18 PPE investment reclassified as REFCUS	(166)	0
Intangible Assets (Note 18)	7	0
Heritage Assets (Note 16)	1	0
Revenue Expenditure Funded from Capital under Statute	2,711	2,111
Sources of finance		
Capital Receipts	(576)	(234)
Government Grants and Other Contributions	(13,896)	(4,921)
Sums set aside from revenue		
Revenue Financing (Note 25b)	(2,091)	(746)
Minimum Revenue Provision – statutory (Note 25b)	(542)	(569)
Closing Capital Financing Requirement	**49,284**	**88,865**
Explanation of movements in year		
Increase in prudential borrowing	8,319	40,150
Provision made for debt repayment	(542)	(569)
Increase/(Decrease) in Capital Financing Requirement	**7,777**	**39,581**

The Capital Financing Requirement takes account of two major investments, a £23.341 million investment into Property, Plant and Equipment during the 2013/14 financial year, and £33.668 million during the 2019/20 financial year; both were financed by prudential borrowing.

The £23.341 million investment was to purchase the Market Walk shopping centre which continues to generate income for the Authority. The financing requirement is offset annually by a provision for debt repayment.

The £33.668 million relates to the purchase of Logistics House, a major warehousing and distribution centre within the Borough.

The council utilised almost £5m of capital grants and developer contributions in 2019/20. In terms of value most of the grants utilised were continuations of major expenditure in 2018/19 and included £0.230m ERDF funding towards the Strawberry Fields Digital Office Park, and £0.483m Lottery funding towards the renovation of Bank Hall. Developer contributions included the use of CIL

contributions of £0.600m towards enabling works at the Strawberry Fields Digital Office Park and £0.565m towards Whittle Surgery.

36 LEASES

36a Authority as lessee

Finance leases

The Council has no finance leases

Operating leases

The Authority operates plant, vehicles and office equipment under operating leases. There are also lease arrangements embedded in the refuse contract. The future minimum payments, and sub-lease minimum receipts, are as follows:

	31 March 2019		31 March 2020	
	Payments £'000	Receipts £'000	Payments £'000	Receipts £'000
Not later than 1 year	489	(43)	375	0
Later than 1 year, not later than 5	1,316	(170)	1,008	0
Later than 5 years	1,342	(155)	888	0
Minimum lease payments	**3,147**	**(368)**	**2,271**	**0**

For 2018/19, a significant proportion of the future payments and the whole of the future receipts related to a lease in respect of Duxbury Park. This lease was surrendered in 2019/20.

The operating lease rentals charged in the Comprehensive Income and Expenditure Statement during the year were as follows:

	2018/19 £'000	2019/20 £'000
Minimum lease payments	608	502
Sub-lease payments receivable	(43)	(32)
Total payable rentals	**565**	**470**

36b Authority as Lessor

Finance leases

The Council has leased two properties, each for periods of 125 years.

The authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

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	31 March 2019 £'000	31 March 2020 £'000
Finance lease debtor (present value of minimum lease payments)		
• Current	0	0
• Non-Current	289	289
Unearned finance income	2,140	2,116
Gross investment in the lease	**2,429**	**2,405**

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 2019 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000
Not later than 1 year	24	24	24	24
Later than 1 yr. not later than 5	95	95	95	95
Later than 5 years	2,310	2,286	2,310	2,286
Total	**2,429**	**2,405**	**2,429**	**2,405**

No allowance for uncollectible amounts is deemed necessary. No contingent rents were received by the authority.

Operating leases

The Council lets offices, industrial units and sites, units in the Market Walk Shopping Centre and Extension and Extra Care residential properties at Primrose Gardens. The future minimum lease payments receivable are:

	31 March 2019 £'000	31 March 2020 £'000
Not later than one year	2,057	4,532
Later than one year and not later than five years	4,325	14,438
Later than five years	11,452	62,040
Total receivable rentals	**17,834**	**81,010**

The significant rise in the amounts shown, compared to 2018/19, is a result of the completion of the Market Walk Extension scheme and the commencement of tenancies in the additional units, together with the purchase and leaseback of Logistics House (see Note 17 in respect of the purchase of this property).

No contingent rents were received by the authority.

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 of £12m 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%.

From 2019/20 the figures include an implicit allowance for the estimated cost of the McCloud judgement. The McCloud judgement refers to a legal challenge in relation to historic benefit changes for all public schemes being age discriminatory.

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 as a single amount in April each year of the 3 year valuation period to 2022/23. The Council also opted to pay the full three-year deficit recovery payment for the period 2020/21 – 2022/23. These were both done in return for a small overall discount. The discounted sum paid in April 2020 was £1.330m for the future service rate and £0.417m for the deficit recovery sum.

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 note 37j.

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:

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	2018/19 £'000	2019/20 £'000
Comprehensive Income & Expenditure Statement		
Cost of Services:		
Administration	38	50
Current service cost	2,387	2,832
Past service cost	0	1,656
Settlement and curtailment	107	112
Net interest on the net defined benefit liability:		
Interest costs	3,587	3,565
Expected return on scheme assets	(2,434)	(2,463)
Total post-employment benefit charged to the (Surplus)/Deficit on the Provision of Service	**3,685**	**5,752**
Other post-employment benefit charged to the Comprehensive Income & Expenditure Statement		
Re-measurement of the net defined benefit liability:		
Return on plan assets, excluding amount included in interest expense	(8,253)	827
Actuarial experience gains & losses	0	166
Actuarial gains & losses from changes in demographic assumptions	0	(5,060)
Actuarial gains & losses from changes in financial assumptions	7,554	(2,443)
Total re-measurements recognised in Other Comprehensive Income	**(699)**	**(6,510)**
Total post-employment benefit charged to the Comprehensive Income & Expenditure Statement	**2,986**	**(758)**
Movement in Reserves Statement		
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services	(3,685)	(5,752)
Actual employer contributions to the scheme	2,228	2,478

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37e Pensions 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	
	2018/19 £'000	2019/20 £'000
Present value of the defined benefit obligation	(149,951)	(146,219)
Fair value of plan assets	103,684	103,169
Net liability arising from defined benefit obligation	**(46,267)**	**(43,050)**

37f Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Scheme Assets Local Government Pension Scheme	
	2018/19 £'000	2019/20 £'000
Opening fair value of scheme assets	**94,165**	**103,684**
Interest income	2,434	2,463
Re-measurement gain/(loss)		
Return on plan assets, excluding amount included in interest expense	8,253	(827)
Employer contributions	2,224	2,459
Employee contributions	505	562
Benefits paid	(3,859)	(5,122)
Other	(38)	(50)
Closing fair value of scheme assets	**103,684**	**103,169**

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37g Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Scheme Liabilities Local Government Pension Scheme	
	2018/19 £'000	**2019/20 £'000**
Opening Balance at 1 April	**(139,670)**	**(149,951)**
Current service cost	(2,387)	(2,832)
Interest cost	(3,587)	(3,565)
Contributions by scheme participants	(505)	(562)
Re-measurement gains and (losses)		
Changes in demographic assumptions	0	5,060
Changes in financial assumptions	(7,554)	2,443
Experience (gain) or loss		(166)
Other	0	0
Benefits paid	3,859	5,122
Curtailment	(107)	(112)
Past service costs	0	(1,656)
Closing Balance at 31 March	**(149,951)**	**(146,219)**

37h Impact on the Authority's Future Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a level of 100% over 19 years. Funding levels are monitored on an annual basis. The latest triennial valuation was carried out as at 31 March 2019 with the next valuation due as at 31 March 2022.

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

The authority will pay £1.746m expected contributions to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 17 years.

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37i Local Government Pension Scheme assets comprised

	Fair value of scheme assets			
	2018/19 £'000	Percentage total of asset %	2019/20 £'000	Percentage total of asset %
Cash				
Cash and cash equivalents	0	0.00%	0	0.00%
Cash Accounts	529	0.50%	2,889	2.80%
Net Current Assets	72	0.10%	(1,754)	-1.70%
	601	**0.60%**	**1,135**	**1.10%**
Bonds				
UK corporate	704	0.70%	1,237	1.20%
Overseas corporate	512	0.50%	1,341	1.30%
Government	3,645	3.50%	0	0.00%
Overseas Fixed Interest	0	0.00%	0	0.00%
Sub-total bonds	**4,861**	**4.70%**	**2,578**	**2.50%**
Property				
Retail	2,496	2.40%	103	0.10%
Commercial	7,168	6.90%	1,342	1.30%
Sub-total property	**9,664**	**9.30%**	**1,445**	**1.40%**
Private equity				
UK	0	0.00%	0	0.00%
Overseas *	7,969	7.70%	8,254	8.00%
Sub-total private equity	**7,969**	**7.70%**	**8,254**	**8.00%**
Other				
Infrastructure	14,657	14.10%	14,237	13.80%
Indirect Property Funds	1,587	1.50%	7,325	7.10%
Credit funds	7,362	7.10%	16,301	15.80%
Pooled Fixed Income	11,278	10.90%	5,468	5.30%
Overseas Pooled Equity Funds *	45,705	44.10%	46,426	45.00%
Sub-total alternatives	**80,589**	**77.70%**	**89,757**	**87.00%**
	103,684	**100%**	**103,169**	**100%**

* These two categories appeared on a single line in the Statement of Accounts for 2018/19. The totals remains unchanged.

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37j 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 Mercers, an independent firm of actuaries. Estimates for the County Council Fund are based on the latest full valuation of the scheme as at 31 March 2019.

The main assumptions used in their calculations have been as follows:

	Local Government Pension Scheme	
	2018/19	**2019/20**
Mortality assumptions		
Longevity at 65 for current pensioners		
Men	22.8 yrs	22.3 yrs
Women	25.5 yrs	25 yrs
Longevity at 65 for future pensioners		
Men	25.1 yrs	23.8 yrs
Women	28.2 yrs	26.8 yrs
Rate of inflation (CPI)	2.20%	2.10%
Rate of increase in salaries	3.70%	3.60%
Rate of increase in pensions	2.30%	2.20%
Rate for discounting scheme liabilities	2.40%	2.40%

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)	3,988
Rate of inflation (increase of 0.1% p.a.)	2,461
Salary inflation (increase of 0.1% p.a.)	281
Rate for discounting scheme liabilities (increase of 0.1%)	(2,420)
Change in 2019/20 investment returns (increase of 1.0%)	(1,021)

38 CONTINGENT LIABILITIES

On transferring its housing stock in 2006/07, the Council gave warranties to Chorley Community Housing Limited against certain environmental risks. The Council's liability is restricted to a maximum loss of £18m arising over a period of 18 years. It has paid a single premium to insure against claims of up to £15m for a period of 10 years, and has covered the remaining 8 years by payment of additional annual premiums. At 31 March 2020 there are 5 years of the liability period outstanding.

At the end of March 2019, a contingent liability was disclosed in respect of claims made, against councils throughout the country, for mandatory charitable business rates relief by NHS Trusts and NHS Foundation Trusts. The backdated relief was potentially worth hundreds of millions of pounds in total across all of the councils. The councils had rejected the claims on the grounds that the NHS bodies are not charities, and therefore the claims were unfounded. The value of the appeals received by Chorley Borough Council was estimated at £4.264m, of which the authority's share would have been £2.388m (if settled in 2019/20 while a member of the 75% business rates retention pilot pool for Lancashire). In December 2019, the High Court ruled that these bodies are not eligible for such relief, with their activities being classified as governmental rather than charitable, so the council no longer has a contingent liability for this.

39 CONTINGENT ASSETS

The Council is entitled to a share of the proceeds from the sale of dwellings transferred to Chorley Community Housing. This agreement has a further three years to run. The amount receivable will depend on the numbers sold and cannot be predicted.

40 COVID 19 PANDEMIC AND EVENTS AFTER THE REPORTING PERIOD

The Code requires that, where relevant to a proper understanding of the financial statements, an authority must make disclosures in respect of events, both favourable and unfavourable, which occur between the end of the reporting period and the date when the financial statements are authorised for issue.

These events are divided into two types:

a) '**Adjusting Events**'. If an authority receives information after the reporting period, but before the financial statements are authorised for issue, about conditions that existed at the end of the reporting period, the authority is required to update any disclosures that relate to these conditions, in the light of the new information.
b) '**Non-Adjusting Events**'. These are those that are indicative of conditions that have relevance to the disclosures made in the financial statements, but which arose after the end of reporting period. In such cases, appropriate additional information should be supplied, but the disclosures themselves will not be updated.

No general events of either category have been identified, but there have, since the end of the reporting period, been continuous and significant developments in respect of the Covid 19 pandemic, including those with implications for the council's operations and finances. However, no Covid 19 related adjusting event has been identified. Likewise, no specific Covid related non-adjusting event has been identified, but the following are developments with implications for the council.

- Increased volatility in property valuations, beyond that inherent to market-based valuations in the normal course of events.

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- Effects on income generation and the recoverability of outstanding debt.
- New responsibilities for the provision of support to businesses.
- New sources of financial support from Central Government.
- The prolongation of general uncertainties around the future of local government funding.
- Changes to the operation of services, with the more extensive use of home working and the redeployment of staff to new and additional key tasks associated with the pandemic.
- Supply chain disruptions.

None of these developments has been assessed as requiring changes to the disclosures made for the end of the reporting period. Where appropriate, reference is made throughout this Statement to the impacts of the pandemic, most specifically in Notes 4 and 5.

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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).

2018/19 Business Rates £'000	2018/19 Council Tax £'000	Collection Fund	2019/20 Business Rates £'000	2019/20 Council Tax £'000
		INCOME		
	64,587	Council Tax Receivable		68,775
25,958		Business Rates Receivable	26,051	
25,958	**64,587**	**Total Income**	**26,051**	**68,775**
		EXPENDITURE		
		Apportionment of previous year's estimated Surplus/(Deficit)		
(707)		Central Government	(292)	
(566)	58	Chorley Council (Note 14)	(234)	70
(128)	359	Lancashire County Council	(53)	445
(14)	19	Lancashire Combined Fire Authority	(6)	23
	49	Police & Crime Commissioner for Lancashire		61
(1,415)	485		(585)	599
		Precepts, Demands and Shares		
12,283		Central Government	6,106	
9,826	7,495	Chorley Council (Note 14)	13,678	7,814
2,211	47,413	Lancashire County Council	4,274	50,005
246	2,470	Lancashire Combined Fire Authority	366	2,580
	6,497	Police & Crime Commissioner for Lancashire		7,481
24,566	63,875		24,424	67,880
23,151	**64,360**	**Total Expenditure**	**23,839**	**68,479**
		Charges to Collection Fund		
	11	Write offs of uncollectable amounts	14	109
113	(89)	Increase/(Decrease) in Bad Debt Provision	89	314
744		Increase/(Decrease) in Provision for Appeals	405	
130		Cost of Collection	131	
990		Transitional Protection Payments	261	
1,977	**(78)**	**Total Charges to Collection Fund**	**900**	**423**
830	**305**	**Surplus/(Deficit) arising during the year**	**1,312**	**(127)**
		Collection Fund Balance		
(1,415)	1,049	Balance brought forward at 1 April	(585)	1,354
830	305	Surplus/(Deficit) for the year	1,312	(127)
(585)	**1,354**	**Balance carried forward at 31 March**	**727**	**1,227**
		Allocated to		
(234)	157	Chorley Council - Collection Fund Adjustment Account	407	137
(292)		Central Government	182	
(53)	1,001	Lancashire County Council	127	907
(6)	144	Lancashire Combined Fire Authority	11	137
	52	Police & Crime Commissioner for Lancashire		46
(585)	**1,354**	**Surplus/(Deficit) at 31 March**	**727**	**1,227**

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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, as revealed in the Movement in Reserves Statement. See also Note 10.

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 or creditor position between the billing authority and each major preceptor.

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 2019/20 was calculated as follows:

Band	Dwellings	Dwellings adj. for discounts & exemptions	Proportion of Band D Charge	Band D Equivalent
A (disabled)	0	19.00	5/9	11.00
A	14,899	12,457.50	6/9	8,304.90
B	11,598	10,248.00	7/9	7,970.90
C	9,463	8,590.25	8/9	7,635.90
D	6,730	6,228.00	9/9	6,227.90
E	5,067	4,772.00	11/9	5,832.00
F	2,213	2,098.25	13/9	3,031.00
G	931	882.25	15/9	1,470.00
H	69	52.25	18/9	105.00
Total	**50,970**	**45,347.50**		**40,588.60**
Less adjustments for anticipated losses on collection				**(565.47)**
Add adjustment for new properties/technical changes to discounts				**576.66**
Less local Council Tax Support Scheme discounts				**(3,465.40)**
Band D Equivalent Number of Properties				**37,134.39**

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 an average Band D charge (excluding Parish Precepts) of £1,809.46 for 2019/20 (£1,726.20 for 2018/19). The other valuation bands are proportionate to this.

ACCOUNTING FOR BUSINESS RATES (NNDR)

From 2013/14, NNDR income, debtor and creditor balances, provisions, arrears and prepayments have been apportioned between the Council, Government, Lancashire County Council, and Lancashire Combined Fire Authority, as a result of the implementation of Business Rates Retention.

The deficit apportioned in 2019/20 was £585k, which was the same as the actual cumulative deficit in the previous year of £585k. Regulations require the deficit or surplus estimated in the annual National

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Non Domestic Rates (NNDR) 1 Return to be apportioned. The sum apportioned was therefore the estimate included in NNDR1 2019/20.

Note 14 Taxation and Non-Specific Grant Income and Expenditure shows net Non-Domestic Rates Income and Expenditure for 2019/20 to be £3.966m (2018/19 £3.257m). This can be reconciled to Chorley Council's share of Business Rates Income in the Collection Fund statement in the following table:

2018/19 £'000		2019/20 £'000
9,826	Chorley Council share of Business Rates	13,678
(6,255)	Tariff payable to Lancashire Business Rates Pool	(10,116)
(80)	Levy payable to Lancashire Business Rates Pool	
0	Payment to County Wide Fund	(3)
332	Chorley Council share of surplus or (deficit) for year (transferred to Collection Fund Adjustment Account - Note 26e)	641
(566)	Chorley Council share of previous year's surplus or (deficit)	(234)
3,257	**NNDR net income per Note 14**	**3,966**

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. Up until 2018/19, the Pool was based on 50% local retention of income, of which 40% was attributed to this council, 9% to Lancashire County Council and 1% to the Lancashire Fire and Rescue Authority. For 2019/20, the Pool was based on 75% local retention, with shares of 56%, 17.5% and 1.5% respectively, giving rise to the proportionately higher amounts shown in the table above. For 2020/21, the position has reverted to 50% local retention.

NNDR DETAILS OF CHARGE

Business Rates are organised on a national basis. In 2005/06 the Government introduced a Small Business Rate Relief Scheme. This results in there being two multipliers in England – one for small businesses at 49.1p in 2019/20 (48.0p in 2018/19); and one for larger businesses at 50.4p in 2019/20 (49.3p in 2018/19).

The Business Rates Income after reliefs was £25.5m for 2019/20 (£25.1m for 2018/19).

The rateable value for the Council's area at the end of the financial year 2019/20 was £67.69m (£66.99m in 2018/19).

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Annual Governance Statement (AGS)

CHORLEY COUNCIL

ANNUAL GOVERNANCE STATEMENT

1. Scope of responsibility

The residents of the Borough of Chorley expect the Council to conduct our business in a lawful and transparent way. In particular the Council have a duty to safeguard public money and account for it in an economic, efficient and effective way.

We have a continuing duty to review and improve how we discharge our functions focussing on the priorities of economy, efficiency and effectiveness.

To do this, the Council have put in place arrangements for the governance of its affairs. These arrangements assess the effectiveness of the exercise of its functions, and consider how well we manage risk.

We have approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which control and direct the Council. It provides how we account to, engage with and lead the community. It enables us to monitor the achievement of our strategic objectives and to consider whether our objectives have led to the delivery of appropriate, cost effective services for that community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. This enables us to manage risk efficiently, effectively and economically.

The governance framework has been in place at Chorley Council for the year ended 31 March 2019 and up to the date of approval of the annual report and statement of accounts.

3. The governance framework

The following table describes the key elements of the systems and processes that comprise the authority's governance arrangements. These are founded on the Core Principles and sub-principles taken from our Code of Corporate Governance.

Core Principle 1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
The Council's commitment to Good Governance	**How the Council meets these principles**	**Where you can see Governance in action**
Behaving with integrity	✓ The council have established both for Councillors and Staff Codes of Conduct and training is provided on both.	**Local Code of Governance** **Codes of Conduct**

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	Standards of behaviour are also assessed during employee one-to-one meetings and appraisals. ✓ It is essential that not only decisions are taken with integrity but are seen to be so. The Council have established transparent decision making processes through the Contract Procedure Rules, an online declaration of interests process and the use of standing orders. The public can therefore review and take comfort in the integrity of the decision makers. ✓ The Council do however have processes and policies in place to provide avenues to challenge decision making through whistleblowing, complaints and the call in procedure. ✓ The Council have a suite of counter fraud and anti-corruption policies in place – i.e. Whistleblowing policy, Antifraud and Corruption Strategy, Fraud Response Plan, Anti Bribery Policy, Anti Money Laundering Policy and Guidance, RIPA	**Performance and Development process** **CPRs and Standing Orders** **Register of Interests** **Whistleblowing Policy** **Customer Charter (See Sec. 5 Table B Action 2)** **Call in procedures** **Anti-fraud and Corruption Policies (See Sec. 5 Table B Action 2)**
Demonstrating strong commitment to ethical values	✓ The Council have adopted in our Contract Procedure Rules the requirement for partners and contractors to adopt our, or have equivalent ethical standards of behaviour. ✓ The Council have a Scrutiny Committee in place who act as the Council's watchdog, promoting open and transparent decision making, democratic accountability and to hold the executive to account for its actions.	**CPRs** **Partnership Framework** **Terms of reference for Scrutiny Committee**
Respecting the rule of law	✓ The Council's Constitution, policies and standing orders are all drafted in accordance with legislation. Application of these processes is tested through local assurance testing. ✓ The Council report and Decision Making Templates include a comment from the Monitoring Officer to ensure that the legal implications of decisions are considered. ✓ The Council is fully aware that they must pay attention to the advice of the Council's Monitoring Officer and have good reasons, which must be documented should they depart from it. In the event the Council acts unlawfully, the Monitoring Officer must report this to Full Council. The Monitoring Officer has never had cause to take this step. ✓ The Council has appointed statutory officers including; Head of Paid Service/S.151 Officer and Monitoring Officer who fulfil their responsibilities within legislative and regulatory requirements.	**Constitution** **Service Assurance Statements – AGS process** **Committee Management System (report templates)** **Roles of Statutory Officers within the Constitution.**
Core Principle 2. Ensuring Openness and Comprehensive Stakeholder Engagement		
The Council's commitment to Good Governance	**How the Council meets these principles**	**Where you can see Governance in action**
Openness	✓ The council have a robust approach to freedom of information and aim as part of our Digital Strategy to make as much information held by the Council accessible through our website as possible. ✓ The Council's Standing Orders have provision for public questions to be raised on any item on the agenda at both Full Council and Executive Cabinet meetings. ✓ All key decisions must be taken in writing and are published in accordance with the legislation. As part of the process both the Senior Financial Officer and the Monitoring Officer must be consulted and provide comments. Where appropriate, comments are also included in relation to equality and HR.	**Digital Strategy** **Council website** **Performance and Development process** **Committee Management System (report templates)** **Compliance with Transparency Act** **Equality Scheme**
Engaging comprehensively with institutional stakeholders	✓ The Council have a Communications Strategy which forms the basis for our relationships with our stakeholders. We ensure that we keep accurate records of stakeholder contacts to ensure they are engaged with properly and for the correct purposes. ✓ A consultation and engagement toolkit is used within our project management methodology.	**Communications Strategy** **Consultation and Engagement Toolkit**
Engaging stakeholders	✓ We use our Communications and Consultation and Engagement Toolkit to ensure that residents are properly	**Communications Strategy**

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effectively including individual citizens and service users	consulted on matters which affect or interest them. This consultation contributes to the achievement of the Council's intended outcomes. Increasingly we are using web based and social media to engage with our residents but recognise that in order to consult properly we must use a mix of methods.	**Consultation and Engagement Toolkit** **Digital Strategy**
Core Principle 3. Defining Outcomes in terms of Sustainable Economic Social and Environmental Benefits		
The Council's commitment to Good Governance	**How the Council meets these principles**	**Where you can see Governance in action**
Defining outcomes	✓ The Council have a clearly defined vision which forms the premise of our Corporate Strategy. The Strategy itself is developed in consultation with residents and stakeholders and its implementation is through the delivery of corporate projects and service level plans. All corporate projects have an initial document which defines the outcomes and projects are monitored through the MyProjects system. ✓ Contracts are in place for our key partnerships covering in particular Waste, Leisure, Payroll, Shared Services (with South Ribble BC).	**Corporate Strategy** **Service Level Plans** **Corporate Projects** **Project Management Toolkit (See Sec. 5 Table A Action 7)** **MyProjects system** **Partnership Framework**
Sustainable economic social and environmental benefits	✓ The Council have refreshed the Medium Term Financial Strategy to ensure that Capital investment is structured to maximise its life span whilst being adaptable for future use. Specific consideration is made of social and economic wellbeing of residents as evidenced by projects that provide affordable supported accommodation, employment opportunities and social benefits. ✓ The Council's contract procedure rules include the ability to consider social value when awarding contracts.	**Medium Term Financial Strategy** **Corporate Projects** **Compliance with Transparency Act** **CPRs** **Public Service Reform Strategy** **Community Resilience Framework**
Core Principle 4. Determining the Interventions Necessary to Optimise the Achievement of Intended Outcomes		
The Council's commitment to Good Governance	**How the Council meets these principles**	**Where you can see Governance in action**
Determining interventions	✓ We have a robust approach to setting interventions. Members and Officers work closely together and consult on the preparation of the Corporate Strategy which sets the framework for council delivery. The benefits of interventions are considered not only based on cost but also upon need and impact in order to ensure best value is met. ✓ Feedback from residents in this process is very important to ensure what we deliver is both needed and wanted.	**Corporate Strategy** **Consultation and Engagement Toolkit** **Communications Strategy** **Digital Strategy** **Sustainable Community Strategy**
Planning interventions	✓ The Council have a strong framework for planning the implementation of our interventions. We publish a calendar of meetings, and the Key Decision forward plan to confirm dates for decisions to be taken but in addition ensure all report writers are aware of publication of agenda dates to press for reports to be prepared in good time. We have a clear Communications Strategy to ensure proper consultation and a Risk Register. ✓ We are promoting the use of the Project Management Toolkit which ensures that there is a clear scope, timetable and outcomes for each project and Key Performance Indicators are set to monitor each service. ✓ Each project or intervention has a budget and there are regular meetings between management accountancy both with project managers and service heads for monitoring purposes.	**Calendar of meetings** **Forward Plans** **Communications Strategy** **Corporate Risk Register** **Project Management Toolkit (See Sec. 5 Table A Action 7)** **KPIs** **Budget monitoring** **Quarterly Budget Reporting**
Optimising achievement of	✓ We have a Corporate Strategy which has been agreed by Council and reflects the council's priorities. The Strategy is aimed at meeting the fundamental needs of local residents,	**Corporate Strategy** **Transformation Strategy**

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intended outcomes	like health housing and jobs, while continuing to get Chorley in the best social and economic position for the future. ✓ We have a Transformation Strategy in place. The overriding aim of this strategy is to support the council to achieve its ambitions for public service reform namely by achieving; • A greater integration of public services, particularly around prevention and early intervention; • Focus on prevention and early intervention across public services; • Decision making and accountability at the lowest practical level; • The system-wide sharing of responsibility for management of demand and reduction of cost shunting between organisations. ✓ The Medium Term Financial Strategy is refreshed regularly to ensure it stays current and reflects any changes in council priorities. This ensures proper budgetary planning.	**Medium Term Financial** **Quarterly Budget Reporting** **Partnership Framework**
Core Principle 5. Developing the Entity's Capacity, including the Capability of it's Leadership and the Individuals within it		
The Council's commitment to Good Governance	**How the Council meets these principles**	**Where you can see Governance in action**
Developing the entities capacity	✓ We have a Transformation Strategy and Medium Term Financial Strategy which the Council uses to plan for future changes to the organisation, planning for future capacity needs. Such transformation is achieved through rough cut costing, benchmarking and use of the Council's Corporate Strategy. ✓ We have a long term partnership with South Ribble BC to deliver Financial and Assurance services which both increases capacity and skills whilst delivering efficiency savings. ✓ We have an Organisational Development Strategy which outlines the Council's approach to organisational development. Its purpose is to; • Align with the Transformation Strategy to build organisational capability to support its delivery; • Identify opportunities to build organisational capability collaboratively with partners; • Build organisational capability to support business as usual activities at individual, service and organisational levels; • To ensure that the council has the leadership to support and drive changing governance models.	**Transformation Strategy** **Corporate Strategy** **Medium Term Financial Strategy** **Organisational Development Strategy** **Shared Services Collaboration Agreement**
Developing the capability of the entity's leadership and other individuals	✓ Roles are clearly defined within the Council through the use of job descriptions and structure charts. The Constitution details the responsibilities of officers and councillors and the roles of the statutory officers; Head of Paid Service, Chief Finance Officer and Monitoring Officer. ✓ Good practice standards are annually assessed against the CIPFA statements for the roles of the Chief Finance Officer and Head of Internal Audit ✓ Relationships are managed through regular and frequent member briefings. ✓ The Council have updated the Organisational Development Plan ensuring that all staff have the opportunity to benefit from personal and professional development, and this is monitored through one to ones and the annual appraisal process. ✓ Officers and Councillors alike are held to account through, Neighbourhood Area Meetings with residents, Stakeholder Forums and the Chorley Partnership; as well as through Overview and Scrutiny Committee.	**Job descriptions** **Organisational Structure Chart** **Constitution** **Roles of Statutory Officers** **Organisational Development Plan** **Annual Appraisal Process** **Neighbourhood area meetings** **Stakeholder Forums** **Chorley Public Service Reform Partnership**
Core Principle 6. Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management		

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The Council's commitment to Good Governance	How the Council meets these principles	Where you can see Governance in action
Managing risk	✓ There is an established Risk Management Framework which ensures that risk is considered in all aspects of decision making. This includes the identification of risks but also ensuring responsibility for them is allocated correctly. ✓ The council takes a proactive approach to both prevent and detect fraud and this is supported by the Council's Anti-Fraud & Corruption Strategy, Internal Audit programmes, fraud investigations, participation in National Fraud Initiative exercises, and publication of proven cases	**Risk Management Framework (See Sec. 5 Action 1)** **Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016-2019**
Managing performance	✓ This is part of the Council's approach to business transformation. Service delivery is monitored through service meetings, performance indicators, benchmarking and budget monitoring. The Executive Members have regular service briefings in relation to their portfolios. Overview and Scrutiny Committee are engaged and Task Groups have responsibility for considering and suggesting improvements in relation to service delivery. ✓ The Governance Committee is responsible for reviewing and challenging the adequacy of the council's governance arrangements. It closely monitors progress on control matters including improvement plans, external and internal audit programmes and reports, risk management, budget and financial investment reports.	**Performance Indicators and Performance reporting (See Sec. 5 Table A Action 8)** **Work of Overview and Scrutiny Committee and Task Groups** **Role of Governance Committee.**
Robust internal control	✓ The council maintains a robust Internal Audit service, which annually provides an independent and objective opinion on the internal control environment, verifies compliance with policies, laws and regulations, evaluates and makes recommendations to improve the effectiveness of risk management, value for money and governance processes ✓ The Council require all directorates to complete assurance statements which identify compliance issues which may exist across the Council. ✓ The Annual Governance Statement reflects on the adequacy and effectiveness of the Council's Governance Framework. This is then independently considered by External Audit. ✓ The Governance Committee complies with best practice and tests the Council's controls through the receipt of reports for consideration.	**Audit Plan, Audit Charter** **Service Assurance Statements** **Annual Governance Statement** **Governance Committee Terms of Reference**
Managing data	✓ The Council have clearly defined policies and procedures for managing and storing data. Additional work is required however to embed these and update the Council's IT systems.	**ICT Strategy** **Digital Strategy** **Data Security Policy** **GDPR Audit Plan**
Strong public financial management	✓ All decisions of the Council require a comment from the SFO, which will address budgeting issues and compliance with Best Value and the Council's contract procedure rules. There are regular meetings between budget holders / project managers and Finance to monitor budgets and any changes can be identified early.	**Committee Management System (report templates)** **Asset register** **CPRs** **Budget monitoring and Quarterly Budget Reports** **Compliance with CIPFA Statement on Role of CFO**
Core Principle 7. Implementing Good Practices in Transparency Reporting and Audit to Deliver Effective Accountability		
The Council's commitment to Good Governance	**How the Council meets these principles**	**Where you can see Governance in action**
Implementing good practice in transparency	✓ We feel it very important for the discharge of our obligations that as much information as possible is made available to the public. This is done through publication on the Council's website.	**Council's website** **Compliance with Transparency Act (See**

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		Sec. 5 Table A Action 4)
Implementing good practices in reporting	✓ The Council comply with good practice in relation to value for money reporting and the annual Statement of Accounts considers how public finances have been stewarded. ✓ It is the practice of the Authority to ensure that all key decisions are made by councillors in accordance with our approval processes. Compliance with these processes are considered within this Annual Governance Statement.	**Statement of Accounts** **Quarterly Performance Reports** **Scheme of Delegation** **Annual Governance Statement**
Assurance and effective accountability	✓ We view improvement as a continuing process. Internal Audit reports to Governance Committee include a summary of areas for improvement and implementation is reported on an exception basis. ✓ Overview and Scrutiny Task Groups report proposed improvements to Executive Cabinet who decide whether to accept the recommendations or not. Where accepted Cabinet will later report as to the progress of the implementation of improvements. ✓ Residents have the right to ask questions at Council meetings in relation to matters on the meeting agenda which ensure immediate accountability to residents.	**Internal Audit reporting to Governance Committee** **Governance Committee Terms of Reference** **Overview and Scrutiny work programme** **Communications Strategy**

THE IMPACT OF COVID-19

Although the AGS assesses the governance arrangements in place throughout 2019/20, it needs to be current at the time of publication and as such, the impact of Covid-19 is included in the statement, although for the majority of the 2019/20 financial year it had no effect.

The Council responded and adhered to government guidance in response to the pandemic and worked with partners, such as the Lancashire Resilience Forum and Lancashire County Council, to co-ordinate a response to ensure that resources were prioritised to those most in need with essential assistance being provided across all parts of the Borough; priorities changed to focus on the need to distribute emergency food, and to provide essential services and welfare support to vulnerable residents and to support local businesses and protect jobs in the Borough.

Despite the challenges, the Council maintained essential services whilst adapting provision, where possible, to provide alternative virtual services. Our robust response to the pandemic has added assurance to the effectiveness of the Council's business continuity plans, communications strategy and governance arrangements.

The Council has conducted meetings and taken decisions in ways other than the traditional face to face approach; virtual meetings have been held and the flexibilities provided in the Coronavirus Act 2020 have been utilised so that lawful decisions have still been made to maintain good governance and the principles of openness, transparency and accountability. The Council also adapted its approach by assessing which decisions needed to be made quickly to deal with the pandemic and those which could be delayed and re-scheduled, it has utilised the Chief Executive's emergency powers only when necessary, and these decisions have been fully captured and published on Modern.Gov and procurement procedures have been maintained but adjusted in line with national guidelines, as appropriate.

Members and the Leadership Team have received regular updates regarding the financial impact of Covid-19 and work has continued to plan for it's impact on the budget and the Council's Medium Term Financial Strategy.

All Directors have worked as part of the Senior Management Team to establish the impact of Covid on the Council's operations and they have identified changes required to both respond to the pandemic, and to support, develop and improve service delivery moving forwards. The changes broadly fall into the following general areas:

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- ***Transformation Programme*** - a series of reports have been considered by Cabinet under the Transformation Programme outlining how services might transform in the future to adapt to changing needs and to build greater financial sustainability.
- ***Implementation of new policies or processes*** – as part of the Transformation Programme, policies and processes have been, and continue to be reviewed to make them fit for future purpose.
- ***Funding and financial impact*** – Cabinet has received regular reports on the impact of Covid-19 on the Council's finances, and on the various funding streams provided by the Government to support the response to the crisis and to address the impact on existing operations, projects and programmes; this has been reported in the financial returns submitted to MHCLG each month and will continue to be monitored and reported to Cabinet as we move forward .
- ***Future working*** - the majority of staff have worked from home and successfully delivered key council services since the Central Government lockdown was imposed in March 2020. Whilst this brought about some immediate and fundamental changes to governance and communication procedures, the roll-out of Microsoft Teams for meetings, calls and instant messaging, has allowed staff and members to communicate effectively; this will facilitate more flexible working options for the future

4. Review of effectiveness

Chorley Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs describe the processes that have been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

Corporate Level Review

- A management group consisting of the following officers has been established to oversee the compilation of the Annual Governance Statement:
    - Chief Executive
    - Deputy Chief Executive
    - Director of Governance (Monitoring Officer)
    - Assistant Director of Finance (S151 Officer)
    - Head of Shared Assurance Services (Interim)
    - Shared Service Lead (Transformation and Partnership)
- The group has conducted a corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE.

Service Level Review

- The Council has also introduced Service Assurance Statements requiring Directors and Service Leads to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

Monitoring Officer

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- As the Council's Monitoring Officer, the Director of Governance has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Monitoring Officer will report and recommend to Council any proposed amendment to the Constitution, which falls outside the Monitoring Officers delegated powers, for adoption.

Scrutiny Committee

- The Council has an Overview and Scrutiny Committee which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

Governance Committee

- The Council has appointed a Governance Committee whose terms of reference comply with the CIPFA guidelines. These extend to monitoring the Council's governance, risk management and internal control framework and include reviewing the adequacy of the governance framework.

Standards Sub-Committee

- The Council has appointed a Standards Sub-Committee of the Governance Committee whose terms of reference comply with the prevailing national guidance on standards and codes of conduct for members.

Internal Audit

- Strong Internal Audit and Risk Management disciplines are embedded and the Shared Assurance Service maintains excellent working relationships with Senior Management, the Governance Committee and the Council's External Auditors to provide an integrated approach to the provision of assurance within the Council. The Internal Audit Service is fully compliant with the Public Sector Internal Auditing Standards, this was established following a peer review by the Audit Managers of 2 Lancashire authorities in April 2018.

- The Public Sector Internal Audit Standards require the Head of Shared Assurance to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of control, risk management and governance.

  Control – The Internal Audit Service provides an independent opinion on the adequacy of the internal control system. All recommendations for improvement are agreed with Senior Management and a summary is reported to the Governance Committee. There are 2 Internal Audit reports were the opinion of the assurance risk and control framework are Limited in 2019/20. One is related directly to a Chorley Service and the other is for a service that sits within the Shared Services area. The following provides the number of reviews by assurance opinion

  Adequate 6
  Substantial 2
  Full 1

  Risk Management – The Council's arrangements were further strengthened during 2018/19 by the continued development of the GRACE risk management system. Extensive training was delivered to Officers and the revised Risk Management Framework was approved by the Governance Committee in March 2018.

  Governance – Actions have been taken during 2019/20 to strengthen the Council's governance arrangements (see identified governance issues below). The Annual Governance Statement Action Plan for 2019/20 includes details of actions to further strengthen Council's governance

arrangements. The 2019 AGS has been produced following a rigorous assessment process, both internal and external.

The Head of Internal Audit, has therefore concluded that the opinion in regard to the adequacy and effectiveness of the Council's governance, risk management and control framework has been determined that the Council can place **Adequate** assurance on the controls in place, in respect of the services / areas reviewed, evidencing that the governance arrangements and controls in place are robust and are operating effectively, with only some control issues requiring action. These actions have been addressed as part of the agreed Management Action Plan in those areas.

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 on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, Governance Committee, Overview and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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5. Identified Governance Issues

In the previous year the following themes were identified as requiring action and improvement:

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Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Risk Management	1.1 To further embed the risk management system	- To review & update Risk Management Framework - Arrange and provide risk management training	**Outstanding and carried forward**
2. Customer Complaints	2.1 To improve the recording of customer complaints and identify benefit of actions taken	- To undertake a review of how customer complaints are received to ensure that they are all captured and recorded centrally - To identify and record the benefit of actions taken	**Complete**
3. Fraud	3.1 To Review and update Anti-fraud policies	- To review and update the Anti-fraud policies	**Outstanding and carried forward**
	3.2 To increase fraud awareness	- Fraud awareness training to be delivered to all relevant officers using e-learning modules - Fraud reports to be presented to Governance Committee on a regular basis.	
	3.3 To compile and monitor a fraud risk register	- Fraud risk register to be compiled and monitored on a regular basis	
4. Transparency	4.1 To ensure full compliance with the revised requirements of the Transparency Code.	- A review of compliance with the Code has been undertaken and areas of non-compliance are to be actioned namely; • Recording of officer decisions; • Publication of contracts	**Complete**
5. Communication	5.1 To review and update the Communication Strategy for both internal and external communications	- To review and update the Communication Strategy for external communications - To review and update the consultation engagement toolkit - To re-iterate to staff the need to keep customers informed (call-back procedure)	**Complete**
6. Compliance with Contract	6.1 To further embed procurement policies and procedures, and to	- To develop and implement a contract management system through 'Agile Point'	**Contract Management System developed**

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Procedure Rules (CPRs)	strengthen the current CPRs.	- To arrange and provide training to relevant staff	**awaiting implementation**
7. Project Management	7.1 To review and update the Project Management Toolkit as part of the creation of the centralised Programme Management Office	- To review and update the Project Management Toolkit to more fully incorporate finance, risk and statutory compliance monitoring	**Complete**
8. Performance Management	8.1 To further embed Data Quality Policy	- To provide data quality training and support	**Completed**
9. Ethical Governance	9.1 To incorporate best practice recommendations made by Committee on Standards in Public Life into Council procedures and Code of Conduct.	- To establish Governance Committee working group - Working Group to consider best practice recommendations with a view to incorporating them into Council procedures / Code of Conduct - Provide Code of Conduct training for Parish Councillors	**Completed**

The Council will take the following steps in the forthcoming financial year to build and strengthen our corporate governance arrangements:

Table B

Theme	Agreed Improvement	SMART Actions & Milestones	Status
1. Risk Management	1.1 To further embed the risk management system	- To review & update Risk Management Framework - Arrange and provide risk management training	**Outstanding – this theme is being reviewed. It remains an issue that needs to be considered however the focus has been extended to include consideration of the risk management system. This then has an impact on the Framework and training to be provided.**
2. Fraud	2.1 To Review and update Anti-fraud policies	- To review and update the Anti-fraud policies	**Outstanding**
	2.2 To increase fraud awareness	- Fraud awareness training to be delivered to all relevant officers using e-learning modules - Fraud reports to be presented to	

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		Governance Committee on a regular basis.	
	2.3 To compile and monitor a fraud risk register	- Fraud risk register to be compiled and monitored on a regular basis	
3. Transparency	3.1 To ensure full compliance with the revised requirements of the Transparency Code.	- A review of compliance with the Code has been undertaken and areas of non-compliance are to be actioned namely; • Publication of contracts	**Contracts Register developed and awaiting implementation**
4. Compliance with Contract Procedure Rules (CPRs)	4.1 To further embed procurement policies and procedures, and to strengthen the current CPRs.	- To develop and implement a contract management system through 'Agile Point' - To arrange and provide training to relevant staff	**Contract Management System developed awaiting implementation**
5. Shared Services	a. Implement enhanced Shared Services Governance Arrangements b. To review the staffing and resourcing of Internal Audit c. To review the Business Continuity and Emergency Plans and service resourcing	- To review and update the shared services agreement to specifically address matters that have arisen and the extension of shared services - To review staffing and resourcing of Internal Audit in light of changes to staff - To review and update Business Continuity and Emergency Plans in light of learning occasioned by the Covid Pandemic	**Issue identified by :- Changes to personnel and; matters identified in SRBC AGS and; recent Covid pandemic**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. The Themes will be entered as Management Actions onto the MyProjects system and allocated to the most appropriate Director or Head of Service for action. Progress will be monitored by the Senior Management Team using MyProjects.

6. Future changes which will affect Governance Arrangements

Last year 2 significant changes were identified which would likely impact on the Council's Governance Arrangements. Firstly, Brexit and secondly the conclusion of the boundary review and all out elections.

At this stage we had expected to have completed the 2020 elections and established the new ward boundaries. The Covid-19 Pandemic has delayed this until 2021. The future issues identified in last years Annual Governance Statement remain.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Cllr. A. Bradley
Leader of the Council
Date: 29 July 2021

G Hall
Chief Executive
Date: 29 July 2021

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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.

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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 (Chorley 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.

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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 and 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.

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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 Chorley 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

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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 Chorley Borough Council this usually covers a three 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 Chorley Council 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.

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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:

a) actuarial gains and losses
b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and
c) 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.

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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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Chorley Council

Report of	Meeting	Date
Director of Finance	Governance Committee	28/07/2021

Charity and Trust Account

Purpose of report

1. To present for approval the accounts for the year ended 31 March 2021 for charities and trusts for which the Council is the sole trustee.

Recommendation(s)

2. That the accounts presented in Appendix A to E be approved.

Executive summary of report

3. The Council's Statement of Accounts 2020/21 does not include the previous Trust Funds disclosure. As an alternative, figures are presented in this report, which therefore provides an opportunity of providing more detail about each charity or trust.

Confidential report Please bold as appropriate	Yes	**No**

Corporate priorities

4. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	X
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	

Background

5. As part of the process of decluttering the Council's Statement of Accounts in 2015/16, the previous Trust Funds note was omitted. Figures relating to the trusts were not material, and inclusion of the note in the statement would not improve users' understanding of the Council's financial position. Excluding the note from the statement means that the external auditors have not been obliged to audit it.

6. Having excluded the note from the 2020/21 Statement of Accounts, this report gives Governance Committee members the opportunity to review and approve the accounts for each of the charities or trusts, presented as Appendix A to E. A brief summary of the financial performance of each charity or trust is presented in the following paragraphs. There is no statutory requirement for the accounts to be audited. Figures are not rounded

so that all transactions can be seen in full. The note to the accounts had figures rounded to the nearest thousand pounds, which means that low value transactions were not visible.

7. Three of the charities or trusts hold external investments. No sums have been disinvested and reinvested, but the market value of investments varies from year to year. Such changes in market value are reflected in the relevant accounts.

Edward McKnight Memorial Fund

8. This fund was established many years ago to pay for educational lectures in memory of Edward McKnight, Chorley's first librarian, who died in 1911. It has a cash balance, held by Chorley Council, which receives interest at the average rate earned on the Council's investments. It has not incurred any expenditure for many years. Its accounts are presented as Appendix A. These show that cash held for the fund as at 31 March 2021 was £5,396.32.

William Cocker Charity

9. The William Cocker Charity is not registered with the Charity Commission, and there is no need to do so because of its low turnover. It was established for the provision of recreation grounds in Chorley, and the interest earned on its external investment is paid to Chorley Council for that purpose. Appendix B presents the accounts for the charity.

Proceeds of Sale of Former Free Library

10. This registered charity was established in 1992 using the proceeds of the sale of the Avondale Road Library, previously known as the Free Library. The objects of the charity are such charitable purposes for the general benefit of the inhabitants of Chorley.

11. The main source of income is interest on the charity's external investments, but Chorley Council also pays interest (at the average rate earned on its investments) on the cash balance it holds for the charity. The balance held by the Council was £13,927.68 as at 31 March 2021, and all figures are presented in the accounts in Appendix C.

W B Park's Charity

12. It is understood that W B Park's Charity was established for the extension of the Infectious Diseases Hospital, Withnell. The Council holds a cash balance of £1,704.89 for the charity, which does not have interest added because of the difficulty of applying the charity's resources to an appropriate purpose. It is not a registered charity, and its accounts are presented as Appendix D.

H T Parke's Baths Fund

13. The H T Parke's Baths Fund was established for the maintenance of Brinscall Baths. The interest earned on its external investment is paid to Chorley Council for that purpose. The fund is not registered as a charity. Appendix E presents its accounts for 2020/21.

Implications of report

14. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	√	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

Comments of the Statutory Finance Officer

15. This report has replaced the disclosure note previously presented in the Council's annual Statement of Accounts, and it gives members the opportunity to review and query performance of each charity or trust before approving their accounts.

Comments of the Monitoring Officer

16. The Monitoring Officer has no comments.

Gary Hall
Chief Executive

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Gov.uk – Prepare a charity's annual accounts	March 2016	Electronic document	Town Hall

Report Author	**Ext**	**Date**	**Doc ID**
Martin Fisher	5354	20/07/20	Charity and Trust Accounts 2020-21.docx

Appendix A

Edward McKnight Memorial Fund

Receipts & payments account for the year ended 31 March 2021

2019/20 £		2020/21 £
	Receipts	
34.29	Interest on cash held by Chorley Council	4.85
34.29	**Total receipts**	**4.85**
	Payments	
	No expenditure in year	
0.00	**Total payments**	**0.00**
34.29	**Net receipts/(payments)**	**4.85**
5,357.18	Bank and cash at the start of the period	5,391.47
5,391.47	Bank and cash at the end of the period	**5,396.32**

Statement of assets and liabilities at 31 March 2021

31 March 2020 £		31 March 2021 £
	Cash assets	
5,391.47	Cash held by Chorley Council	5,396.32
5,391.47	**Total cash assets**	**5,396.32**
5,391.47	**Total assets**	**5,396.32**

Appendix B

William Cocker Charity

Receipts & payments account for the year ended 31 March 2021

2019/20 £		2020/21 £
	Receipts	
136.52	Interest on investments	60.74
136.52	**Total receipts**	**60.74**
	Payments	
(136.52)	Provision of recreation grounds in Chorley (paid to Chorley Council)	(60.74)
(136.52)	**Total payments**	**(60.74)**
0.00	**Net receipts/(payments)**	**0.00**
0.00	Bank and cash at the start of the period	0.00
0.00	Bank and cash at the end of the period	**0.00**

Statement of assets and liabilities at 31 March 2021

31 March 2020 £		31 March 2021 £
	Other assets	
3,200.46	External investments	3,770.00
3,200.46	**Total other assets**	**3,770.00**
3,200.46	**Total assets**	**3,770.00**

Appendix C

Proceeds of Sale of Former Free Library (registered charity 1010457)

Receipts & payments account for the year ended 31 March 2021

2019/20 £		2020/21 £
	Receipts	
2,932.85	Interest on investments	3,579.36
56.18	Interest on cash held by Chorley Council	9.31
2,989.03	**Total receipts**	**3,588.67**
	Payments	
0.00	**Total payments**	**0.00**
2,989.03	**Net receipts/(payments)**	**3,588.67**
7,349.98	Bank and cash at the start of the period	10,339.01
10,339.01	Bank and cash at the end of the period	**13,927.68**

Statement of assets and liabilities at 31 March 2021

31 March 2020 £		31 March 2021 £
	Cash assets	
10,339.01	Cash held by Chorley Council	13,927.68
10,339.01	**Total cash assets**	**13,927.68**
	Other assets	
97,927.73	External investments	116,161.14
97,279.73	**Total other assets**	**116,161.14**
107,618.74	**Total assets**	**130,088.82**

Appendix D

W B Park's Charity

Receipts & payments account for the year ended 31 March 2021

2019/20 £		2020/21 £
	Receipts	
	No income in year	
0.00	**Total receipts**	**0.00**
	Payments	
	No expenditure in year	
0.00	**Total payments**	**0.00**
0.00	**Net receipts/(payments)**	**0.00**
1,704.89	Bank and cash at the start of the period	1,704.89
1,704.89	Bank and cash at the end of the period	**1,704.89**

Statement of assets and liabilities at 31 March 2021

31 March 2020 £		31 March 2021 £
	Cash assets	
1,704.89	Cash held by Chorley Council	1,704.89
1,704.89	**Total cash assets**	**1,704.89**
1,704.89	**Total assets**	**1,704.89**

Appendix E

H T Parke's Baths Fund

Receipts & payments account for the year ended 31 March 2021

2019/20 £		2020/21 £
	Receipts	
55.19	Interest on investments	95.48
55.19	**Total receipts**	**95.48**
	Payments	
(55.19)	Maintenance of Brinscall Baths (paid to Chorley Council)	(95.48)
(55.19)	**Total payments**	**(95.48)**
0.00	**Net receipts/(payments)**	**0.00**
0.00	Bank and cash at the start of the period	0.00
0.00	Bank and cash at the end of the period	**0.00**

Statement of assets and liabilities at 31 March 2021

31 March 2020 £		31 March 2021 £
	Other assets	
2,439.21	External investments	2,495.23
2,439.21	**Total other assets**	**2,495.23**
2,439.21	**Total assets**	**2,495.23**

Grant Thornton

Chorley Borough Council audit plan

Year ending 31 March 2021

Chorley Borough Council

28 July 2021

Contents

Your key Grant Thornton team members are:

Georgia Jones
Key Audit Partner
T 0161 214 6383
E Georgia.S.Jones@uk.gt.com

Matt Derrick
Senior Manager
T 0141 223 0656
E Matt.F.Derrick@uk.gt.com

Nicole Doroja
Senior In-charge Auditor
T 0117 305 7600
E Nicole.Aira.Doroja@uk.gt.com

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	Our response
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.	• 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 continue to provide you with sector updates via our Governance Committee updates.
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 financial statements.	• 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 • 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
Chorley BC Property Ltd In March 2020, the Council established a new wholly owned company to support its ambitions to develop the provision of affordable residential properties, to manage its commercial activities and generate new income streams. During the 2019-20 financial year, the Council completed the purchase of a new investment property, Logistics House, which will be managed by the new company. Additional assets are expected to be acquired in future as part of the Council's residential property acquisition strategy.	

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Chorley 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.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of the subsidiary Chorley BC Property Ltd.

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 and investment properties
- 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 £1.015m (PY £1.029m) for the Council, which equates to 1.90% 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 £0.051m (PY £0.051m).

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has not identified any significant risks requiring separate attention.

Under the new VFM arrangements review (set out further on pages 14 and 15 of this plan) we will be considering your arrangements across the three key criteria areas of finance, governance and performance. We will continue to monitor and update our risk assessment and responses until we issue Auditor's Annual Report.

Audit logistics

Our audit of the final accounts will take place in August and September 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 £58,816 (PY: TBC) 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..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council will need to complete an assessment of the group boundary for preparing consolidated financial statements however, we expect to perform audit procedures on the material transactions and balances within the subsidiary company.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Chorley Borough Council	Yes		Management override of controls Valuation of land and buildings Valuation of net pension fund liability	Full scope audit performed by Grant Thornton UK LLP
Chorley BC Property Ltd	No		Management override of controls	Specific scope procedures on rental income to be performed by the audit team.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

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 Chorley 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.	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 (2019-20: £43.050m) 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 (2019-20: £130.060m) 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 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.

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

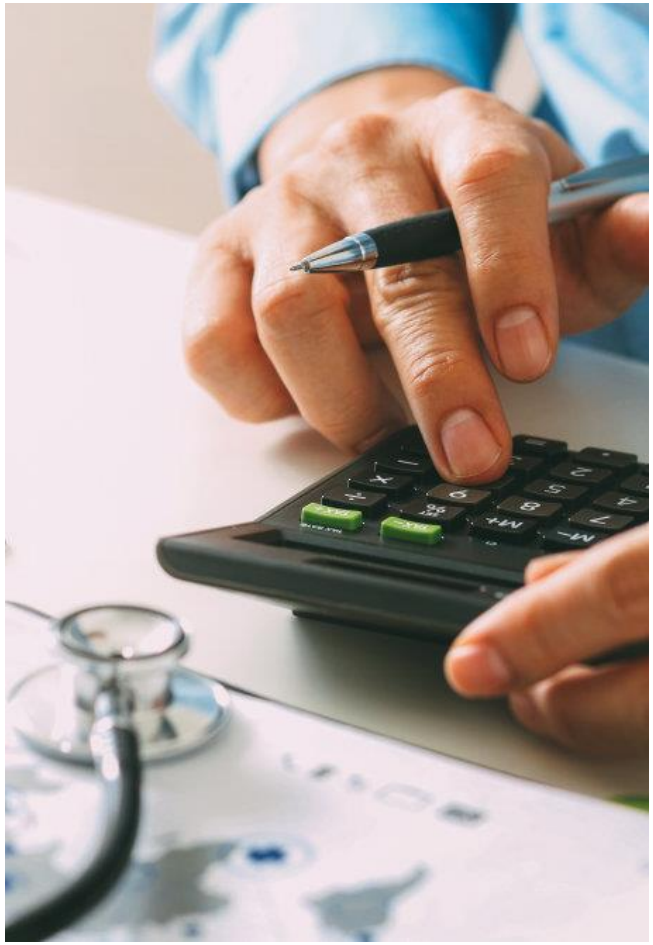
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 £1.015m for the group and £1.015m (PY £1.029m) for the Council, which equates to 1.90% of your prior year gross expenditure.

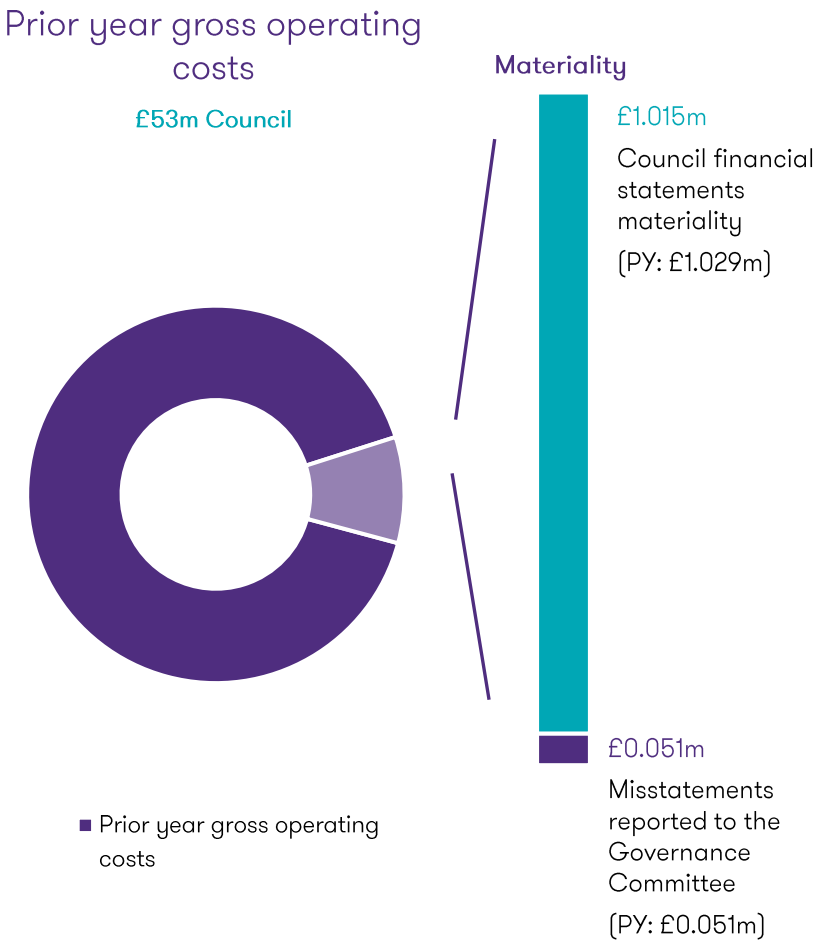
We design our procedures to detect errors in specific accounts balances or disclosures at a lower level of precision. The senior officer remuneration disclosure in the financial statements has been identified as an area requiring lower level of materiality of £20,000, due to the sensitive nature of the 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 group and the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.051m (PY £0.051m).

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

These would be 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.

At this stage of our audit work we have not identified any significant weaknesses. However, under the new VFM arrangements we will be considering the Council's arrangements in place across the three criteria areas of finance, governance and performance. We will review the Council's financial outturn for 2020-21 and its planned position for 2021-22.

We will keep the possibility of a significant risk arising and/or an existing risk increasing to a significant level as part of our ongoing 2020-21 VFM review. Our findings will be summarised in the Auditor's Annual Report.

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 Chorley Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £34,846. 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 Director of Finance.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Chorley Borough Council Audit	£68,321	£tbc	£58,816
Total audit fees (excluding VAT)	£68,321	£tbc	£58,816

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	£34,846
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
Local risk issues	£1,500
Audit fee 2019/20 (TBC). This amount is prior to the final fee for 2019/20 being agreed once the audit for that year is complete. The items listed above are those which continue to carry over into 2020/21.	**£41,816**
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	£1,500
Proposed increase to 2019/20 fee	**£17,000**
Total audit fees (excluding VAT)	**£58,816**

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	19,200	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 £19,200 in comparison to the total fee for the audit of £58,816 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	✔

Grant Thornton

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Chorley Council

Report of	Meeting	Date
Director of Finance	Governance Committee	28th July 2021

Treasury Management Annual Report 2020/21 And Quarter One Monitoring 2021/22

Purpose of report

1. To report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2021.

2. To present monitoring figures for the quarter ended 30 June 2021, including updated interest rate forecasts from Link Asset Services.

Recommendation(s)

3. That the report be noted.

Executive summary of report

4. This report advises on compliance with Prudential and Treasury Indicators in 2020/21. The return on investments for the year was 0.09%, which was slightly below the benchmark of 0.10%. Details of borrowing and investments as at 31 March 2021 are presented.

5. Borrowings and investments as at 30 June 2021 are also presented, and Link Asset Services have provided updated interest rate forecasts for 2021/22 and subsequent financial years.

Confidential report Please bold as appropriate		**No**

Corporate priorities

6. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

Background

7. The Treasury Strategy for 2020/21 to 2022/23 was approved by Council on 25 February 2020. The strategy included prudential and treasury indicators, the treasury management strategy, annual investment strategy (including the list of approved investment counterparties), and the annual Minimum Revenue Provision (MRP) Policy.

8. A mid-year review of Treasury Management activity was presented to Governance Committee on 25 November 2020. This reported that, during the first half of 20/21, both the average daily balance and the rates of interest available have been significantly affected by the impacts of the Covid 19 pandemic, with the former being substantially higher than would usually be the case, while the latter have been greatly reduced. The Council had an average daily cash balance of £13.25m and earned interest of £10.8k, a return of 0.16%. The investment balance at the end of September was £7.3m.

9. On 23 February 2021 Council approved the Treasury Strategy for 2021/22 to 2023/24, which included revised prudential and treasury indicators for 2020/21. Where relevant, comparisons with 2020/21 indicators in this outturn report are to those approved most recently.

10. A glossary of technical terms used in this report is presented as Appendix J.

Capital Expenditure And Financing 2020/21

11. 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 sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

Table 1 - Capital Expenditure	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Customer & Digital	48	222	81	(141)
Early Intervention & Support	1,325	6,117	4,323	(1,794)
Policy & Governance	1,539	1,144	301	(843)
Regeneration & Inward Investment	21,020	7,119	4,382	(2,737)
Capital Expenditure Total	**23,932**	**14,602**	**9,087**	**(5,515)**

In addition to the usual range of factors which can affect the timing of capital projects, the progression of the 2020/21 programme was affected by the impacts of the Covid 19 pandemic. This is reflected in the reduction in the revised budget and actual levels of expenditure shown above.

Additional analysis of the schemes included in the 2020/21 Capital Programme was presented to Executive Cabinet on 17 June 2021 in the report 'Revenue and Capital Budget Monitoring 2020/21Outturn'.

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

Table 2 - Capital Financing	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Capital expenditure from Table 1	23,932	14,602	9,087	(5,515)
Capital Receipts	(440)	(505)	(204)	301
Grants & Contributions	(5,732)	(5,803)	(6,329)	(526)
Revenue and Reserves	(627)	(648)	(435)	213
Net financing needed for year	**17,133**	**7,646**	**2,119**	**(5,527)**

The Council's Overall Borrowing Need

12. **Capital Financing Requirement 2020/21**

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 2020/21 plus prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activity is to address the funding requirement for this 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.

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, then the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

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.

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).

The 2020/21 MRP Policy (as required by MHCLG Guidance) was approved by Council as part of the Treasury Strategy 2020/21 to 2022/23 on 25 February 2020.

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.

Table 3 - Capital Financing Requirement	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Opening CFR	90,864	88,865	88,865	0
Net financing need for the year (Table 2)	17,133	7,646	2,119	(5,527)
Less MRP/VRP	(1,311)	(1,303)	(1,295)	8
Closing CFR	**106,686**	**95,208**	**89,689**	**(5,519)**

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

13. **The CFR and Gross Debt**

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

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 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.

In addition to its borrowing for capital purposes, at 1 April 2020 the Council also had short-term borrowing of £4.5m in respect of its immediate cash flow needs. This figure was higher than would normally be the case (the comparative figure for 1 April 2019 was £1m) because of the exceptional circumstances arising in March 2020, with the onset of the Covid 19 pandemic and the introduction of measures for the payment of support to local businesses. In order to do this promptly, payments were potentially to be made in advance of the receipt of the associated government funding and, although the gap was only of a few days, the amounts involved were significant and the funds immediately available were not sufficient to cover the potential outward cash flow. The temporary borrowing was repaid in April 2020.

On the basis that it did not relate to capital expenditure and in order to provide clarity in respect of the underlying position, Table 4 excludes reference to the £4.5m of temporary borrowing. The table shows the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 - Portfolio Position	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Debt at 1 April	64,036	64,026	64,026	0
Other long-term liabilities (OLTL)	15	15	15	0
Total gross debt 1 April	64,051	64,041	64,041	0
Change in Debt	19,247	5,751	(1,866)	(7,617)
Change in OLTL	0	0	0	0
Change in gross debt	19,247	5,751	(1,866)	(7,617)
Gross debt 31 March	83,298	69,792	62,175	(7,617)
Capital Financing Requirement (Table 3)	106,686	95,208	89,689	(5,519)
Under / (over) borrowing	**23,388**	**25,416**	**27,514**	**2,098**

An analysis of external borrowing as at 31 March 2021 is presented in Appendix A. The figures for short-term borrowing include accrued interest payable to lenders, so that the external borrowing matches the total shown in the Balance Sheet in the Statement of Accounts 2020/21.

No additional actual borrowing was entered into during 2020/21, because of the impacts of the pandemic in reducing levels of capital expenditure and so of the borrowing needed to support it.

The authorised limit. This is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. 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:

(i) (is due to the authority which has not yet been received by it, and
(ii) was not a delayed receipt of a payment which was taken into account when the limit was first arrived at.

The revised limit set for 2020/21 by Council on 23 February 2021 was £79.315m and actual gross debt shown in Table 4 was £62.175m. Measured against this figure, the Council has maintained gross borrowing within its authorised limit throughout the year.

The operational boundary. This is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The revised operational boundary set for 2020/21 was £73.715m and actual gross debt at 31 March 2021 was £62.175m. The Council remained within its operational boundary throughout the year.

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 Estimate %	2020/21 Revised %	2020/21 Actual %	2020/21 Variance %
Ratio	14.85	15.64	13.46	(2.18)

The actual ratio was lower than estimated in 2020/21, principally because of the impacts of the pandemic, which resulted in capital expenditure, and so the borrowing needed to support it, being lower than expected and the revenue stream being increased by additional government grants.

Treasury Position As At 31 March 2021

14. **Treasury management debt and investment position**

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 2020/21	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
Core Funds/Working Balances	(24,388)	(26,416)	(36,613)	(10,197)
Under/(over) borrowing (Table 4)	23,388	25,416	27,514	2,098
Investments	**(1,000)**	**(1,000)**	**(9,099)**	**(8,099)**

The working balances held at 31 March 2021 were of a similar level to those for 31 March 2020 (£8.761m), with both being higher than would normally be the case (the figure for 31 March 2019 was £2.848m). This is because of the continued impacts of measures taken in response the pandemic. A detailed analysis of Short Term Investments and Cash and Cash Equivalents is presented as Appendix B. Accrued interest is shown so that figures match those in the Balance Sheet and notes in the Statement of Accounts 2020/21. The maximum balance invested with each counterparty complied with the limits approved by the Council. Appendix C presents the approved counterparty limits for 2020/21.

Council approved that a maximum of £4m should be invested with UK local authorities for more than 365 days and up to two years, with a maximum of £2m per individual authority. No sums were invested for more than 365 days.

Table 7 - Maximum Principal Sums Invested > 365 Days	2020/21 Estimate £000	2020/21 Revised £000	2020/21 Actual £000	2020/21 Variance £000
UK Government	0	0	0	0
UK Local Authorities **	4,000	4,000	0	(4,000)
UK Banks & Building Societies	0	0	0	0
Non-UK Banks	0	0	0	0
Total	**4,000**	**4,000**	**0**	**(4,000)**

** Maximum of £2 million per local authority

Investment Performance 2020/21

15. **Review of Performance**

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.

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.

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. During 2020/21 cash was not invested in term deposits. To manage the Council's cash flow, balances were held only in highly liquid accounts, specifically in call accounts and MMFs, with the need for money to be available at short notice having been heightened by the unusual pattern of cash flows resulting from the impacts of the pandemic.

Investment performance in 2020/21 is presented in Table 8.

Table 8 - Investment Performance 2020/21	Average Daily Investment £000	Interest 2020/21 £	Average Rate %
Fixed Term Deposits	0	0	n/a
Notice Accounts	0	0	n/a
Call Accounts	4,418	5,002	0.11
Money Market Funds	7,463	7,353	0.10
Debt Management Office DMADF	1,962	385	0.02
Total	**13,843**	**12,740**	**0.09**

The average return of 0.09% in 2020/21 compares to the 0.64% achieved in 2019/20, and reflects the exceptionally low level of returns available from March 2020 and throughout the financial year.

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%. The outturn figure fell just short of this.

The Council would usually make only limited use of the Debt Management Office, and then 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 heightened 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 £1.962m. This compares to a figure of £295k for 2019/20. 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.

Monitoring June Quarter 2021/22

16. **Borrowing and Investments**

External borrowing as at 30 June 2021 is presented in Appendix E. No additional long term borrowing has been entered into, but it is expected that further loans will be taken out during the year. This will be to finance the capital programme and the borrowing has been budgeted for.

Investments as at 30 June 2021 are presented in Appendix F. Cash balances available to invest fluctuate throughout the year, depending on the timing of receipts and payments. The balance at the end of the first quarter was slightly higher than at the beginning of the year, and it is likely to be higher still at points during the remainder of the financial year. However, the tendency is for the balance to reduce by 31 March 2022 and this reduction is expected to be especially marked for 2021/22, as the affects of the pandemic on cash flows come to an end.

Appendix G presents the counterparty limits for 2021/22. It is unlikely that cash will be invested in anything other than liquid accounts with instant access.

17. **Prudential and Treasury Indicators and Investment Counterparty Limits**

These remain unchanged from those approved by Council on 23 February 2021 and there are no current proposals for any changes.

Advice Of Link Asset Services

18. **Treasury Advisors' review of 2020/21 and forward looking commentaries**

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

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

Appendix I is a detailed commentary on interest rate forecasts.

Implications of report

19. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

Risk

20. 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.

Comments of the Statutory Finance Officer

21. This report meets statutory reporting requirements. Its statistical content is consistent with the Council's financial accounts for the financial year 2020/21.

Comments of the Monitoring Officer

22. The Monitoring Officer has no comments.

Louise Mattinson
Director of Finance

Background Papers		
Document	**Date**	**File**
Treasury Strategy 2020/21 Treasury Strategy 2021/22	25/2/20 23/2/21	***

Report Author	Ext	Date

Tony Furber	5027	20 July 2021

APPENDIX A

External Borrowing 31 March 2021

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Short-Term Borrowing £000	Long-Term Borrowing £000	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	37	1,580	1,617
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	69	1,636	1,705
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	84	1,517	1,601
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	108	1,310	1,418
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	146	982	1,128
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	223	337	560
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	16	2,500	2,516
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	188	1,786	1,974
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	100	2,743	2,843
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	90	2,775	2,865
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	122	2,250	2,372
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	642	30,610	31,252
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	39	1,914	1,953
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	154	2,625	2,779
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	164	5,700	5,864
Public Works Loan Board total					2,182	60,265	62,447
Local Authorities total					0	0	0
External Borrowing total					**2,182**	**60,265**	**62,447**

List of Investments as at 31 March 2021

Counterparty	Type	Sum Invested £000	Accrued Interest £000	Total 31 March 2021 £000	Rate %	Link Suggested Duration	CBC Approved Duration	Date Invested	Maturity Date
Santander	Call	4,990	6	4,996	0.12%	6 mths	6 mths	On Call	n/a
Barclays BPA Deposit Account	Call	2,118	0	2,118	0.01%	6 mths	6 mths	On Call	n/a
Call Accounts sub total		**7,108**	**6**	**7,114**					
Aberdeen Standard	MMF	2,000	0	2,000	0.01% (1)		AAA-rated	On Call	n/a
Money Market Funds sub total		**2,000**	**0**	**2,000**					
Other Cash & Cash Equivalents Balance		162	0	162					
Cash and Cash Equivalents		**9,270**	**6**	**9,276**					

Notes

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

APPENDIX C

Investment Counterparties 2020/21

Applicable from 1 April 2020 to 23 February 2021

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

Applicable from 24 February 2021 to 31 March 2021

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of				
Government related/guaranteed	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
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

APPENDIX D

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 E

External Borrowing 30 June 2021

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total Borrowing £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,586
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,658
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,548
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,355
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	1,050
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	447
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,875
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,829
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,850
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,300
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	31,170
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,949
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,775
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,850
Public Works Loan Board total					61,742
Local Authorities total					0
External Borrowing total					**61,742**

List of Investments as at 30 June 2021

Counterparty	Type	Total 30 June 2021 £000	Rate %	Link Suggested Duration	CBC Approved Duration	Date Invested	Maturity Date
Santander	Call	4,990	0.12%	6 mths	6 mths	On Call	n/a
Barclays BPA Deposit Account	Call	1,361	0.01%	6 mths	6 mths	On Call	n/a
Call Accounts sub total		**6,351**					
Federated	MMF	2,000	0.01% (1)		AAA-rated	On Call	n/a
Blackrock	MMF	3,000	0.01% (1)		AAA-rated	On Call	n/a
Money Market Funds sub total		**5,000**					
Cash Balance		**11,351**					

Notes

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

APPENDIX G

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 entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
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

APPENDIX H

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.

APPENDIX I

Updated Interest Rate Forecasts 2021/22

Provided as separate document.

APPENDIX J

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