Lancashire County Council

Audit, Risk and Governance Committee

Monday 25th July 2022 at 2.00 pm in the Ribble Suite - The Exchange - County Hall, Preston

Agenda

Part I (Open to Press and Public)

Lancashire County Council

12. **Corporate Risk and Opportunity Register - Quarter 1 Update** (Pages 445 - 478)

13. **Chairman's Annual Report** (Pages 479 - 490)

14. **Draft Work Plan 2022/23** (Pages 491 - 494)

15. **Urgent Business**

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

16. **Date of Next Meeting**

The next meeting of the Committee will be held on Monday 17 October 2022 at 2.00 pm at County Hall, Preston.

17. **Exclusion of Press and Public**

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

18. **Appendix 'B' to Item 12 - Corporate Risk and Opportunity Register - Quarter 1 Update** (Pages 495 - 500)

(Not for Publication – Exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

19. **Counter Fraud, Special Investigations and Whistleblowing Annual Report** (Pages 501 - 510)

(Not for Publication – Exempt information as defined in Paragraphs 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
N/A;

Constitution, Membership and Terms of Reference
(Appendix 'A' refers)

Contact for further information:
Hannah Race, Senior Democratic Services Officer, Tel: 01772 530655,
Hannah.Race@lancashire.gov.uk

Brief Summary

This report sets out the membership, Chair and Deputy Chair, and the Terms of Reference of the Audit, Risk and Governance Committee for the remainder of the municipal year 2022-23.

Recommendation

The committee is asked to note:

i) The appointment of County Councillor A Schofield as Chair and County Councillor J Singleton as Deputy Chair of the Audit, Risk and Governance Committee for the 2022-23 municipal year;

ii) The membership of the committee, following the county council's Annual Meeting held 26 May 2022; and

iii) The Audit, Risk and Governance Committee Terms of Reference.

Detail

The county council at its Annual Meeting on 26 May 2022 agreed that the Audit, Risk and Governance Committee shall comprise eight county councillors (on the basis of five Conservative members and three Labour members).

The following councillors have subsequently been nominated to service on the Audit, Risk and Governance Committee for the following year:

U Arif	R Bailey
J Berry	M Clifford
J Couperthwaite	A Schofield
J Shedwick	J Singleton

Lancashire County Council

The Full Council appointed County Councillors A Schofield and J Singleton as Chair and Deputy Chair respectively of the Audit, Risk and Governance Committee for the 2022-23 municipal year.

A copy of the committee's Terms of Reference is attached at Appendix 'A' and can also be found in Part 2 – Article 7 of the Constitution:

https://council.lancashire.gov.uk/ieListDocuments.aspx?CId=914&MId=2916&Ver=4&info=1&bcr=1

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Audit, Risk and Governance Committee

Meetings are open to the public but they may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to this Constitution.

Membership

The members of the Audit, Risk and Governance Committee shall comprise eight councillors.

Statement of purpose

1. The Audit, Risk and Governance Committee is a key element of Lancashire County Council's corporate governance. It provides an independent and high-level focus on the risk management, audit, assurance and reporting arrangements that underpin good governance and financial standards.

2. The primary purpose of the Committee is to provide independent assurance to the members (being those charged with governance) of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

3. The Committee's members should therefore behave objectively and independently in their deliberations and decisions.

4. The Committee is also required to fulfil other functions relevant to its overall responsibilities as required by the Council. In particular, the Committee oversees the Council's treasury management activity.

Governance

The Committee will:

5. Review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

6. Review and recommend the code of corporate governance for adoption by the Council.

7. Review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the head of internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

8. Consider the Council’s arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

9. Consider the Council’s framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

10. Consider the Council's arrangements for discharging its duties in relation to promotion and maintenance of high standards of conduct by members and co-opted members, in accordance with the Localism Act 2011.

Risk management and control

The Committee will:

11. Monitor the effective development and operation of the risk management framework and processes across the Council.

12. Monitor progress in addressing risk-related issues reported to the Committee.

13. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

14. Review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

15. Monitor the counter-fraud strategy, actions and resources.

Internal audit

The Committee will:

16. Approve the internal audit charter.

17. Approve the risk-based internal audit plan, including the Internal Audit Service’s resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

18. Approve significant interim changes to the risk-based internal audit plan and resource requirements.

19. Make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

20. Consider reports from the head of internal audit on internal audit’s performance during the year, including the performance of external providers of internal audit services. These will include:
    a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

b. Regular reports on the results of the quality assurance and improvement programme.

c. Reports on instances where the Internal Audit Service does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

21. Consider the head of internal audit's annual report:

    a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement.

    b. The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion, which will assist the Committee in reviewing the annual governance statement.

22. Consider summaries of specific internal audit reports as requested.

23. Receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.

24. Contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

25. Support the development of effective communication with the head of internal audit.

26. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

External audit

The Committee will:

27. Consider appointment of the Council's external auditor proposed by the appointing person under the Local Audit (Appointing Person) Regulations 2015 and assess whether there are any valid reasons for the Council to object.

28. Approve the letters of representation required by the external auditor and consider the external auditor's annual letter, audit opinion, relevant reports, and the report to those charged with governance.

29. Consider specific reports as agreed with the external auditor.

30. Comment on the scope and depth of external audit work and to ensure it gives value for money.

31. Commission additional work from the external auditor as necessary.

Financial reporting

The Committee will:

32. Review and approve the annual statement of accounts of the Council and the Lancashire Pension Fund. Specifically, it will consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit work that need to be brought to the attention of the Council.

33. Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

The Committee will:

34. Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements; and internal and external audit functions.

35. Prepare a report annually on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Treasury management

The Committee will:

36. Oversee and scrutinise the Council's treasury management function, receiving regular advice and reports on treasury management activity.

37. Consider and recommend the treasury management strategy for Council's approval.

38. Consider and recommend changes to the borrowing and investment strategy for Council's approval.

39. Consider and recommend the prudential indicators for Council's approval.

40. Consider and recommend the treasury management indicators for Council's approval.

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday 25th April 2022 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

N Aziz	J Couperthwaite
R Bailey	J Shedwick
J Berry	R Swarbrick

1. Apologies

The Chair welcomed everyone to the meeting.

Apologies were received from County Councillor Usman Arif.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 31 January 2022

Resolved: That the minutes of the Audit, Risk and Governance Committee meeting held on 31 January 2022 be confirmed as an accurate record.

4. Internal Audit Annual Report 2021/22

Andy Dalecki, Head of Internal Audit presented the Internal Audit Annual Report for 2021/22. It was highlighted that the report provided moderate assurance over the council's control framework.

Of the 31 audits completed during the year, only 2 had provided limited assurance. In addition to the audits completed, follow-up audit work and the success of management's actions to respond to the auditors' recommendations helped to inform the overall opinion. A larger piece of work had commenced to review outstanding actions for the period 2018-2020, the outcomes of which would be reported to the committee.

The Internal Audit Service was looking at ways to improve capacity and efficiency, for example through a minor restructure and the introduction of 'lean auditing'. A new report format had also been introduced to improve communication with services.

In response to questions from members, it was highlighted that:

- 'Moderate assurance' was a good assurance level, indicated there were no key risks to the county council, and was normal compared with recent years. Nonetheless, the Internal Audit Service worked with services to make improvements and provide support during follow-up work.

- The 31 completed audits gave sufficient coverage to provide an audit opinion across the council. As disruption to the service caused by Covid-19 continued to reduce, it was hoped that a greater number of audits would be completed during 2022-23.

- The auditors did not rely on a fixed threshold to determine the appropriate assurance level based on their audit findings. Rather, the severity of the identified risks and recommendations informed the auditor's opinion. Work between audit managers was ongoing to achieve consistency across the service.

- To check that management actions were implemented, follow-up audits were carried out. The results of follow-up audits would be reported back to the committee during the year through the usual audit progress reports. Generally, most audit recommendations were implemented within a few months.

Members sought reassurance on the relationship between the Internal Audit Service and the council's Overview and Scrutiny Committees and highlighted the importance of sharing the auditors' findings with scrutiny when appropriate. Further to the audit of schools in financial difficulties, it was requested that energy provision in schools be reviewed by either the Internal Audit Service or the Education and Children's Services Scrutiny Committee in the future.

It was noted that the scrutiny work programmes were agreed annually and required careful planning to ensure scrutiny's time was spent effectively. Recent audit findings would contribute to the scrutiny work planning process for 2022-23 and internal auditors were willing to present at scrutiny meetings in the future.

The executive summaries, provided at Appendices 'D' to 'P' to the report, were commended.

Resolved: That the Internal Audit Annual Report 2021/22, as presented, be noted.

5. Internal Audit Annual Plan 2022/23

Andy Dalecki, Head of Internal Audit presented the Internal Audit Annual Plan for 2022/23 and supporting Internal Audit Strategy.

It was highlighted that the outcomes of this work plan would inform the Head of Internal Audit's overall opinion for the following year. As in previous years, any changes to the plan would be shared with the committee.

In addition to the audits listed on the plan, the Internal Audit Service also carried out grant certification work, as needed, and maintained the council's response to fraud and corruption. Although the plan was challenging, changes in the Internal Audit Service and buy-in from other services would aid its delivery.

In response to questions from members, the following information was provided:

- The auditors worked and shared information with other audit services across the North West, which helped to benchmark services and costs where needed. National networking and guidance from professional bodies, such as the Chartered Institute of Public Finance and Accountancy, also informed their opinions.

- In the first instance and during an audit, auditors discuss the identified risks with the relevant service (the auditee). Once the audit report is produced, this is also shared with the service for comment. By the time the audit results are shared with the Audit, Risk and Governance Committee, the service would already be informed of the auditor's recommendations and working towards improvements.

- The Internal Audit Service worked with the council's directorates to identify the biggest risks to services and therefore which audits to prioritise. The main source of information on significant risks facing the county council was the Corporate Risk and Opportunity Register, which was reported to the Audit, Risk and Governance Committee separately.

Members praised the Internal Audit Service's work for the Lancashire Combined Fire Authority and highlighted the good working relationship between the two.

Resolved: That the Internal Audit Plan 2022/23, as presented, be approved.

6. External Audit: Lancashire County Council Audit Plan 2021/22

Stuart Basnett, Senior Audit Manager, Grant Thornton UK presented the external auditors' 2021/22 Audit Plan for Lancashire County Council. It was highlighted that:

- The external auditors would audit the group accounts, which covered the county council and Lancashire County Developments Limited (LCDL). This year, the valuation of investment properties by LCDL had been identified as a separate risk because Grant Thornton had to take assurance from the company’s own auditors, Beaver and Struthers. Grant Thornton had requested a number of audit tasks be completed to respond to this risk, as set out in the report.

- Other risks included management override of controls (standard to all audits) and valuation assumptions of the pension fund net liability, which had been a focus for several years due the pension fund's value.

- The audit of the council's valuation of land and buildings would be focussed this year on assets where the valuation movements were not in line with expectations. Grant Thornton worked with their own, and the council's, expert valuers to inform their opinion.

- Materiality had been set at 1.45% of the council's gross expenditure, which marked a 0.2% increase compared with the previous year's audit. The auditors' triviality threshold was also increased.

- A further potential for significant risk to the council's Value for Money arrangements related to the governance arrangements in place for large capital projects with partners where the county council was the accountable body. This was due to the scale of these projects and their possible impact on the council's finances. Grant Thornton would undertake a specific piece of work in this area, the results of which would be reported in the Auditor's Annual Report.

- Audit work was due to start in early July, following publication of the council's draft statement of accounts. The national deadline for statutory accounts to be signed off was 30 November 2022.

In response to questions from members, the following information was provided:

- To assess governance arrangements over large projects, the auditors looked to a range of good practice, but also how the projects were planned, set-up, delivered and managing their own risks. At this stage, the auditors were not suggesting there were problems with the council's governance arrangements, only that this area presented a possible risk and therefore should be reviewed.

- The auditors reviewed the council's valuation of properties every year, but this did not involve a review of every asset. Grant Thornton would look to other sources of information to determine key risks, for example this year their work would focus on changes to valuations that were not in line with expectations.

- The auditors were aware of work on the County Deal because, although the project's final arrangements were not yet confirmed, it was possible that Lancashire County Council could become its accountable body. Where elements of the scheme might change, the auditors were interested to review how the county council would manage and respond to those changes.

Members queried why the audit fees paid by the county council had increased by circa 62% since 2018. It was noted that the audit fees were set in agreement with Public Sector Audit Appointment Limited (PSAA) and that, since the contract was first agreed in 2018, there had been significant increases to auditors' workloads, particularly following changes to the Code of Audit Practice in 2020**.** The committee requested further information on how the increases in audit fees correlated to the additional requirements placed on auditors since 2018, to be shared with members after the meeting.

Resolved: That the Lancashire County Council Audit Plan for 2021/22 be noted.

7. External Audit: Lancashire County Pension Fund Audit Plan 2021/22

Stuart Basnett, Senior Audit Manager, Grant Thornton presented the external auditors' 2021/22 Audit Plan for Lancashire County Pension Fund. It was highlighted that:

- The auditors' overriding approach to the pension fund was the same as for the county council, though a unique identified risk was the valuation of Level 3 investments. These valuations tended to represent significant estimates by management and therefore posed a risk to the pension fund.

- The conflict between Russia and Ukraine had, to date, had a minimal impact on the audit of the pension fund, though the conflict had caused wider uncertainty in global markets.

- As for the county council's audit plan, materiality had increased and thus so had the triviality threshold.

In response to a question about the valuation of Level 3 investments, members were informed that the majority of Level 3 assets were held by Local Pensions Partnership Investment Limited (LPPI) and were valued by its management team, comprised of industry experts. LPPI was audited separately by Grant Thornton's commercial team, who reported to the council's external auditors on whether those valuations were reasonable.

The committee requested further information on how increases to the pension fund's audit fees correlated to the additional requirements placed on auditors since 2018, to be shared with members after the meeting.

Resolved: That the Lancashire County Pension Fund Audit Plan for 2021/22 be noted.

8. The County Council's Accounts Payable Policy

Khadija Saeed, Head of Corporate Finance presented the council's new Accounts Payable Policy for approval.

It was highlighted that the policy largely set out the council's current practice, which was a continuation of the processes used under One Connect Limited. Having a clear, stated policy would allow for better control of processes, performance management, and for more detailed procedures and expectations for services within the council.

It was noted that additional information, such as the average value of invoices in each service, would be provided after the meeting as requested.

In response to questions from members, it was clarified that:

- Officers were acutely aware of the general increase in bank-to-bank payment fraud and the increased risks of cyber-crime. Having an Accounts Payable Policy allowed some ability to set general internal controls to mitigate this. However, more detailed internal processes following the agreement of the policy would allow more specific controls to be put in place in this area. The council already operated a control process for new and changed bank account details. These processes were kept under review on an on-going basis and would continue to be strengthened wherever possible.

- The Internal Audit Service planned to review accounts payable activities on an annual basis and played an important role is assessing the level of compliance with internal controls such as these.

Resolved: That the county council's Accounts Payable Policy, as presented, be approved.

9. Corporate Risk and Opportunity Register - Quarter 4 Update

Paul Bond, Head of Legal, Governance and Registrars presented the updated Corporate Risk and Opportunity Register and Summary Risk Register. It was highlighted that there was a positive direction of travel across all risks identified on the register.

It was noted that risks to the council relating to Local Pensions Partnership Limited were monitored as part of the Resources directorate's approach to risk management.

Resolved: That the updated Corporate Risk and Opportunity Register and updated Summary Risk Profile, as presented, be noted.

10. The Council's Annual Governance Statement 2021/22 and Code of Corporate Governance 2022/23

Paul Bond, Head of Legal, Governance and Registrars presented the council's draft Annual Governance Statement for 2021/22 and the updated Code of Corporate Governance for 2022/23.

As for the previous year, the Annual Governance Statement was split into two parts: one relating to the council's overall governance arrangements, and the other relating specifically to the impact of the Covid-19 pandemic. Therefore, there were two separate conclusions. The Code of Corporate Governance had been updated with further evidence to show how the council complied with the seven principles set out in the code.

The committee was asked to disregard the second recommendation set out in the report: *to note that the Pension Fund Governance Statement, as approved by the Pension Fund Committee, will form part of the council's Annual Governance Statement.* It was noted that the Pension Fund would produce a governance compliance statement instead, some of which would be included in the council's Annual Governance Statement. The relevant narrative would be shared with committee members after the meeting, and ahead of the final Annual Governance Statement being presented to the committee for approval with the council's statement of accounts.

Resolved: That

i) The draft Annual Governance Statement for 2021/22, as presented, be approved for inclusion in the draft Statement of Accounts for 2021/22;

ii) The signing of the Annual Governance Statement by the Chief Executive and Director of Resources (Section 151 Officer) and the Leader of the Council, following final approval of the Statement of Accounts, be noted; and

iii) The updated Code of Corporate Governance for 2022/23, as presented, be recommended to Full Council for approval.

11. Code of Conduct - Review

Josh Mynott, Democratic and Member Services Manager presented a report which outlined the outcome of a review of Code of Conduct undertaken by the Political Governance Working Group.

It was highlighted that Lancashire County Council did not have an issue with councillors' conduct or receive many complaints.

The Political Governance Working Group had not recommended adopting the Local Government Association's (LGA's) suggested code of conduct; however, the Working Group did suggest increasing the threshold at which members must declare gifts and hospitality received in their role as councillors from £25 to £50. It was noted that the thresholds at other authorities ranged from £25 to £100.

In response to questions, members were advised that:

- The Political Governance Working Group had been established by Full Council, met on an ad hoc basis, and comprised cross-party, senior councillors.

- The number of declarations for gifts and hospitality by Lancashire County Councillors was low. The exact number could be provided after the meeting.

- The recommendation to increase the threshold for declarations of gifts and hospitality received had been a unanimous decision of the Political Governance Working Group.

Members highlighted that there was probably some under-reporting and expressed concerns about increasing the threshold from £25 to £50, including:

- Increasing the county council threshold might influence the thresholds agreed by district councils.

- In the interest of transparency, county councillors should not be receiving any gifts without disclosing them.

It was therefore proposed that Full Council be recommended to keep the threshold at which councillors must declare gifts and hospitality offered or received in their role of councillors the same. On being put to the vote, the proposition was **lost** (3 for, 4 against).

The committee then considered the original recommendation, as set out in the report. On being put to the vote, the recommendation was **carried** (4 for, 3 against) and it was therefore:

Resolved: That

i) The county council's existing Members' and Co-opted Members' Code of Conduct be retained; and

ii) Full Council be recommended to approve that the threshold at which councillors must declare gifts and hospitality offered or received in their role as councillors be increased from £25 to £50.

12. Urgent Business

None.

13. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 25 July 2022 at 2.00 pm, at County Hall, Preston.

It was requested that a report to update the committee on the outcomes of management's responses to the external auditor's recommendations, included in the Auditor's Annual Report 2020-21, be prepared for the next meeting.

14. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information, as defined in the appropriate paragraph of Part I of Schedule 12A to the Local Government Act 1972.

It was considered that in all the circumstances, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

15. Update on the Overpayment of Salaries

(Not for Publication - Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Neil Kissock, Director of Finance presented a private and confidential report which provided an update on an issue regarding the overpayment of salaries, as requested by the committee at its meeting held 31 January 2022.

It was noted that information on the amount of remaining debt covered by repayment plans would be provided after the meeting.

The committee agreed that it was interested to see further progress following the introduction of Oracle Fusion, and that it would like to receive 6-monthly updates.

Resolved: That

i) The update report on the overpayment of salaries be noted; and

ii) Further update reports on the overpayment of salaries be provided to the Audit, Risk and Governance Committee on a 6-monthly basis.

The Chair thanked members of the committee and officers for their attendance.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
N/A;

Treasury Management Activity 2021/22
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, Director of Finance, Tel: (01772) 536154,
Neil.kissock@lancashire.gov.uk

Brief Summary

The report at Appendix A provides a review of the council's treasury management activities occurring in the financial year 2021/22 and the position at 31 March 2022.

Recommendation

The committee is asked to note the review of treasury management activities for 2021/22.

Background

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management. This report addresses the Code's recommendation that a treasury management report for members is produced after the end of each financial year. The Audit, Risk and Governance committee oversees treasury management activities as part of its role.

The report at Appendix A provides a review of the council's treasury management activities that occurred in 2021/22 and provides details of the investments and borrowing at 31 March 2022.

The report highlights the key features of the treasury management activity in the year. In particular, there was a reduction in the level of borrowing as loans matured. Also, the report highlights the high level of economic uncertainty during the year. This has resulted in significant volatility in bond markets which has been a major factor in enabling a net underspend of £13.5m against the treasury management budgets being achieved in the year.

Consultations

Arlingclose are the council's external treasury advisers and their advice and analysis is referenced in the council's treasury management activity review.

Implications:

This item has the following implications, as indicated:

Risk management

The council's Treasury Management Strategy sets out a policy in respect of managing the risks associated with the council's borrowing and investment activity. The review at Appendix A describes how the council performed in relation to this strategy.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
The Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice	2021	Paul Dobson Tel: 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management Activity 2021/22

Introduction

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Codes of Practice on Treasury Management ("the Code") and the related Prudential Code. Authorities are required to produce Prudential Indicators, a Treasury Management Strategy Statement on the financing and investment activity annually which was approved by Full Council on 11 February 2021. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021 the principles of which came into immediate effect, but the revised reporting requirements are effective from the 2023/24 financial year. The key changes in the two codes relate to the permitted reasons to borrow, requisite professional knowledge and skills, and the management of non-treasury investments.

Investment and borrowing decisions are taken in light of long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. This is in the context of the current and forecast economic condition. Consideration is also given to risks and compliance with Prudential Indicators. Therefore, this report provides commentary on the following factors for 2021/22:

- Economic environment
- Borrowing activity
- Investment activity
- Performance against the Prudential Indicators

Economic Environment During 2021/22

There were a number of major economic issues relevant in 2021/22. Initially, the continuing economic recovery from coronavirus pandemic was a dominant feature but as the year progressed concerns about inflation, the potential for higher interest rates and possibility of a future recession were significant.

The Bank Rate (the benchmark rate set by the Bank of England) was 0.1% at the beginning of the financial year. Although April and May saw the economy gathering momentum as pandemic restrictions were eased, market expectations were that the Bank of England would delay rate rises until 2022. However, the rise in inflation changed the position.

UK Consumer Prices Index (CPI) was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. However, a combination of rising global costs, strong demand and supply shortages saw large increases in inflation. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month.

As a response to the increase in inflation the Bank of England made the following increases in the Bank Rate:

- December 2021 increase to 0.25%
- February 2022 increase to 0.5%
- March 2022 increase to 0.75%

In its March interest rate announcement, the Bank of England's Monetary Policy Committee noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022.

The picture seen in the UK was similar in many of the world economies. Europe and America have seen increases in inflation and in its March 2022 interest rate announcement, the American Federal Reserve raised its interest rate and outlined further increases should be expected in the coming months.

The continuing uncertainty has seen gilt (UK government bond) yields increase. The costs of local authority borrowing from the Public Works Loan Board (PWLB) are related to the bond yields and therefore the cost of borrowing has increased. For example, a 10-year PWLB fixed rate loan taken on the 1 April 2021 was at interest rate of 1.7%, an equivalent loan taken on 31 March 2022 was at 2.81%.

Treasury Holdings 2021/22

In summary the holdings in the year at 31 March 2022, are shown as follows compared to the balances at the end of the previous year:

	31/3/2022	**31/3/2021**
	£m	£m
Long term borrowing	884.6	899.6
Short term borrowing	318.8	481.8
Total borrowing	**1,203.4**	**1,381.4**
Long term investments	549.6	644.5
Short term investments	102.9	117.5
Total investments	**652.5**	**762.0**
Net Borrowing position	**550.9**	**619.4**

Borrowing Activity 2021/22

The Code requires that the council, in the medium term, only borrows for capital purposes (with the underlying need to borrow for capital purposes being measured by the Capital Financing Requirement). Total borrowing in the year was managed within the operational and authorised borrowing limits as approved in the Treasury Management Strategy which reflects the underlying need to borrow for capital purposes.

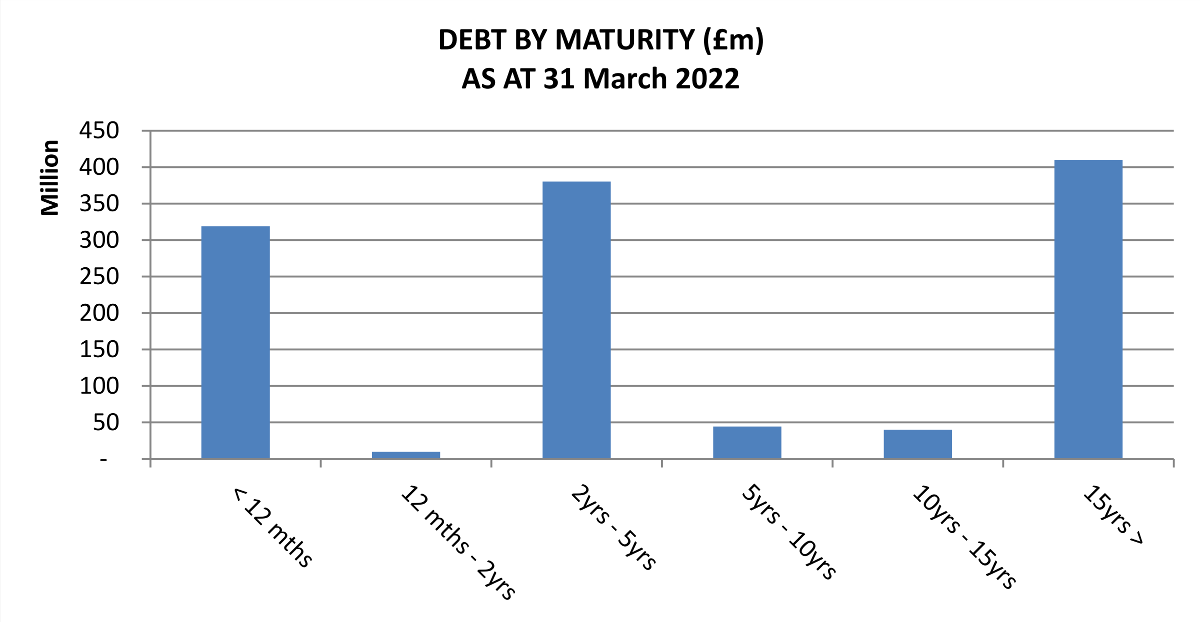
The year saw a fall of £178m in the total borrowing held. This was a planned reduction as reported to this committee on 26 July 2021 as the borrowing held at 31 March 2021 was greater than required due to the council having taken advantage of market conditions to borrow in advance of need to secure lower borrowing rates. The borrowing was undertaken via the issuance of a bond of £250m which also looked to re-balance the debt maturity profile of the portfolio. Debt also included a 15-month PWLB loan of £150m to cover COVID contingencies. It was therefore anticipated that borrowing would fall by 31 March 2022. The PWLB loan was repaid in 2021/22 while no further long-term loans were taken out in year as it is considered a reasonable debt maturity profile had been achieved. The borrowing strategy in the year therefore was to replace maturing short term debt with new short-term loans from local authorities as required.

Despite the moves towards longer term borrowing in previous years the short-term debt is still significant with some £319m of debt at 31 March 2022 due to mature within 12 months. It is also notable that 49.9% of the total debt is now in the forms of bonds.

The following section provides further details on the borrowing during the year.

Analysis of Borrowing

	Debt 31/03/2021		Borrowing	Repayments	Debt 31/03/2022	
	£m	%	£m	£m	£m	%
Fixed Rate Funding						
Public Works Loan Board	439.6	32	0.0	-155.0	284.6	24
Bond	250.0	18	0.0	0.0	250.0	21
Market Borrowing	273.0	20	491.0	-517.0	247.0	20
Total Fixed Rate Funding	**962.6**		**491.0**	**-672.0**	**781.6**	
Variable Rate Funding						
Bond	350.0	25	0.0	0.0	350.0	29
Shared Investment Scheme	68.8	5	529.8	-526.8	71.8	6
Total Variable Rate Funding	**418.8**		**529.8**	**-526.8**	**421.8**	
Total Loan Debt	**1,381.4**	**100**	**1,020.8**	**-1,198.8**	**1,203.4**	**100**



Overall, the average rate of interest paid in 2021/22 on the debt administered by the council was 1.97% per annum compared with an average rate of 1.82% in 2020/21.

The council did not enter into any new other long term liability arrangements in the year. The outstanding Private Finance Initiative liability at 31 March 2022 was £133m.

Investment Activity

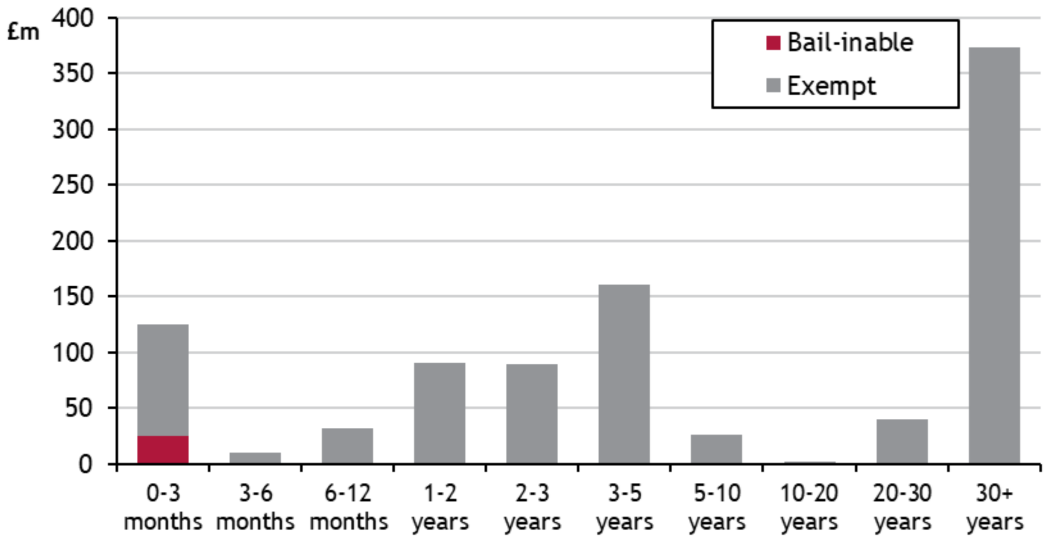
The council invests its reserves and other cash balances. The total value of investments held (excluding fair value adjustment) at 31 March 2022 for treasury management purposes was £652.5m. This is £109.6m lower than at 31 March 2021. The table below shows the investment holdings and the movements during the year:

Maturity Range	Position at 31/3/2021 £m	2021/22 Movement £m	Position at 31/3/2022 £m
Call accounts and under 1 year	117.5	(46.5)	71.0
Bank deposit 1-2 years	0.0	0.0	0.0
Bank & Local Authority Deposits 3-5 years	10.0	0.0	10.0
Local authority bonds	15.2	(6.9)	8.3
UK Government and supranational bonds	619.4	(56.2)	563.2
Total	**762.1**	**(109.6)**	**652.5**

In addition to the investments made for treasury management purposes the non-treasury management investment strategy for 2021/22 enabled the investment in bonds for commercial purposes where cash-flow permits but investments outside the current treasury management credit matrix will only be incurred after agreement with the Director of Finance. Under this arrangement investments have been made in local authority LOBO loans and commercial corporate bonds. As change in market values are charged to the council's revenue accounts for the LOBO loans the council has entered into a short trade which means the council agrees to buy some bonds at a specific price in the future, which aims to offset some of the valuation risk. The net value of the non-treasury management investments at 31 March 2022 was £232.5m (total investments at 31 March 2022 were therefore £885m). In line with the new Prudential Code and the approved treasury management strategy for 2022/23 the council will make no further non-treasury management investments and the existing non-treasury management investments will be managed within the treasury management limits.

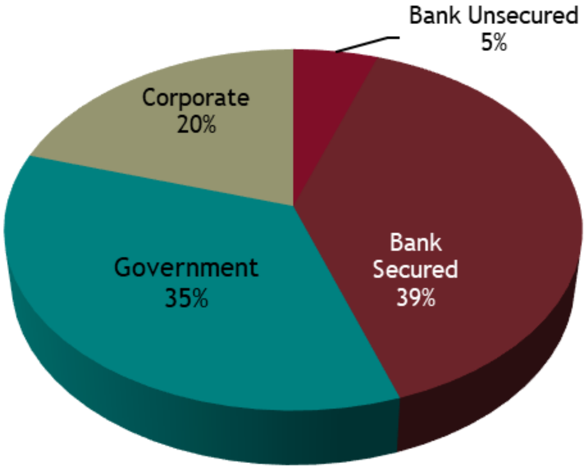
In undertaking investments consideration is given to the risk and liquidity within the portfolio which are affected by the maturity of the investment, asset type, country invested in and the credit rating. This includes those that are deemed to be non- treasury investments. The position of the investment portfolio on these areas are reviewed as follows.

Investments by Maturity

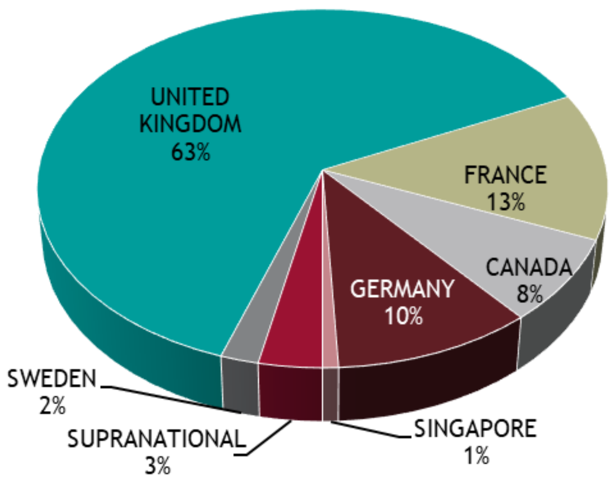


The graph shows the maturity dates of assets along with the exposure to bail-in in the event of a bank default (i.e. the risk that the investment may be lost, or the principal repaid significantly reduced). As can be seen the exposure to bail in is relatively low and arises mainly in the short term with the use of call accounts. The very long-term investments are principally investment in the UK government via gilts. Therefore, the credit risk is considered low. The assets are saleable and do not have to be held to maturity therefore although prices fluctuate the market risk can be managed.

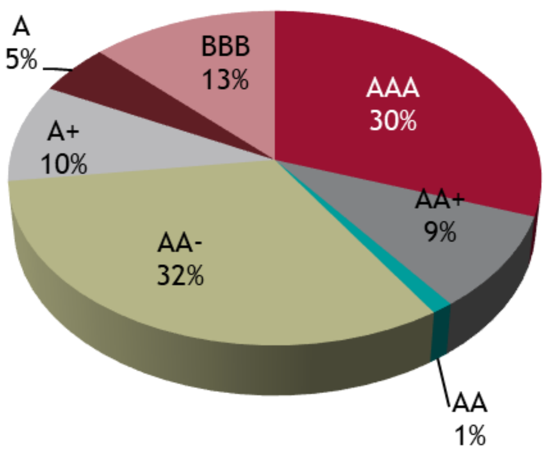
Total Investments Analysed by Asset Type



Total Investments Analysed by Country



Total Investments Analysed by Credit Rating



Security

Security of capital remained the council's main investment objective. This was maintained by following the council's Counterparty Policy, as set out in its Treasury Management Strategy Statement for 2021/22. This defined “high credit quality” organisations as those having a minimum long-term credit rating of A+. In practice the average credit rating in 2021/22 was higher at AA, with the lowest rating being BBB which relates to the holding of bonds issued by the energy company EDF which is largely owned by the French government.

Investments with banks were held in call accounts only. Any longer-term deposits have been restricted to deposits with other local authorities.

Liquidity Management

The council maintained a minimum level of primary liquidity through the use of Call Accounts. The council also has bond portfolios which are available for sale, at current market prices, if needed as 'secondary' liquidity.

The council undertakes cash flow forecasting daily to determine the maximum period for which funds may prudently be committed.

Yield

The rates of return on the council's short-dated money market investments reflect prevailing market conditions and the council's objective of optimising returns commensurate with the principles of security and liquidity.

Overall, the treasury management investment portfolios returned an average rate of 3.41% in 2021/22 which can be attributed to the categories as follows:

Maturity Range	Average Balance £m	Average Rate
Call and under 1 year	148.6	0.13%
Bank and local authority deposits 3-5 years	10.0	2.95%
Local authority bonds	11.9	4.39%
UK government & other bonds	594.2	4.22%
Total	**764.7**	**3.41%**

In addition, the non-treasury management investments had an average balance of £243.9m which made a net return of 1.84%.

Impact of the Treasury Management Strategy on the Council's Revenue Budget

The financing charges budget covered both the treasury management and non-treasury management activities. In total there was a net underspend against budget of £13.5m as shown in the following table.

	21/22 Budget	31 March 2022	Variance
	£m	**£m**	**£m**
Minimum Revenue Provision	20.3	21.7	1.4
Interest Paid	27.2	26.5	(0.7)
Interest Received/surplus on sale	(15.9)	(37.2)	(21.3)
Total	**31.6**	**11.0**	**(20.6)**
Contribution to Treasury Management Reserve			7.1
Revised position			**(13.5)**

Income received in the year was £21.3m higher than budgeted. Although investment balances were higher than budget the main reason for the increase was the gains achieved on the sale of gilts. With the markets responding to economic and political events there was volatility in the price of gilts and other bonds however it is extremely difficult to predict the movement in the markets and to assess the potential for gains.

The amount of interest paid was lower than budget due to the actual level of interest rates paid being slightly lower than anticipated in the budget.

Treasury Management and Prudential Indicators 2021/22

The Local Government Act 2003 and supporting regulations require the council to have regard to the Prudential Code and to set prudential indicators to ensure the council's capital investment plans are affordable, prudent and sustainable**.** A comparison of the actual position at 31 March 2022 compared to the 2021/22 indicators set in the Treasury Management Strategy is set out below. All activity in the year complied with the Prudential Indicators and Treasury Management Policy Statement for the year.

Prudential Indicators

Authorised limit for external debt The authorised limit is a prudent estimate of debt which reflects the council's capital expenditure plans and allows sufficient headroom for unusual cash movements.	**2021/22**	**Actual**
	£m	**£m**
Borrowing	1,600	1,203
Other long term liabilities (PFI schemes)	400	133
TOTAL	**2,000**	**1,336**

Operational boundary for external debt The operational boundary is a prudent estimate of debt but has no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the council's current plans.	**2021/22**	**Actual**
	£m	**£m**
Borrowing	1,200	1,203
Other long term liabilities (PFI schemes)	150	133
TOTAL	**1,350**	**1,336**

Capital Financing Requirement to Gross debt	**2021/22**	**Actual**
	£m	**£m**
Capital Financing Requirement	1,009	1,142
Estimated gross debt	1,088	1,336
Debt to Capital Financing Requirements	108%	117%

The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing requirement on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.

Gross debt includes borrowing for premiums, long term debtors and transferred debt. Under the Prudential Code when comparing debt to the Capital Financing Requirement these should be netted off the gross debt. The non-adjusted gross debt is above the Capital Financing Requirement by £194m but once the adjustments are made the borrowing is £112m above Capital Financing Requirement. This largely reflects the on-going impact of borrowing in advance and the issuing of the long-term bond. The amount above the Capital Financing Requirement will be eliminated as debt matures.

Treasury Management Indicators

Interest rate exposure The limit measures the council's exposure to the risk of interest rate movements. The one-year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.	**Upper Limit**	**Actual**
	£m	**£m**
1 year impact of a 1% rise	50.0	(11.2)

Maturity structure of debt Limit on the maturity structure of debt helps control refinancing risk.	**Upper Limit %**	**Actual %**
Under 12 months	75	27
12 months and within 2 years	75	1
2 years and within 5 years	75	32
5 years and within 10 years	75	3
10 years and above	75	37

Minimum Average Credit Rating To control credit risk the council requires a very high credit rating from its treasury counterparties.	**Benchmark**	**Actual**
Average counterparty credit rating	A	AA

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
(All Divisions);

Approval of the Council's Statement of Accounts for 2021/22
(Appendix 'A' refers)

Contact for further information:
Khadija Saeed, Tel: 01772 533073, Head of Corporate Finance
khadija.saeed@lancashire.gov.uk

Brief Summary

The statement of accounts for Lancashire County Council including those for the Lancashire County Pension Fund are presented at Appendix A.

Recommendation

The Audit, Risk and Governance Committee is asked to **approve** the 2021/22 Statement of Accounts, as presented at Appendix A, for Lancashire County Council and Lancashire County Pension Fund.

Background

The Accounts and Audit regulations require the council to consider its statement of accounts, either by way of a committee or by the members meeting as a whole, and approve them by a resolution of that committee or meeting. This role is undertaken by the Audit, Risk and Governance committee on behalf of the county council.

The 2021/22 statement of accounts were authorised by the Chief Finance Officer on 23 May 2022 ahead of the 31 July 2022 deadline and published on the council's website for public inspection.

External Audit

In March 2021 new regulations came into force to extend the deadline for publishing audited local authority accounts from 31 July to 30 September. Considering the extent of ongoing audit delays and capacity issues within external audit firms, the Department for Levelling-up, Housing and Communities (DLUHC) has more recently extended the deadline for publishing audited local authority accounts further to 30 November 2022 for the 2021/22 accounts.

As such, the accounts are currently subject to a period of external audit, with a report expected to be provided by the external auditor Grant Thornton on their findings at the next meeting of the committee on 17 October 2022.

The Audit, Risk and Governance Committee is asked to approve the 2021/22 statement of accounts, as presented at Appendix A, for Lancashire County Council and Lancashire County Pension Fund.

Consultations

The Accounts and Audit Regulations 2015 require the council to make available the accounts for public inspection. This enables any member of the public to inspect the accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2021/22 accounts commenced on 8 June 2022 and ended on 19 July 2022.

Implications:

This item has the following implications, as indicated:

Risk management

The council's audited accounts for 2021/22 must be approved and published by 30 November 2022 to meet the regulatory deadlines.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Statement of accounts 2021/22

(Subject to audit)

Appendix A

Lancashire County Council

Contents

Front cover: Stocks Reservoir
Photo: Catherine Broadley

Written statements to the accounts

Forest of Bowland

Foreword by the Chief Executive and Director of Resources

I am pleased to introduce the statement of accounts for the 2021/22 financial year.

The financial statements set out both the single entity accounts for Lancashire County Council and the consolidated group position, incorporating its subsidiary Lancashire County Developments Limited. The accounts for the Lancashire County Pension Fund are also included, for which Lancashire County Council is the administering authority.

Corporate priorities

Following the local council elections that took place in 2021 and the appointment of the new Leader of the County Council, the council's corporate priorities have been refreshed. They communicate the aims that we are working towards as we continue to make Lancashire the best place to live, work, visit and prosper:

- Delivering better services
- Caring for the vulnerable
- Supporting economic growth
- Protecting our environment

I think these summarise very well the work that we do to make the lives of people in Lancashire better.

Achievements

The excellent work across the council's teams has been recognised throughout the year by a number of awarding bodies.

MJ Awards' success

Our residential and outreach workers in Children's Services won Best Council Services Team of the year at the MJ Awards. This prestigious award recognises their hard work and determination to keep all 16 of our children's homes open and safe throughout the pandemic.

Institute for Improvement in Public Services Award

Our colleagues in Adults Social Care won first place for the Best Health and Wellbeing Initiative in the Association for Public Service Excellence Awards. This was on the back of winning Bronze in the Transformation in Health and Social Care category of the iESE Public Sector Transformation Awards. The tracker has been recognised on a number of occasions now for providing a vital way of reducing bureaucracy during the pandemic. We are very proud of the team and the innovation they have shown.

Local Government Chronicle (LGC) awards

The council is shortlisted for the LGC awards in the categories of Health and Social Care and Most Improved Council.

I am extremely proud of the work that has been done across the whole of e council which is highlighted by these awards and recognition.

Outlook for the future

Devolution

In 2021/22 the Government published their Levelling-up White Paper that sets out how local authorities can get more powers and resources from central Government so they can better respond to local need. As part of its levelling up plans the government announced it would introduce County Deals as part this devolution, with the aim of transferring powers from Whitehall to local areas.

Local council leaders in Lancashire have made a pledge to work together to deliver a bold vision for a County Deal to benefit the people of Lancashire. All 15 of Lancashire's council leaders who make up Greater Lancashire have been working in close collaboration to develop a set of ambitious and forward-thinking proposals. If adopted they would represent a New Deal for a Greater Lancashire across a range of areas including the economy, transport, jobs, skills and the environment.

Care systems

Our care systems are undergoing nationally led changes which are expected to come into force in the coming years. These include the proposed reforms relating to Adult Social Care and Children's services alongside the changes being implemented in how our local health systems are organised as Integrated Care Systems. Through these we have an opportunity to improve the circumstances of the people needing care and we commit to advocating the best outcomes for our residents.

Organisational development

Whilst we have already made significant improvements to our organisation, we all recognise that in an organisation of the scope and scale of the county council that embedding changes and improvements and building on them will take time, commitment and perseverance.

To improve and achieve consistently excellent outcomes for Lancashire we need to be very focused on our customers and their needs, whilst also ensuring our staff experience is a positive one. Through embedding new approaches, technology, and ways of working our continuing improvement journey aims to deliver the best services for the people of Lancashire.

Financial resilience

As recognised in the Local Government Association peer review of the council that was undertaken earlier in the year, the council has significantly improved its financial standing over the last 3-4 years. Key to which has been the delivery of a significant number of permanent savings and a reduced reliance on reserves. Whilst rising costs due to inflation and demand for services present challenges in the future, the council is in a strong financial position from which we can deliver our corporate priorities.

A Ridgwell

Angie Ridgwell
Chief Executive and Director of Resources (Section 151 officer)

The county of Lancashire

The county of Lancashire lies in the north west of England. It is bordered by Cumbria, Greater Manchester, Merseyside and Yorkshire with a coastline to the Irish Sea.

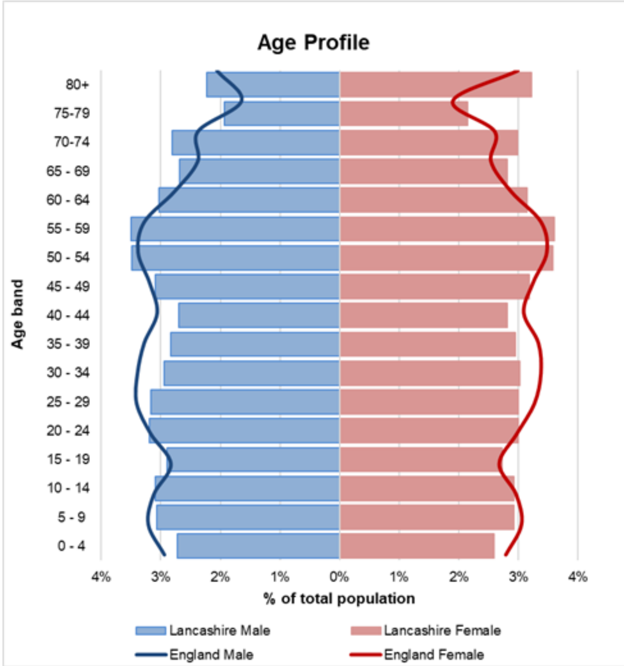
Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. At £27 billion, it is one of the largest economies in the north of England, with around 44,000 businesses.

Lancashire has a diverse heritage and a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment. Lancashire is home to the world's fourth largest aerospace cluster, as well as core strengths and capabilities in advanced manufacturing, energy, digital and health innovation.

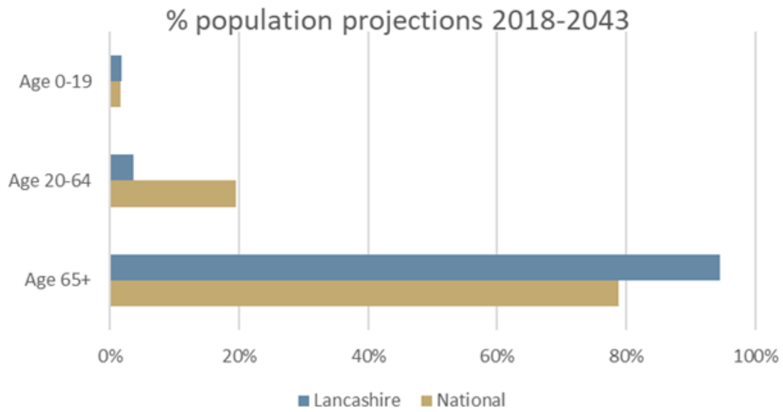
Demographic profile of Lancashire

The Office of National Statistics (ONS) mid-year population estimate for Lancashire in 2020 showed that there were 1,227,076 people living in the county. The population is projected to increase to 1.3 million by 2043, with significant increases forecast in the age over 65 population.

The profile of the population is an important determinant of the demand for services provided by the council, such as the need for adult and children's social care. The age profile chart highlights some challenges with a forecast lower proportion of working age adults relative to an increasing older population. This highlights the importance of our economic development activity to attract working age people into Lancashire.



ONS mid-2020 population estimates



2018-based subnational principal population projections for local authorities

About Lancashire County Council

Lancashire County Council is the fourth largest council in the UK covering a geographic area of 2,894km^2. It provides services to residents of the 12 district areas of Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire and Wyre.
Its responsibilities include:

- Schools and education;
- Adult and children's social care;
- Highways and transport;
- Registration of births and deaths;
- Public health;
- Waste and minerals management;
- Libraries and heritage; and
- Economic development.

Our vision

"Here at Lancashire County Council we are helping you to make Lancashire the best place to live, work, visit and prosper."

Our Vision for Lancashire forms part of the county council's planning and performance framework. It sets out our priorities in an open and transparent way.

We want Lancashire to be the county people choose to create a home, raise their children, develop a career and grow old in. We are committed to developing and celebrating our diverse communities, heritage and landscape to create a strong sense of place we can all be proud of.

Our vision is focused around five objectives, which we set out on the following pages.

Lancashire will be the place to live

Lancashire is a county of diverse communities.

It is a place where people are valued and will feel able to have their say. It will be a county where housing meets the needs of all ages, where people are safe and feel safe, surrounded by clean, green spaces where everyone can enjoy a good quality of life and be happy.

It will be a county where:

- Children of all abilities do well in our first class schools, colleges and universities, gaining skills for life
- People have good housing
- People live healthier lives for longer
- People can travel on good quality, reliable public transport
- People get on well together and are connected to their local community
- Our most vulnerable people are protected and supported
- People make use of technology to access services, support and information

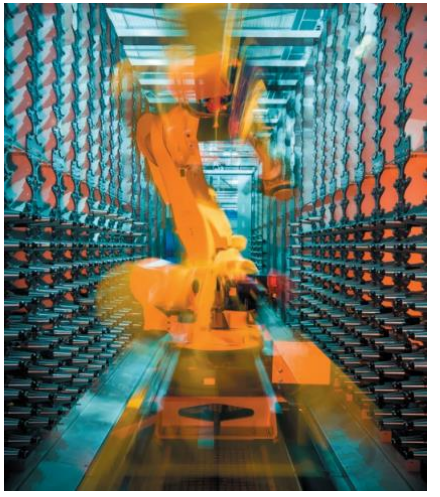
Lancashire will be the place to work

Lancashire will be a county that supports a flexible and inclusive labour market, where skills development is championed and where talented individuals choose to live and work.

It will be a county where:

- We support people of all ages and abilities to learn and develop their skills
- Significant new, good job opportunities are created
- We support and encourage business investment, innovation and growth
- We aim to increase the earning power of our residents and communities
- We build and develop effective infrastructure and transport links

Lancashire will be the place to prosper



Lancashire will be a county that promotes strong economic growth in both urban and rural economies.

It will be a county that actively boosts productivity and prosperity for everyone.

It will be a county where:

- We invest in industry, and promote innovation to secure Lancashire's growth potential
- Businesses are supported to start up, to thrive and to grow
- We build on the strengths and resilience of local industry
- Our residents, businesses and places are enabled to be more productive
- We promote Lancashire as a national and globally connected destination and a well performing place to do business

Lancashire will be the place to visit

Lancashire is a beautiful county with a wealth of culture.

From green fields and rolling hills to coastal towns and country villages – Lancashire really does have it all as a place for people to enjoy.

It will be a county where:

- We celebrate our beautiful, clean landscapes
- We encourage the visitor economy and the opportunities for growth
- People enjoy our culture and heritage, diverse communities and local attractions
- We promote our wonderful sporting attractions and hidden gems

Lancashire will be the place where everyone acts responsibly

The county council will work closely with our partners to enable people in Lancashire to develop and thrive.

We will listen to the needs of people and work with our partners and communities to empower them to meet their own needs. We will help people to look after themselves and help them to provide care and support to their families, friends, neighbours and colleagues.

It will be a county where:

- We will equip our most vulnerable people with the support and skills they need to do more for themselves
- We commission, procure and provide services that provide maximum benefit to Lancashire residents
- We recruit and retain a workforce that meets service needs
- We prevent waste and use money wisely
- We learn from others

Our corporate priorities

Delivering better services

We will:

- Provide services that are effective, efficient and appropriate to local circumstances
- Improve services by changing the way we do things
- Help people and families live healthier lifestyles and enjoy a better quality of life

Caring for the vulnerable

We will:

- Protect, safeguard, support and enable the most vulnerable residents in our society
- Challenge and reduce areas of inequality and provide opportunity for all
- Ensure children of all abilities do well in our schools and colleges, gaining important skills and expertise for life

Protecting our environment

We will:

- Lead on environmental improvement schemes and renewable energy initiatives
- Work with businesses and communities on flood prevention, decarbonisation projects and climate change resilience
- Promote more recycling and better waste management

Supporting economic growth

We will:

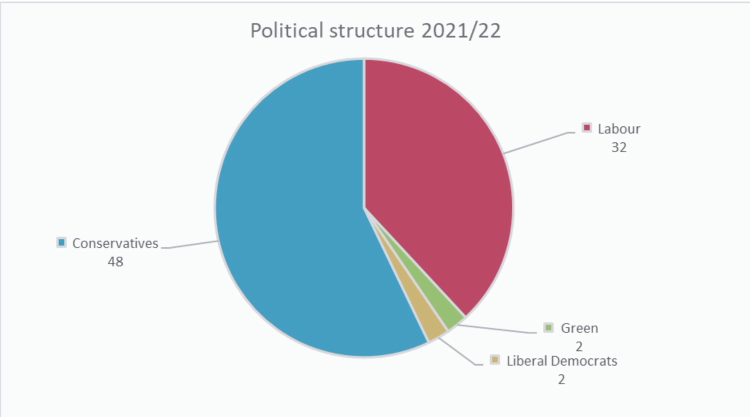
- Develop and build effective infrastructure and transport networks, to help people and businesses connect and grow
- Secure inward investment, to boost and level up the county
- Invest in skills and innovation, to secure economic growth and maximise Lancashire's potential

Our governance structure

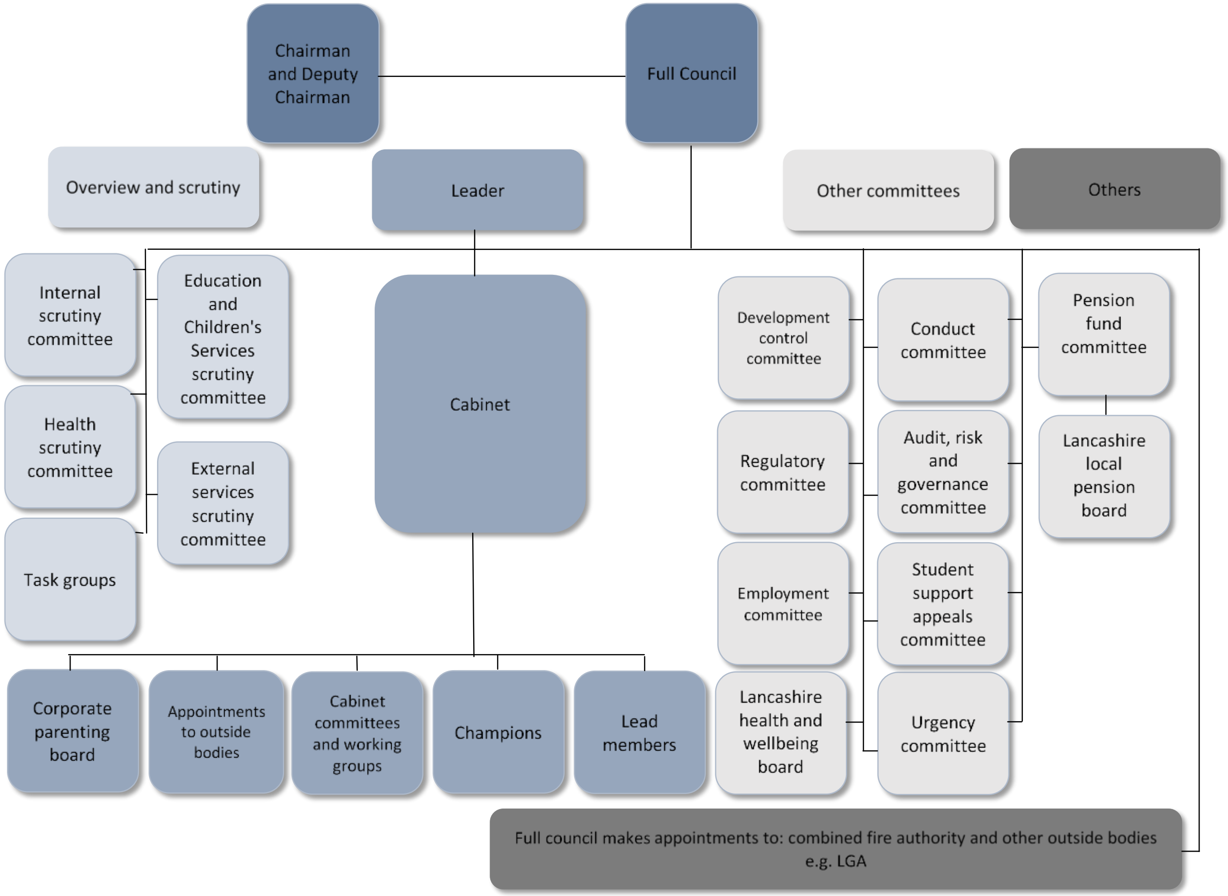
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities in the council's decision-making processes.

Council meetings are broadcast live on our website as part of our ambition to bring decision-making closer to the public.

The chart below shows the political structure of the council as at 31 March 2022.



The political management structure of the council is shown below.



Further details of the council's governance arrangements are provided in the Annual Governance Statement.

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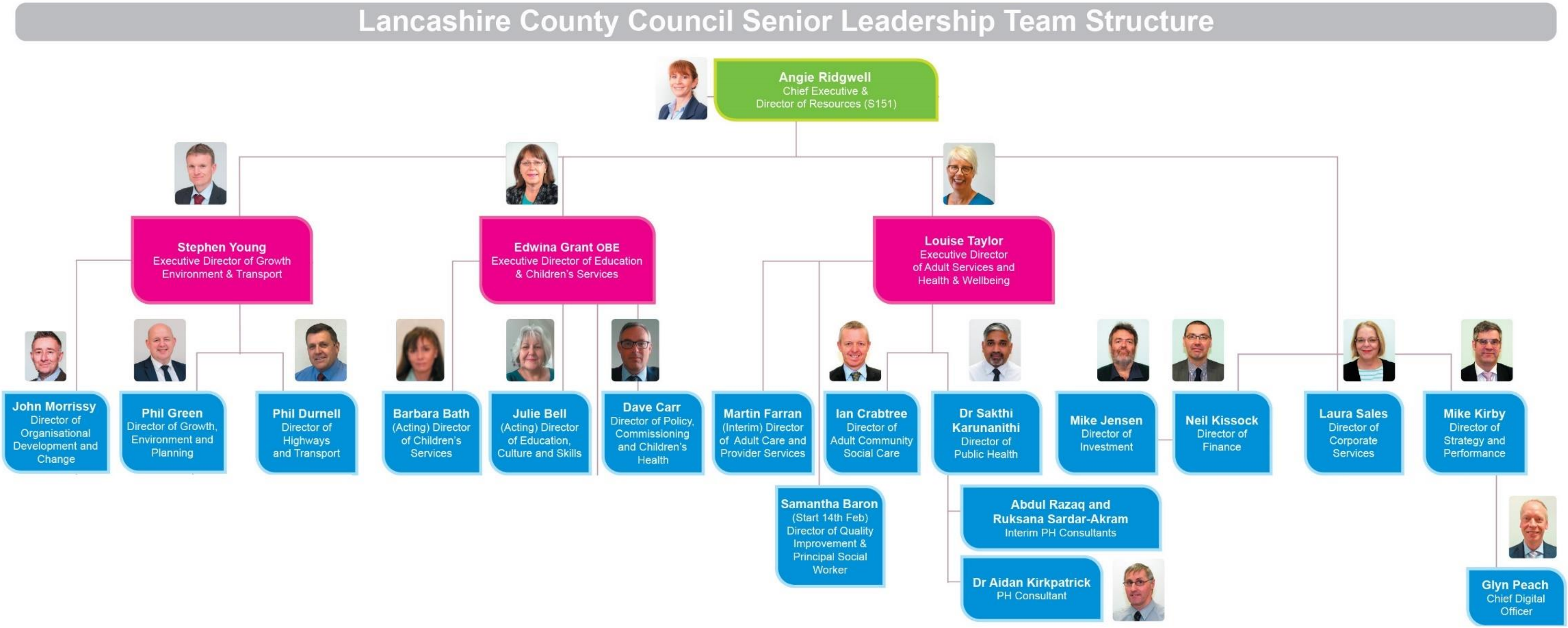
Our staff

The council is managed by the Chief Executive and Director of Resources together with three executive directors. They are accountable to the county councillors who determine policy and agree spending priorities. The council is supported by administrative, professional, technical and operational employees whose role is to advise the council on all aspects of its functions and to put into effect decisions, which are taken in order to provide services to the public. The council has responsibilities spanning public health, social care, the economy and the environment and employs over 12,900 people in full time and part time contracts with around a further 28,600 people employed in schools.

The council's management structure as at 31 March 2022 is shown below.



Our performance

Adult services

Our priority is to support people to live as independently and healthily as possible, with the right level of care for the right amount of time for themselves and their carers, by investing in prevention, early intervention, and the use of technology. We are working to ensure people in Lancashire are safe, secure, and connected to their local community, maximising their potential, remaining healthy and feeling well.

Over the past 12 months, the number of supported admissions to residential care has significantly increased and is now above the national average. However there has also been an increase in the number of older adults who are still at home 91 days after discharge from hospital to reablement/rehabilitation services to 87.8%

Arguably Covid has had a direct impact on some areas of performance as in effect we have supported more people over this period; we have used more residential care to facilitate rapid discharges from acute NHS care, but also experienced significant workforce capacity issues due to staff ill health. Although most services were maintained, capacity was restricted e.g. staff in non-critical services were redeployed to support mandatory service for example staff cover in residential care homes.

Of new clients coming into the service the percentage of those who required short term support to maximise independence, 98.3% of these achieved a successful outcome without needing any longer sustained period of care. The focus on enabling people to achieve independence is demonstrated by the effectiveness of our reablement service and reducing the number of people who would otherwise have been admitted to residential care.

The proportion of adults with learning disabilities who live in their own home has reduced slightly over the last year which reflects some restrictions in both completing assessments and moving highly vulnerable people, but Lancashire is still above the national average of 78.3% at 82.4%. Those with learning disabilities within employment still shows Lancashire to be under the national average. Work is ongoing to improve this as staff who were redeployed have returned to substantive posts, plus we are seeking to secure additional resources.

We are committed to ensuring the quality of services for people needing our support and safeguarding and protecting vulnerable people from harm. The proportion of care homes and community-based services rated as 'Good' or 'Outstanding' by the Care Quality Commission continue to be high, although for Lancashire the proportion for residential homes is slightly lower than the national and north-west averages, but the proportion for community-based services is higher than both the national and north-west averages. CQC have suspended their routine inspection programme and are using desk top approach and targeting their input to services at greatest risk. However, one of our residential care homes for Older People that was rated Requires Improvement has recently been re-inspected and the overall rating has improved to 'Good'.

Indicator	**Good is**	**2020/21**	**2021/22**
Rate of supported permanent admissions to residential and nursing care homes per 100,000 population aged 65 or over *	Low	476.8	692.0
Percentage of older people (65 and over) who were still at home 91 days after discharge from hospital into reablement / rehabilitation services	High	81.6%	87.8%
Percentage of new service users who completed short term support to maximise independence	High	97.6%	98.3%
Proportion of adults and older people receiving long term services who are supported in the community	High	72.3%	69.6%
Proportion of adults with learning disabilities who live in their own home *	High	83.0%	82.4%
Percentage of adults with learning disabilities in employment *	High	2.3%	2.10%

* 2020/21 updated for final published figure

Care Quality Commission ratings for Lancashire residential care homes and community based adult social care services as at March 2022

Proportion rated as Good or Outstanding	**Good is**	**2020/21**	**2021/22**
Residential care homes	High	83.9%	80.6%
In-house residential care homes	High	87.5%	83.3%
Community based adult social care services	High	95.6%	96.0%
In-house community based services	High	100%	100%

Education and children's services

Lancashire performs well with the level of pupils offered one of their three preferences for school admissions, although there are hotspots in some areas of the county where places are more limited. The number of schools who are 'Good' or 'Outstanding' is above the 90% national benchmark and it must be remembered that not all schools will have been inspected within the year.

Significant progress has been made in the number of children not in employment or training, as a 0.6% reduction is good progress, given the number of children. Tracking children who are not receiving education remains a priority. The referrals to children's social care per 10,000 population has reduced which is in line with our Family Safeguarding model as more children should be picked up in early intervention. Family Safeguarding also accounts for the drop in numbers of children on protection plans and who are looked after. On social care assessments completed in time and the stability of placements is affected by workforce issues. Our workforce strategy is a priority for the Directorate.

Indicator	**Good is**		
Percentage of pupils offered one of top three preferences primary / secondary	High	97.1%/95.3% (2020)	98.6%/96.3% (2021)
Key Stage 4 – Average attainment 8 score	High	49.7# (2019/20)	50.4 (2020/21)
Looked After Children Key Stage 4 – Average attainment 8 score	High	20.5 (2019/20)	23.1 (2020/21)
Percentage of education settings rated Good/Outstanding	High	90.1% (Mar 2021)	90.9% (Mar 22)
16-17 year old Not in Education, Employment or Training (NEET)	Low	5.8%	5.2%
Referrals to children's social care per 10,000 population	Measure of demand	321	230.9
Percentage of Children and Family assessments in time (<45 days)	High	92.4%	88.1%
Stability of placements: Percentage of 'children looked after' with 3 or more placements	Low	6.4% (Mar 2021)	7.4% (Mar 22)
Number of children on Child Protection Plans	Measure of need	571 (Mar 2021)	487 (Mar 22)
Number of children on Child Looked After	Measure of need	2,002 (Mar 21)	1,941 (Mar 22)

Due to the COVID-19 pandemic, the summer exam series was cancelled in 2020. Pupils scheduled to sit GCSE and A/AS level exams in 2020 were awarded either a centre assessment grade or their calculated grade using a model developed by Ofqual - whichever was the higher of the two.

Growth, environment, transport and community services

To support delivery of the corporate strategy, our aims include:

- Safe roads and pavements maintained to a good standard
- Achieve high recycling rates and disposing of waste in a way that meets the latest environmental standards
- Investing in business to support economic growth

The year 2021/22 has seen the highest number of issues with roads to date with 66,897 reports of faults known as defects. The harsh winter of 2020/21 meant a significant deterioration of the network which saw the list of daily maintenance jobs at around 4,000 to 5,000 jobs countywide and this continued throughout the year.

A second significant peak in demand in October and November and then in January and February has placed a huge demand on the service, whilst the winter service was also being delivered. This contributed to increasing spend in 2021/22 and a heavy reliance on contractors to keep us on track.

The performance for street-lights repaired on time has improved compared with the previous year and is above the target of 95%. Overall, the number of faults detected\reported has reduced from the previous year.

The recycling rate for 2021/22 is comparable to last years out-turn at circa 45%. We collected 416,000 tonnes of residual waste at doorsteps, a drop of only 2,000 tonnes across Lancashire and Blackpool combined– as we continued to accept and treat high volumes of waste, levels of which far exceed pre-pandemic years. Kerbside collected recyclables: green, glass, cans and plastics and paper and card saw a drop of 7% on 2020/21 down by approximately 13,000 tonnes – with glass/cans and plastics seeing the highest drop. Recycling Centres performed well with positive results, recyclable tonnes achieving levels of up to 85% against where they were at pre-pandemic a couple of years ago.

The focus for business support activity during the second half of 2021 was on planning, designing, and procuring services for the fourth phase of Lancashire's Growth Hub 'Boost' (2022/23) whilst ensuring the delivery and management of Boost 3. Considerable effort was made to get the buy-in of our primary funding authority, Department for Levelling Up, Housing and Communities (DLUHC) for the £9.2 million continuation programme. According to McKinsey, 90% of the businesses surveyed by the firm during the pandemic believe that Covid will fundamentally change the way they do business in the next 5 years and 85% are concerned that the Covid crisis will have a lasting impact on their customers' needs and wants over the next 5 years. This is also reflected in the Boost Diagnosis of Need and Business Report Reviews of Lancashire companies. Core Boost 4 services have been repositioned so that the Growth Hub is able to meet the demands for new solutions for new problems and provide the right support at the right time.

Indicator	Good is	2020/21	2021/22
Streetlights - non-traffic management faults fixed within 5 working days	High	91%	97.9%
Streetlights - traffic management faults fixed within 20 working days	High	89%	95.1%
Safety carriageway defects repaired within 4 hours (emergency) + 1 and 2 working days (urgent) (good is high)	High	87.5%	86%
Safety carriageway defects repaired within 5 working days (non-urgent) + (10/+20 working days) (non-urgent) (good is high)	High	88.5%	89.3%
Percentage of waste re-used, recycled and composted (good is high) *	High	45%	45%*
Number of small businesses supported by Boost (good is high)	High	316	611
Number of small businesses established by Boost (good is high)	High	70	159
Superfast broadband coverage (good is high)	High	97.8%	98.1%

* 2021/22 is a provisional figure (final published statistics for 2021/22 will be available in November 2022)

Our risk management

In delivering our services, we are faced with a range of risks, which can threaten the quality and availability of the services we provide. The corporate risk and opportunity register is reported quarterly to the Cabinet Committee on Performance Improvement and the Audit, Risk and Governance Committee. Some of the most significant of these risks are highlighted below:

Risk description	Possible consequences	Mitigating actions
Increased service demand impact on community and services	Risk of reduction in quality standards/not meeting care quality requirements. People may not receive care services in the most beneficial setting. Delays in receiving critical social care services.	Close monitoring of providers enables pathways to be 'actioned' immediately if issues arise. Service users and their families are being offered support and alternatives being offered/developed including links to community-based support. Lancashire Resilience Forum will intervene if required in event of activity spike.
Reshaping the county council	Inability to deliver full programme of staff and customer experience improvement. Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes.	Corporate Management Team to have visibility of the entire change programme. Agree governance which will allow effective prioritisation and sequencing of change activity at a corporate level.
Special Educational Needs and Disability Improvement Plan	Children and families do not receive timely and effective support Loss of confidence of children, young people, parents and carers	Accelerated Improvement Plans agreed and monitoring arrangements in place. Investment to strengthen specialist nursing services considered alongside other NHS investment through Integrated Care System governance arrangements.

Our financial performance

Revenue summary

The council receives funding from three main sources:

- Government grants
- Council tax
- Business rates

The council also generates income from fees and charges for services it provides. The charts illustrate the funding received and how it was spent on services.

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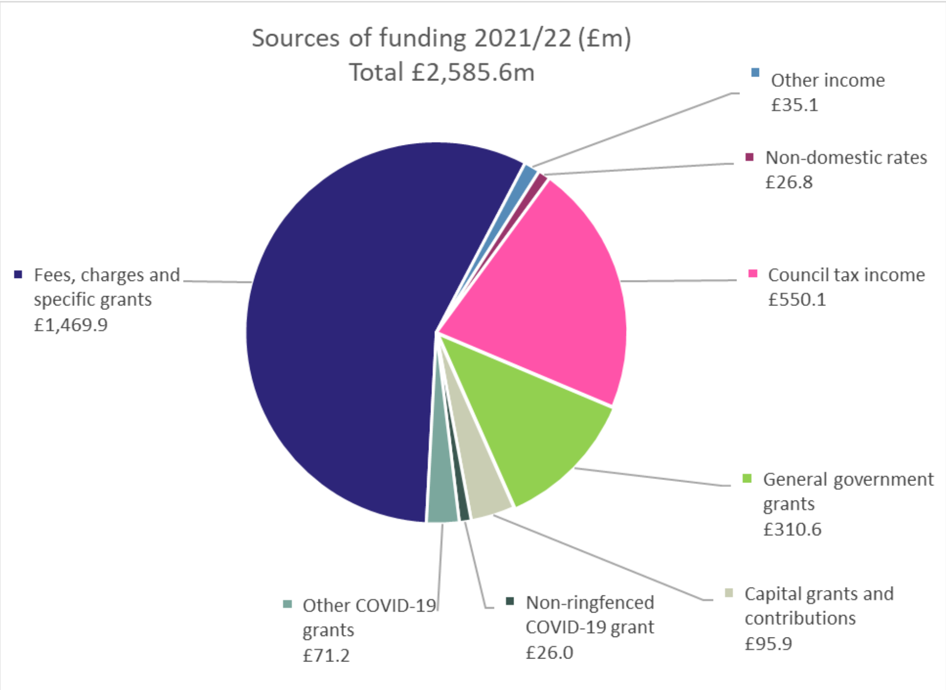
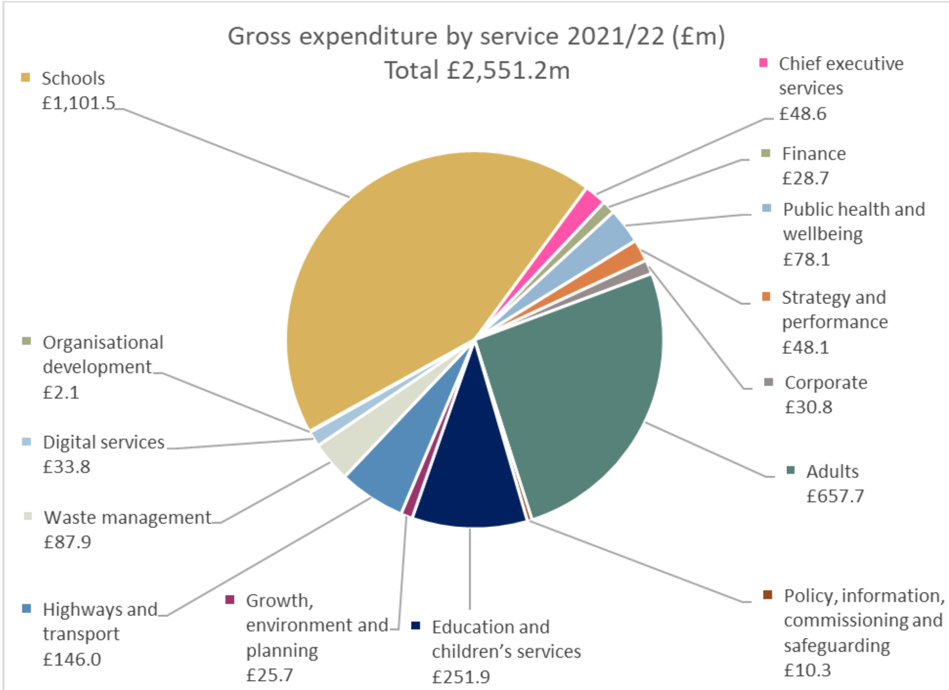




Revenue outturn

In February 2021, the council approved a net revenue budget of £881.413 million. The revenue budget shows the annual cost of delivering against the council's duties and responsibilities to the community, many of which are given to the council under statute.

The following table shows what Lancashire County Council planned to spend against the actual spend for the year. The difference between the two is shown in the (under)/overspend column. The negative figures are those where spend is less than planned and the positive figures are where spend is more than planned.

Service	**Approved budget**	**Outturn**	**(Under)/ overspend**
	£m	**£m**	**£m**
Adults	388.736	375.723	(13.013)
Policy, information, commissioning and safeguarding	7.824	7.942	0.118
Public health and wellbeing	(4.405)	(5.039)	(0.634)
Education and children's services	218.181	213.797	(4.384)
Growth, environment and planning	6.699	5.603	(1.096)
Highways and transport	71.403	79.293	7.890
Organisational development	1.947	1.732	(0.215)
Waste management	70.121	66.928	(3.193)
Finance	18.052	16.858	(1.194)
Corporate services	21.890	20.866	(1.024)
Strategy and performance	31.629	39.144	7.515
Digital services	31.969	27.100	(4.869)
Chief executive services	17.367	1.543	(15.824)
Sub total	**881.413**	**851.490**	**(29.923)**
Schools	0	(15.954)	(15.954)
Total	**881.413**	**835.536**	**(45.877)**

The major underspends against the budget largely reflect the on-going demand uncertainties resulting from the Covid-19 pandemic where demand was below budgeted expectations in the year. Demand projections for future years will be rebased using these revised assumptions. The council also received funding from the NHS and government grants to meet the cost of some new or changed services, reducing spending activity elsewhere. The overall net underspend position is further increased by good investment return performance from the council's cash balances.

The underspend on schools is due to a number of factors including the impact of Covid-19 through reduced activity with delays in progressing building and maintenance projects. The surplus funding of £15.954 million will be carried forward in the ring-fenced dedicated school's reserve, for use by schools in future years.

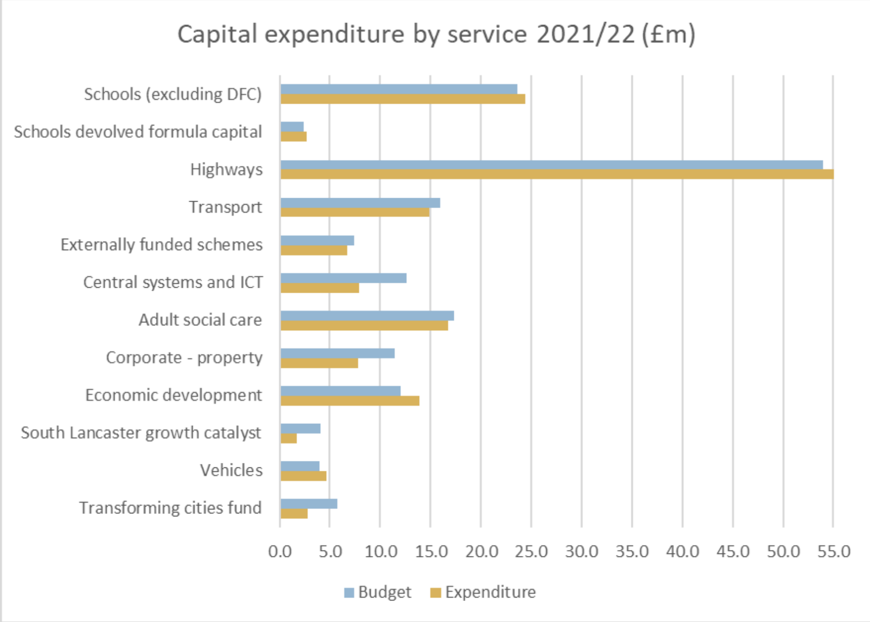
The outturn position is reconciled to the figures shown in the comprehensive income and expenditure statement in Note 5 - expenditure and funding analysis.

Capital investment programme

In February 2021, the council approved an initial capital budget of £152.439 million for 2021/22. The final capital programme for the year following review and subsequent investment decisions totalled £170.563 million, and included:

- Enhancements and improvements to schools and buildings the council delivers services from including residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in the council's ICT infrastructure to support corporate priorities;
- Investment in improvements to transport networks;
- Delivery of the awarded transforming cities programme;
- Support for schemes to deliver economic growth in the county.

The total spend on capital works in 2021/22 was £164.124 million which represents 96.2% of the budgeted programme.

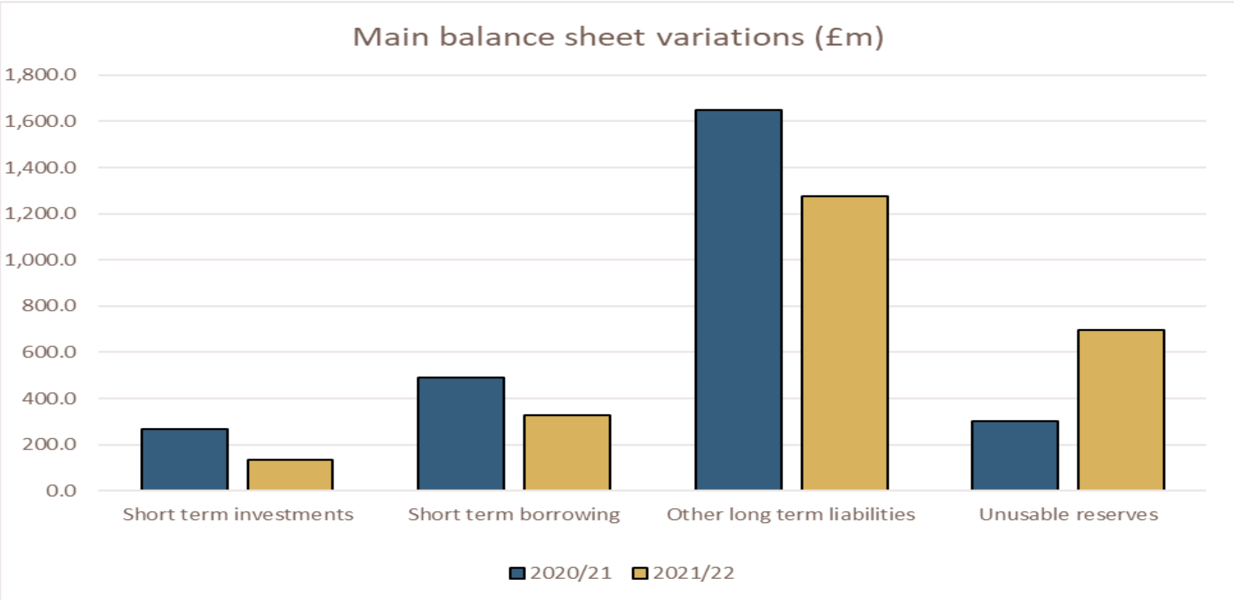


	Revised budget £m	Expenditure £m	Variation £m
Schools (excluding DFC)	23.576	24.445	0.869
Schools devolved formula capital	2.380	2.654	0.274
Highways	53.933	59.794	5.861
Transport	15.958	14.856	(1.102)
Externally funded schemes	7.432	6.712	(0.720)
Central systems and ICT	12.656	7.952	(4.704)
Adult social care	17.313	16.773	(0.540)
Corporate - property	11.439	7.852	(3.587)
Economic development	11.989	13.900	1.911
South Lancaster growth catalyst	4.100	1.676	(2.424)
Vehicles	3.999	4.709	0.710
Transforming cities fund	5.788	2.801	(2.987)
Total expenditure	**170.563**	**164.124**	**(6.439)**

Assets and liabilities

The balance sheet summarises the council's financial position at the year-end and reports the assets, liabilities and reserves of the council which show what the council owns and how much it owes. The net assets of the council have increased by £467.6 million from £943.6 million at 31 March 2021to £1,411.2 million at 31 March 2022, with the main balance sheet variations shown in the following chart:

Summary financial position	**31 March 2021**	**31 March 2022**	**Movement**
	£m	**£m**	**£m**
What we own (assets)	4,436.1	4,373.4	(62.7)
What we owe (liabilities)	(3,492.5)	(2,962.2)	530.3
Net financial position (assets less liabilities)	**943.6**	**1,411.2**	**467.6**
The net financial position is held in reserves as follows:			
General reserves available to the council (usable)	(643.4)	(713.8)	(70.4)
Other reserves held for statutory or specific purposes (unusable)	(300.2)	(697.4)	(397.2)
Total reserves	**(943.6)**	**(1,411.2)**	**(467.6)**



Borrowing and investments

A temporary loan of £150 million undertaken in March 2020 to ensure liquidity was not impacted by the Covid-19 lockdowns and this was re-classified as short term borrowing as at March 2021. This loan was repaid in June 2021 which reduced the short term borrowing level at 31 March 2022. The lower cash balance resulting from this repayment is reflected in the decrease in the short term investments.

Other long term liabilities

The movement in long term liabilities results from a reduction in the pension liability valuation which is also reflected in the unusable reserves.

Pension fund liability

The council has a net future pension liability of £1,148 million (£1,516 million as at 31 March 2021) on an International Accounting Standard (IAS) 19 basis.

Actuarial valuations are carried out every three years. The last actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 by an independent firm of actuaries. The pension figures are revised annually based on updated assumptions.

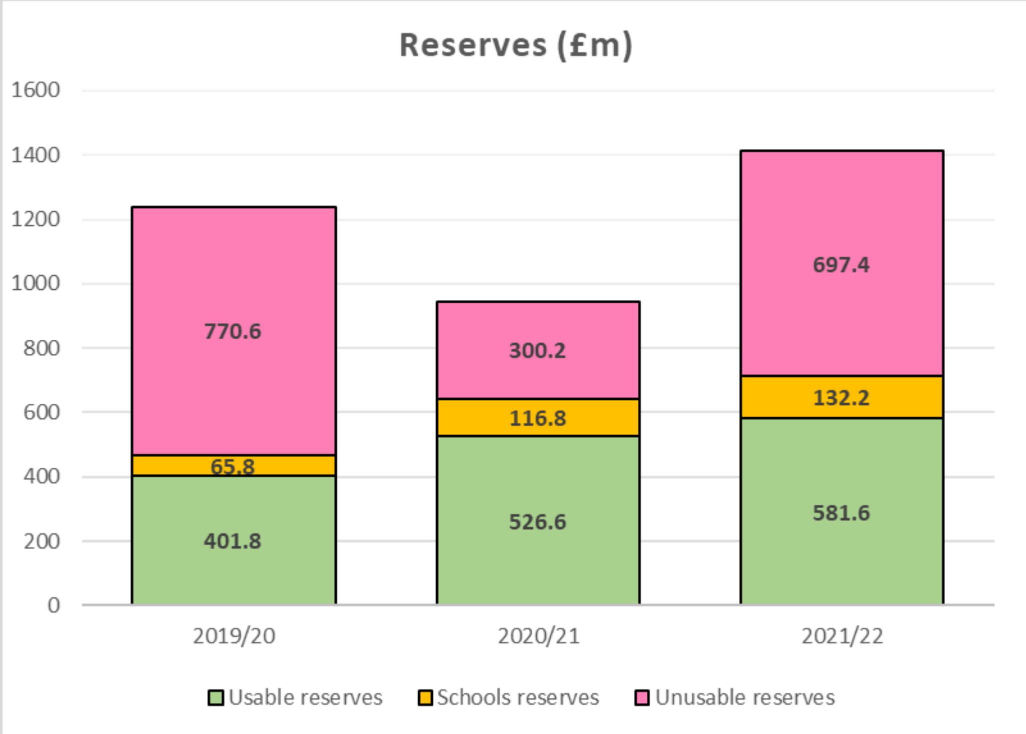
Whilst the pension liability figure is substantial, it should be noted that it does not need to be met immediately. The amount is an assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment performance.

Further details of the pension liability and assets are set out in the technical annex section of these financial statements.

Reserves

The reserves on the balance sheet represent the council's net worth and are split into usable reserves and unusable reserves.

The following chart shows the balance of reserves over the last three years. Usable reserves are shown in green, unusable reserves are shown in red and reserves belonging to schools are shown in orange.



Usable reserves

Usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. The revenue reserves for 2021/22 are higher than previous years, mainly due to reduced expenditure as a result of restricted activities resulting from the response to the pandemic, in addition to good investment return performance in treasury management activity.

Unusable reserves

The council also holds a number of unusable reserves, which arise as a result of statutory or accounting adjustments and cannot be used for expenditure on services. These include unrealised gains and losses, particularly in relation to the revaluation of property, and adjustment accounts, which absorb the timing difference between the outcome of applying accounting practice and the amounts required to be charged to the financial statements under statute. The adjustments are described in more detail in the following section - 'explanation of the accounting statements'.

The following accounts normally represent the most significant movements in unusable reserves and are explained further in Note 31:

- Revaluation reserve;
- Pensions reserve;
- Capital adjustment account.

The decrease in unusable reserves is largely due to changes in the pension liability.

Financial sustainability

The council has to plan for the long term to ensure that it can continue to deliver its services in future years and be able to deal with any unexpected events. As a result, it is important that our financial standing (or sustainability) is robust.

Lancashire County Council has a fully developed medium term financial strategy covering a period of three years, which includes looking at risks and future demands on services.

The biggest medium-term financial risks identified are:

- Population growth and age profile – this is likely to lead to increased service demand.
- Schools balances – we have funding pressures due to government education grants being less than expenditure.
- Safeguarding the financial position of the council – the council looks at ways to improve efficiency through delivering services in different ways. These plans should remain on track.

Raising debt to finance council investment

The council has a borrowing requirement arising from current and past years' capital programmes. This is met by a mixture of long and short term borrowing, the balance of which can vary year on year depending upon maturities and market conditions. Decisions made on borrowing will also affect cash available for investments. Councils can borrow to invest in property or other infrastructure that supports the delivery of services, but they must ensure that they can pay this amount back.

The council sets out its approach to borrowing and investment in its annual treasury management strategy, and this is monitored throughout the year by the Audit, Risk and Governance Committee, with advice from external specialists as appropriate.

Financial interests in other organisations

The group accounts show the full extent of the county council's economic activities by reflecting the county council's involvement with its group companies. Inclusion in the Lancashire County Council group is dependent upon the extent of the county council's interest and control over the entity. Where an entity is considered to be below materiality levels, it is not included in the group accounts.

Type	Number
Subsidiaries	6
Associates	2
Joint ventures	2

In 2021/22, the group accounts include the county council's interest in Lancashire County Developments Limited, which is an economic development agency for the county. Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited;
- and Lancashire County Developments (Investments) Limited.

The financial position of the council is as follows with the inclusion of Lancashire County Developments Limited:

Summary financial position	31 March 2021	31 March 2022	Movement
	£m	£m	£m
What we own (assets)	4,504.8	4,457.4	(47.4)
What we owe (liabilities)	(3,499.3)	(2,961.0)	538.3
Net financial position (assets less liabilities)	**1,005.5**	**1,496.4**	**490.9**
The net financial position is held in reserves as follows:			
General reserves available to the council (usable)	(643.4)	(713.8)	(70.4)
Other reserves held for statutory or specific purposes (unusable)	(300.2)	(697.4)	(397.2)
Subsidiary reserves (usable)	(27.6)	(38.2)	(10.6)
Subsidiary reserves (unusable)	(34.3)	(47.0)	(12.7)
Total reserves	**(1,005.5)**	**(1,496.4)**	**(490.9)**

Explanation of the accounting statements

The statement of accounts has a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. It provides information on:

- The cost of the council's services for the year;
- How the services were funded;
- The council's assets and liabilities at the year end.

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework. International Financial Reporting Standards (IFRS) set out how items should be presented in the statement of accounts, however, these are mainly designed for the private sector so need to be adapted for local government.

In addition, the government makes statutory requirements, which are specific rules that local authorities must follow when they prepare their accounts, which limit the amounts that can be charged to council tax payers.

Comprehensive income and expenditure statement

The comprehensive income and expenditure statement reflects the cost of providing the council's services in line with accounting practices.

The comprehensive income and expenditure statement has two sections:

The top section reflects the full cost of providing services under International Financial Reporting Standards and shows whether the council's operations resulted in a surplus or deficit.

The bottom section 'other comprehensive income and expenditure' includes details of the gains or losses in the measurement of the assets and liabilities of the council which arise as a result of changes in market valuations, interest rates or changes in measurement assumptions in relation to pension assets and liabilities.

Movement in reserves statement

The movement in reserves statement shows the movement from the start to the end of the year on the different reserves held by the council, analysed into usable and unusable reserves. The usable reserves show the resources currently available to spend on services.

As local authorities are tax-raising bodies, they are subject to specific rules as to how tax rates are to be set in relation to the income and expenditure of the council. As outlined above, the comprehensive income and expenditure statement shows the cost of providing services in line with International Financial Reporting Standards; however, the amounts chargeable to council tax are limited by statutory requirements. The movement in reserves statement includes details of the income and expenditure that is recognised under accounting rules but then removed from the accounts by legislation to give the amount of expenditure that has been funded by the local tax payer.

The statutory adjustments largely relate to arrangements for funding capital expenditure or the timing with which some items, for example pension costs, are charged to council tax. Further details of the adjustments are shown in Note 14 – adjustments between accounting basis and funding basis under regulations.

Expenditure and funding analysis

The expenditure and funding analysis reconciles the outturn position reported to management with the movement in reserves statement and the comprehensive income and expenditure statement, detailing the adjustments described above.

Balance sheet

The balance sheet summarises the council's financial position at the year-end and shows the assets, liabilities and reserves of the council. The council's net assets, represents the value of assets the council would hold after settling all its liabilities, which is balanced by the various reserves of the council.

Cash flow statement

The cash flow statement shows the reason for changes in the council's cash balances during the year, and whether that change is due to operating activities, financing activities or new investment.

Notes to the financial statements

The notes to the accounts provide further detail on material items within the core financial statements.

Group accounts

The group accounts show the full extent of the council's economic activities by reflecting the council's involvement with its group companies.

Pension fund accounts

The pension fund accounts provide a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year.

Annual governance statement

The annual governance statement sets out the governance structures of the council and its key internal controls.

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

The council's responsibilities

The council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs under Section 151 of the Local Government Act 1972. In this council, that officer is the Chief Executive and Director of Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the statement of accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the council'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 (the Code).

In preparing this statement of accounts, the Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Section 151 Officer has also:

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

Certification of accounts

I certify that the statement of accounts gives a true and fair view of the financial position of the council and its income and expenditure for the year ended 31 March 2022.

Angie Ridgwell
Chief Executive and Director of Resources
25 July 2022

Approval of accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 21 December 2021.

A Schofield
Chair of Audit, Risk and Governance Committee
25 July 2022

Financial statements

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Comprehensive income and expenditure statement

2020/21				2021/22		
Gross expenditure	**Gross income**	**Net expenditure**		**Gross expenditure**	**Gross income**	**Net expenditure**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
583.0	(216.9)	366.1	Adults	657.7	(255.2)	402.5
8.8	(0.3)	8.5	Policy, information, commissioning and safeguarding	10.3	(1.3)	9.0
70.2	(108.7)	(38.5)	Public health and wellbeing	78.1	(88.2)	(10.1)
239.6	(23.1)	216.5	Education and children's services	251.9	(27.4)	224.5
16.6	(9.9)	6.7	Growth, environment and planning	25.7	(9.7)	16.0
134.2	(32.2)	102.0	Highways and transport	146.0	(34.0)	112.0
2.1	0	2.1	Organisational development	2.1	0	2.1
83.7	(14.4)	69.3	Waste management	87.9	(17.8)	70.1
72.8	(29.9)	42.9	Finance	28.7	(10.5)	18.2
27.4	(6.1)	21.3	Corporate	30.8	(6.3)	24.5
54.9	(32.9)	22.0	Strategy and performance	48.1	(28.0)	20.1
76.2	(12.2)	64.0	Chief executive services	48.6	(24.9)	23.7
979.7	(979.5)	0.2	Schools	1,101.5	(1,029.4)	72.1
0	0	0	Digital services	33.8	(2.4)	31.4
2,349.2	**(1,466.1)**	**883.1**	**Cost of services**	**2,551.2**	**(1,535.1)**	**1,016.1**
33.4	(8.3)	25.1	Other operating income and expenditure (Note 6)	23.8	(6.0)	17.8
64.4	(62.0)	2.4	Financing and investment income and expenditure (Note 7)	57.3	(35.1)	22.2
0	(974.6)	(974.6)	Taxation and non-specific grant income and expenditure (Note 8)	0	(1,009.4)	(1,009.4)
2,447.0	**(2,511.0)**	**(64.0)**	**(Surplus)/deficit on provision of services**	**2,632.3**	**(2,585.6)**	**46.7**
		(48.9)	(Surplus)/deficit on revaluation of non-current assets (Note 31)			(13.4)
		371.0	Re-measurement of the net defined benefit pension liability/(asset) (Note 31)			(538.4)
		36.5	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			37.5
		358.6	**Other comprehensive (income) and expenditure**			**(514.3)**
		294.6	**Total comprehensive (income) and expenditure**			**(467.6)**

2021/22

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 31)	Unusable reserves (Note 31)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2021	**(492.9)**	**(8.4)**	**(142.1)**	**(643.4)**	**(300.2)**	**(943.6)**
Movement in reserves during 2021/22						
Total comprehensive income and expenditure (Note 5)	46.7	0	0	46.7	(514.3)	(467.6)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(117.0)	(1.9)	1.8	(117.1)	117.1	0
(Increase)/decrease in year	**(70.3)**	**(1.9)**	**1.8**	**(70.4)**	**(397.2)**	**(467.6)**
Balance at 31 March 2022	**(563.2)**	**(10.3)**	**(140.3)**	**(713.8)**	**(697.4)**	**(1,411.2)**

2020/21

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 31)	Unusable reserves (Note 31)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**
Movement in reserves during 2020/21						
Total comprehensive income and expenditure (Note 5)	(64.0)	0	0	(64.0)	358.6	294.6
Adjustment between accounting basis and funding basis under regulations (Note 14)	(95.1)	(8.3)	(8.4)	(111.8)	111.8	0
(Increase)/decrease in year	**(159.1)**	**(8.3)**	**(8.4)**	**(175.8)**	**470.4**	**294.6**
Balance at 31 March 2021	**(492.9)**	**(8.4)**	**(142.1)**	**(643.4)**	**(300.2)**	**(943.6)**

31 March 2021		Note	31 March 2022
£m			£m
3,122.3	Property, plant and equipment	18	3,154.3
28.7	Heritage assets	20	28.7
12.5	Intangible assets		17.4
586.6	Long term investments	26	605.4
41.2	Long term debtors	21	39.5
3,791.3	**Long term assets**		**3,845.3**
266.3	Short term investments	26	132.4
3.2	Inventories		4.1
154.0	Short term debtors	22	228.4
34.4	Payments in advance		18.5
184.5	Cash and cash equivalents	23	144.7
2.4	Assets held for sale		0
644.8	**Current assets**		**528.1**
(489.0)	Short term borrowing	26	(325.1)
(215.6)	Short term creditors	24	(291.7)
(30.9)	Receipts in advance	24	(66.3)
(13.3)	Short term provisions	25	(15.2)
(169.0)	Other current liabilities	27	(71.5)
(917.8)	**Current liabilities**		**(769.8)**
(26.8)	Long term provisions	25	(35.6)
(897.3)	Long term borrowing	26	(881.0)
(1.3)	Long term creditors	26	(1.3)
(1,649.3)	Other long term liabilities	28	(1,274.5)
(2,574.7)	**Long term liabilities**		**(2,192.4)**
943.6	**Net assets**		**1,411.2**
(643.4)	Usable reserves	31	(713.8)
(300.2)	Unusable reserves	31	(697.4)
(943.6)	**Total reserves**		**(1,411.2)**

2020/21		Note	2021/22
£m			**£m**
64.0	Net surplus/(deficit) on the provision of services		(46.7)
74.6	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	356.3
(140.6)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	(130.4)
(2.0)	**Net cash flows from operating activities**		**179.2**
(296.1)	Investing activities	33	(12.9)
(151.4)	Financing activities	34	(206.1)
(449.5)	**Net increase/(decrease) in cash or cash equivalents**		**(39.8)**
634.0	Cash and cash equivalents at the beginning of the reporting period		184.5
184.5	**Cash and cash equivalents at the end of the reporting period**	23	**144.7**

Explanatory notes to the financial statements

Pendle

Note 1 - Accounting standards issued, but not yet adopted

The council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2022/23 Code will introduce the following amendments:

Annual Improvements to IFRS Standards 2018–2020

The amendments made during the 2018–2020 cycle are:

IFRS 1 *First-time adoption*

The amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS and simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent.

IAS 37 *Onerous contracts*

The amendment provides clarity on the costs of fulfilling a contract.

IAS 41 *Agriculture*

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 fair value measurement.

These amendments are not anticipated to impact on the council's accounts.

IFRS 16 *Leases*

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

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

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

The implementation of IFRS 16 *Leases* has been deferred until 1 April 2024. The council is currently reviewing its leases to assess the impact of the change.

Note 2 - Critical judgements in applying accounting policies

In applying the accounting policies, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

Funding

There continues to be a high degree of uncertainty around future levels of funding for local government. The council's medium term financial strategy assesses the on-going pressures from reduced funding and increased demand for services, which are mitigated by further savings and use of reserves. The council is of the view that this uncertainty is not sufficient to provide an indication that the assets of the council might be impaired as a result of the need to dispose of assets at less than their current value.

Private finance initiative (PFI)

The council is deemed to control the services provided under the private finance initiative (PFI) agreements and also to control the residual value of the properties at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings have been recognised as property, plant and equipment on the council's balance sheet. The buildings have been valued at £157.9 million as at 31 March 2022 (31 March 2021: £155.7 million).

School assets

In assessing the most appropriate accounting treatment for balances and transactions in relation to schools, the council has considered the circumstances of each of the categories of school, such as ownership, control and access to economic benefits and service potential. Further details are included in Note 19.

The property, plant and equipment balance includes properties valued at £847.3 million, which are not owned by the council. These are principally voluntary aided, voluntary controlled and foundation schools for which the trustees have legal ownership rights. It is the council's policy to include these school assets on the balance sheet as the council benefits from using these properties in terms of delivery of service and meets the costs of service provision. These assets are retained on the balance sheet of the council to fairly reflect the value of assets used in providing the service.

Interests in companies and other entities

The council conducts activities through a variety of undertakings, either through ultimate control of, or in partnership with, other organisations. An assessment of all of the council’s interests has been carried out to determine whether a group relationship between the council and other entities exists on the grounds of control and significant influence.

The council's relationships with other entities can be found within the related parties note. (Note 36).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. Other owned companies have been excluded from the group accounts on the basis that they are not considered material.

The omission of these companies from the group accounts is not considered to affect the ability of a user of the accounts to determine the financial position and performance of the council, or its exposure to risk.

In general, there is a low level of financial risk to the council from its involvement with group members: for example, many group members are companies limited by guarantee, where the council's liability is limited to £1. There is a very low level of involvement from group members in delivering the council's statutory or core services.

Note 3 - Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the council's balance sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment valuations	The council's internal valuers provide valuations as at 1 April based on a 3-year rolling programme of valuations. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation.	Valuations are compiled by an expert using recognised measurement techniques and based on professional guidance. The underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date. A variation of 10% in the value of the council's land and buildings would be approximately £206 million. A reduction in the estimated valuations would result in a reduction to the revaluation reserve and / or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and / or increases to the revaluation reserve and / or gains charged to the comprehensive income and expenditure statement.
Fair value measurement	When the fair values of surplus assets and financial instruments cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques: • For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; • For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review.	The fair values of surplus assets and financial instruments are measured using Level 2 inputs, namely using quoted prices for similar assets or liabilities in active markets at the balance sheet date. All valuations are undertaken by expert valuers in accordance with the methodologies and bases for estimation set out in the professional standards. As most estimates are based on current market information material changes to the carrying values are therefore not expected.

	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. Changes in assumptions used could affect the fair value of the council's assets and liabilities.	Significant changes in any of the unobservable inputs could result in a significantly lower or higher fair value measurement for these assets.

Item	Uncertainties	Consequence if actual results differ from assumptions
Pensions liability	The net liability to pay pensions is calculated every three years with annual updates in the intervening years. A firm of consulting actuaries (Mercer) is engaged to provide the council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. There has been substantial volatility in financial markets since the start of the COVID-19 pandemic. Despite a period of relative stability, recently this volatility has increased again with the situation in Ukraine. The impact on asset values is reflected in the accounting figures. Over the same period, the market volatility extended to bonds. As the assumptions for accounting purposes are based on bond yields, this will have an impact on accounting liabilities. An increase in the discount rate assumption from last year and updated mortality rates has led to a decrease in pension liabilities.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, • A 0.1% increase in the discount rate assumption would reduce the value of the net pension liability by approximately £90 million; • A 0.1% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £8 million; • An increase of one year in assumed life expectancy would increase the net pension liability by approximately £159 million.

Note 4 – Events after the reporting period

The statement of accounts was authorised for issue by the Chief Executive and Director of Resources on 23 May 2022. Events taking place after this date are not reflected in the financial statements or notes. The statement of accounts has been adjusted to reflect events after 31 March 2022 and before the date the statement was authorised for issue only where the events provide evidence of conditions that existed at 31 March.

Transfers to academy status

Ormskirk high school converted to academy status on 1 April 2022. St Mary Magdalene's RC primary school transferred to academy status on 1 May 2022. Their values included in the balance sheet at 31 March 2022 are shown below:

School	Value
	£m
Ormskirk high school	23.3
St Mary Magdalene's RC primary school	1.9
Total	**25.2**

Accounting for infrastructure assets

Accounting for infrastructure in local government has not historically been considered to be an area of significant accounting estimate due to the use of a historical cost basis of accounting. Audit network discussions convened by the National Audit Office have raised concerns that authorities are not applying component accounting requirements in these circumstances.

The issue relates to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken and the associated reporting of gross historical cost and accumulated depreciation.

Normal custom and practice for (highways) infrastructure assets in the public sector is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place, this does require that assets are properly depreciated in line with the requirements of the Accounting Code. This is the approach that the county council has taken in preparing its accounts for the 2021/22 financial year.

CIPFA has established a task and finish group to address the issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. CIPFA LASAAC intends to issue a consultation paper on a temporary solution providing guidance on the matter with a more in-depth consultation for the 2023/24 code.

The council will assess the implications of this further guidance when it is issued.

Note 5 - Expenditure and funding analysis

The expenditure and funding analysis reconciles the cost of providing services in line with proper accounting practices included in the comprehensive income and expenditure statement with the statutorily defined amounts chargeable to council tax payers as shown in the movement in reserves statement. Proper accounting practices measure the resources that have been generated and consumed in the year, including the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the council's expenditure needs to be met from council tax each year.

Notes supporting the comprehensive income and expenditure statement

Expenditure and funding analysis - 2021/22

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	**£m**	**£m**	**£m**	**£m**
Adults	375.7	5.4	381.1	21.4	402.5
Policy, information, commissioning and safeguarding	7.9	(0.5)	7.4	1.6	9.0
Public health and wellbeing	(5.0)	(7.1)	(12.1)	2.0	(10.1)
Education and children's services	213.8	(6.1)	207.7	16.8	224.5
Growth, environment and planning	5.6	(0.2)	5.4	10.6	16.0
Highways and transport	79.3	(6.3)	73.0	39.0	112.0
Organisational development	1.7	0	1.7	0.4	2.1
Waste management	66.9	0	66.9	3.2	70.1
Finance	16.9	0.2	17.1	1.1	18.2
Corporate	20.9	0.7	21.6	2.9	24.5
Strategy and performance	39.1	(24.8)	14.3	5.8	20.1
Chief executive services	1.6	2.1	3.7	20.0	23.7
Schools	(16.0)	0	(16.0)	88.1	72.1
Digital services	27.1	(2.4)	24.7	6.7	31.4
Net cost of services	**835.5**	**(39.0)**	**796.5**	**219.6**	**1,016.1**
Other income and expenditure	(881.4)	14.6	(866.8)	(102.6)	(969.4)
(Surplus)/deficit	**(45.9)**	**(24.4)**	**(70.3)**	**117.0**	**46.7**
Opening general fund balance at 1 April			**(492.9)**		
(Surplus)/deficit			(70.3)		
Closing general fund balance at 31 March			**(563.2)**		

* Further details on the adjustments are shown in the following tables.

Expenditure and funding analysis - 2020/21

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	**£m**	**£m**	**£m**	**£m**
Adults	348.7	6.0	354.7	11.4	366.1
Policy, information, commissioning and safeguarding	7.7	(0.1)	7.6	0.9	8.5
Public health and wellbeing	(5.1)	(34.4)	(39.5)	1.0	(38.5)
Education and children's services	201.7	3.5	205.2	11.3	216.5
Growth, environment and planning	7.3	(3.9)	3.4	3.3	6.7
Highways and transport	76.1	(4.6)	71.5	30.5	102.0
Organisational development	2.0	(0.1)	1.9	0.2	2.1
Waste management	63.9	2.3	66.2	3.1	69.3
Finance	44.1	(3.3)	40.8	2.1	42.9
Corporate	20.0	(0.4)	19.6	1.7	21.3
Strategy and performance	35.7	(24.4)	11.3	10.7	22.0
Chief executive services	23.6	20.4	44.0	20.0	64.0
Schools	(50.7)	0	(50.7)	50.9	0.2
Net cost of services	**775.0**	**(39.0)**	**736.0**	**147.1**	**883.1**
Other income and expenditure	(844.9)	(50.2)	(895.1)	(52.0)	(947.1)
(Surplus)/deficit	**(69.9)**	**(89.2)**	**(159.1)**	**95.1**	**(64.0)**
Opening general fund balance at 1 April			**(333.8)**		
(Surplus)/deficit			(159.1)		
Closing general fund balance at 31 March			**(492.9)**		

* Further details on the adjustments are shown in the following tables.

Adjustments to arrive at the net amount chargeable to the general fund

These adjustments relate to items that are included within departmental budgets but excluded from the cost of services in the comprehensive income and expenditure statement e.g. levies, reserve transactions, finance and investment income and expenditure.

2020/21				2021/22		
Adjustments relating to other income and expenditure	**Adjustments relating to transfers to and from reserves**	**Total adjustments**		**Adjustments relating to other income and expenditure**	**Adjustments relating to transfers to and from reserves**	**Total adjustments**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
0.7	5.3	6.0	Adults	7.8	(2.4)	5.4
0	(0.1)	(0.1)	Policy, information, commissioning and safeguarding	0	(0.5)	(0.5)
0.1	(34.5)	(34.4)	Public health and wellbeing	0.4	(7.5)	(7.1)
1.9	1.6	3.5	Education and children's services	0.2	(6.3)	(6.1)
(0.9)	(3.0)	(3.9)	Growth, environment and planning	(0.5)	0.3	(0.2)
(0.4)	(4.2)	(4.6)	Highways and transport	(0.2)	(6.1)	(6.3)
0	(0.1)	(0.1)	Organisational development	0	0	0
0	2.3	2.3	Waste management	0	0	0
0	(3.3)	(3.3)	Finance	0	0.2	0.2
0	(0.4)	(0.4)	Corporate	0	0.7	0.7
(14.9)	(9.5)	(24.4)	Strategy and performance	(13.3)	(11.5)	(24.8)
34.9	(14.5)	20.4	Chief executive services	12.8	(10.7)	2.1
0	0	0	Digital services	0	(2.4)	(2.4)
21.4	**(60.4)**	**(39.0)**	**Net cost of services**	**7.2**	**(46.2)**	**(39.0)**
(21.4)	(28.8)	(50.2)	Other income and expenditure	(7.2)	21.8	14.6
0	**(89.2)**	**(89.2)**	**(Surplus)/deficit**	**0**	**(24.4)**	**(24.4)**

Notes to the expenditure and funding analysis

The adjustments between the funding and accounting basis shown are analysed further in the following tables.

Adjustments for capital purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net change for the pensions adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

For services - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the comprehensive income and expenditure statement.

Other statutory adjustments

Other differences between amounts debited/credited to the comprehensive income and expenditure statement and amounts payable/receivable to be recognised under statute:

For financing and investment income and expenditure - the 'other differences' column recognises adjustments to the general fund for the timing differences for premiums and discounts.

For services - this represents the change in accrued employee benefits such as annual leave.

The charge under *taxation and non-specific grant income* represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

Notes supporting the comprehensive income and expenditure statement

Adjustments between the funding and accounting basis - 2021/22

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	**£m**	**£m**	**£m**
Adults	5.4	16.0	0	21.4
Policy, information, commissioning and safeguarding	0	1.6	0	1.6
Public health and wellbeing	0.2	1.8	0	2.0
Education and children's services	5.7	11.0	0.1	16.8
Growth, environment and planning	9.1	1.5	0	10.6
Highways and transport	29.0	10.0	0	39.0
Organisational development	0	0.4	0	0.4
Waste management	2.3	0.9	0	3.2
Finance	0	1.1	0	1.1
Corporate	0	2.9	0	2.9
Strategy and performance	(0.5)	6.3	0	5.8
Chief executive services	16.6	3.4	0	20.0
Schools	49.2	39.6	(0.7)	88.1
Digital services	3.3	3.5	(0.1)	6.7
Net cost of services	**120.3**	**100.0**	**(0.7)**	**219.6**
Other income and expenditure from the expenditure and funding analysis	(108.6)	30.3	(24.3)	(102.6)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**11.7**	**130.3**	**(25.0)**	**117.0**

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Adjustments between the funding and accounting basis - 2020/21

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	£m	£m	£m
Adults	2.0	8.8	0.6	11.4
Policy, information, commissioning and safeguarding	0.1	0.8	0	0.9
Public health and wellbeing	0	0.9	0.1	1.0
Education and children's services	8.3	2.2	0.8	11.3
Growth, environment and planning	2.4	0.8	0.1	3.3
Highways and transport	24.8	5.4	0.3	30.5
Organisational development	0	0.2	0	0.2
Waste management	2.6	0.4	0.1	3.1
Finance	0.1	1.2	0.8	2.1
Corporate	0	1.5	0.2	1.7
Strategy and performance	6.8	3.9	0	10.7
Chief executive services	16.6	3.3	0.1	20.0
Schools	33.1	21.5	(3.7)	50.9
Net cost of services	**96.8**	**50.9**	**(0.6)**	**147.1**
Other income and expenditure from the expenditure and funding analysis	(98.5)	23.3	23.2	(52.0)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(1.7)**	**74.2**	**22.6**	**95.1**

Expenditure and income analysed by nature

The council's expenditure and income are analysed as follows:

2020/21		2021/22
£m		**£m**
845.1	Employee expenses (excluding voluntary aided schools)	922.9
249.5	Employee expenses for voluntary aided schools	265.8
1,179.0	Other service expenses	1,271.3
75.6	Depreciation, amortisation and impairment	91.2
41.1	Interest payments	26.8
1.6	Precepts and levies	1.1
23.3	Net pension interest costs	30.5
31.8	Loss on disposal of non-current assets	22.7
2,447.0	**Total expenditure**	**2,632.3**
0	Gain on disposal of non-current assets	(6.0)
(265.9)	Fees, charges and other service income	(310.6)
(62.0)	Interest and investment income	(35.1)
(513.8)	Income from council tax precept	(550.1)
(17.2)	Income from business rates precept	(26.8)
(1,652.1)	Government grants and contributions	(1,657.0)
(2,511.0)	**Total income**	**(2,585.6)**
(64.0)	**(Surplus)/deficit on the provision of services**	**46.7**

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Note 6 - Other operating income and expenditure

2020/21		2021/22
£m		£m
1.6	Levies for flood defences and inshore fisheries and conservation authorities	1.1
0.4	(Gain) or loss on disposal of non-current assets	(1.7)
23.1	Loss on transfer of schools to academy status	18.4
25.1	**Total**	**17.8**

Note 7 - Financing and investment income and expenditure

2020/21		2021/22
£m		£m
27.2	Interest payable and other similar charges	22.6
14.8	Interest payable on PFI unitary payments	13.7
(0.9)	Impairment of financial instruments	(9.5)
23.3	Net interest of the net defined benefit liability	30.5
(62.0)	Interest receivable and similar income	(35.1)
2.4	**Total**	**22.2**

Note 8 - Taxation and non-specific grant income

The council credited the following to the comprehensive income and expenditure statement.

2020/21		2021/22
£m		£m
(349.1)	Non-ringfenced Government grants	(336.6)
(94.5)	Capital grants and contributions	(95.9)
(443.6)	**Total non-specific grant income**	**(432.5)**
(513.8)	Council tax income	(550.1)
(17.2)	Non-domestic rates income	(26.8)
(974.6)	**Total**	**(1,009.4)**

The non-ringfenced Government grants and capital grants are analysed further in the following tables.

Non-ringfenced government grants

2020/21		2021/22
£m		£m
(33.5)	Revenue support grant	(33.6)
(158.2)	Top-up grant (business rates retention scheme)	(158.2)
(30.5)	S31 grant	(17.5)
(2.1)	Education services grant	0
(45.5)	Improved better care	(45.5)
(33.4)	Adult social care	(41.9)
(3.5)	New homes bonus	(2.4)
(41.0)	COVID-19 grant	(26.0)
(1.4)	Other	(11.5)
(349.1)	**Total**	**(336.6)**

Capital grants and contributions

2020/21		2021/22
£m		**£m**
(50.5)	Department for transport	(36.3)
(20.8)	Department of education	(33.8)
(16.7)	Ministry of housing, communities and local government	(16.7)
(2.0)	Other government grants	0.9
(0.9)	Other grants	(10.0)
(3.6)	Donated assets	0
(94.5)	**Total**	**(95.9)**

Note 9 - Grant income and contributions credited to cost of services

In addition to the non-ringfenced grants, a number of service specific or ringfenced grants were credited to the cost of services as detailed below.

2020/21		2021/22
£m		**£m**
(833.2)	Dedicated schools grant	(893.8)
(44.2)	Pupil premium grant	(44.3)
(78.8)	Other Government grants	(89.3)
(21.9)	PFI grant	(21.9)
(69.6)	Public health grant	(70.2)
(0.1)	Other grants	(1.1)
(24.1)	Teachers' pension employer contribution grant	(0.9)
(29.0)	Other contributions	(31.8)
(107.6)	Covid-19 grants	(71.2)
(1,208.5)	**Total**	**(1,224.5)**

Covid-19 grants

The government has provided a number of financial support packages in response to the Covid-19 pandemic including additional funding to support the cost of services or offset income loss.

As the council has some administrative control over the use or distribution of the grant funding, the transactions are reflected in the council's financial statements.

2020/21		2021/22
£m		£m
(31.1)	Infection control fund for adult social care	(15.6)
(24.2)	Contain outbreak management fund	(6.7)
(13.5)	Local government income compensation scheme for lost sales, fees and charges	0
(6.7)	Coronavirus (COVID-19) catch-up premium	(4.8)
(6.4)	Local authority test and trace service support grant	0
(4.1)	Adult social care rapid testing fund	(10.0)
(3.9)	COVID winter grant scheme	(1.4)
(3.5)	COVID-19 clinically extremely vulnerable	0
(2.8)	Workforce capacity fund for adult social care	(10.6)
(2.2)	School funding: exceptional costs associated with coronavirus (COVID-19)	0
(1.7)	Additional dedicated school and college transport	(0.4)
(1.6)	Local transport authority COVID-19 bus service support grant	(0.4)
(1.5)	Local authority emergency assistance grant for food and essential supplies	(0.1)
(1.5)	Coronavirus job retention scheme	0
(0.9)	Community testing	(2.6)
(0.9)	Community discharge grant (COVID)	(1.0)
(0.3)	COVID-19 self-isolation	(2.0)
(0.2)	Wellbeing for education return grant	(0.2)
(0.2)	Travel demand management	0
(0.2)	LRF COVID-19	0

(0.1)	Digital education platform	0
(0.1)	National tutoring programme academic mentors	(0.1)
0	COVID Local Support Grant	(4.2)
0	Recovery Premium funding	(2.6)
0	School-led tutoring grant	(2.4)
0	(COVID-19) mass testing funding for schools and colleges	(2.4)
0	Adult Social Care Omicron Support Fund	(1.4)
0	(COVID-19) summer schools programme funding	(1.2)
0	Vaccines grant	(0.7)
0	Kickstart Scheme grant	(0.3)
0	Coronavirus (COVID 19) workforce fund	(0.1)
(107.6)	**Total**	**(71.2)**

Note 10 - Dedicated schools grant

	Central expenditure	Individual schools' budget	Total
	£m	£m	£m
Final DSG for 2021/22 before academy recoupment			(1,086.9)
Academy figure recouped for 2021/22			193.1
Total DSG after academy recoupment for 2021/22			**(893.8)**
Brought forward from 2020/21			(16.1)
Carry forward to 2022/23 agreed in advance			16.1
Agreed initial budgeted distribution for 2021/22	**(149.8)**	**(744.0)**	**(893.8)**
In-year adjustments	0	(0.4)	(0.4)
Final budget distribution for 2021/22	**(149.8)**	**(744.4)**	**(894.2)**
Actual central expenditure relating to DSG	125.3		125.3
Actual ISB deployed to schools		744.4	744.4
Carry forward to 2022/23	**(24.5)**	**0**	**(24.5)**

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

The table details how the DSG has been utilised.

Note 11 - Officers' remuneration

The remuneration of senior employees, defined as members of the Corporate Management Team, those holding statutory posts or those reporting directly to the Head of Paid Service is set out below.

2021/22

Post holder	Notes	Salary, fees and allowances	Benefits in kind	Pension contributions	Total
		£	£	£	£
Chief Executive and Director of Resources (S151) - A Ridgwell	1	228,019	0	0	228,019
Executive Director of Adult Services and Health & Wellbeing		148,660	0	24,371	173,031
Executive Director for Education and Children's Services - E Grant		175,925	0	0	175,925
Executive Director of Growth, Environment and Transport	2 & 3	148,810	0	24,371	173,181
Director of Corporate Services	4	107,558	8,103	17,928	133,589
Director of Finance		105,459	7,979	17,928	131,366
Director of Strategy and Performance		127,603	12,017	21,692	161,312
Director of Public Health		132,903	0	18,349	151,252
Head of Communications	3	71,702	0	12,164	83,866

Notes
1 The remuneration of the Chief Executive and Director of Resources (S151) includes an allowance for acting as Returning Officer for the county council elections which took place during the year.
2 The Executive Director of Growth, Environment and Transport left the council on 31 March 2022.
3 The remuneration of the Executive Director of Growth, Environment and Transport and the Head of Communications include an election fee for assisting the Returning Officer during the county council elections which took place during the year
4 The remuneration of the Director of Corporate Services includes an allowance for acting as Deputy Returning Officer at the county council elections which took place during the year.

2020/21

Post holder	Salary, fees and allowances	Benefits in kind	Pension contributions	Total
	£	£	£	£
Chief Executive and Director of Resources (S151) - A Ridgwell	222,126	0	0	222,126
Executive Director of Adult Services and Health & Wellbeing	146,194	0	23,952	170,146
Executive Director for Education and Children's Services - E Grant	172,990	0	0	172,990
Executive Director of Growth, Environment and Transport	146,194	0	23,952	170,146
Director of Corporate Services	101,569	8,103	17,267	126,939
Director of Finance	103,645	7,979	17,620	129,244
Director of Strategy and Performance	125,408	12,017	21,319	158,744
Director of Public Health	130,708	0	18,034	148,742
Head of Communications	68,695	0	11,678	80,373

Notes supporting the comprehensive income and expenditure statement

The number of other employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out in the following table.

	2021/22				2020/21			
Remuneration Banding £	LCC non-schools staff [1]	Schools [2]	Total	Redundancies	LCC non-schools staff [1]	Schools [2]	Total	Redundancies
50,000 to 54,999	181	490	671	5	167	441	608	2
55,000 to 59,999	55	278	333	1	29	277	306	2
60,000 to 64,999	36	209	245	1	45	189	234	2
65,000 to 69,999	25	140	165	0	28	141	169	1
70,000 to 74,999	20	80	100	2	37	66	103	0
75,000 to 79,999	31	28	59	0	5	31	36	0
80,000 to 84,999	0	22	22	0	2	21	23	0
85,000 to 89,999	1	18	19	0	1	10	11	0
90,000 to 94,999	2	11	13	0	0	14	14	0
95,000 to 99,999	0	10	10	0	1	7	8	0
100,000 to 104,999	0	3	3	0	2	5	7	0
105,000 to 109,999	1	2	3	0	4	2	6	0
110,000 to 114,999	4	1	5	0	0	2	2	0
115,000 to 119,999	1	0	1	0	1	0	1	0
120,000 to 124,999	1	0	1	0	0	1	1	0
125,000 to 129,999	0	1	1	0	0	1	1	1
130,000 to 134,999	0	0	0	0	0	0	0	0
135,000 to 139,999	0	0	0	0	1	0	1	0
155,000 to 159,999	1	0	1	0	1	0	1	0
Total	**359**	**1293**	**1652**	**9**	**324**	**1,208**	**1,532**	**8**

[1] This table excludes staff in senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.

[2] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

Exit packages

	No. compulsory redundancies		No. other agreed departures		Total number		Total cost £000 *	
Banding (£)	**2021/22**	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**	**2021/22**	**2020/21**
0 to 20,000	9	35	189	195	198	230	987	1,351
20,001 to 40,000	0	2	8	7	8	9	183	243
40,001 to 60,000	1	0	0	1	1	1	47	41
60,001 to 100,000	0	1	0	1	0	2	0	142
Total	**10**	**38**	**197**	**204**	**207**	**242**	**1,217**	**1,777**

* In some cases this reflects an estimate as at 31 March and may not be the actual amount paid.

When a council employee's contract is terminated, there are a number of costs that the council can incur. The total cost in this table includes;

- Enhanced pension benefits
  This is a payment to compensate the pension fund for both the employer and employee contributions that will not be received due to the early payment of benefits. It occurs where the employee is able to immediately receive any benefits they have built up on the pension fund. The payment is calculated by an independent actuary and is not made to the individual.
- Redundancy payments
  These are received by the employee and are calculated in line with the relevant policies agreed by the council.

During the year the council terminated the contracts of a number of employees, incurring liabilities of £1.2 million (2020/21: £1.8 million). Of the £1.2 million, £0.06 million is enhanced pension benefits and £1.16 million is payable to the employees. The table shows the number of exit packages and total cost to the council per band.

Note 12 - Members' allowances

2020/21		2021/22
£000		**£000**
1,283.1	Allowances payable to Members	1,342.5
11.9	Expenses payable to Members	34.7
1,295.0	**Total**	**1,377.2**

Note 13 - Fees payable to auditors

The council incurred the following fees relating to external audit.

2020/21		2021/22
£000		**£000**
87.0	Fees incurred with regard to external audit services provided by Grant Thornton	93.0
7.8	Fees incurred for certification work undertaken by Grant Thornton	7.0
5.0	Fees payable in respect of other services provided by Grant Thornton	10.0
33.9	Fees payable in respect of additional prior year statutory audit work	68.4
0	Reimbursement from Public Sector Audit Appointment	(17.2)
133.7	**Total**	**161.2**

Note 14 - Adjustments between accounting basis and funding basis under regulations

This note details the adjustments made to the comprehensive income and expenditure recognised by the council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. Further information is provided in Note 31, which details the movements in reserves.

Adjustments between accounting basis and funding basis under regulations - 2021/22

	Usable reserves				Unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
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)	(130.3)	0	0	(130.3)	130.3
Financial instruments (transferred to the financial instruments adjustments account)	3.4	0	0	3.4	(3.4)
Council tax and NDR (transferred to or from the collection fund)	20.9	0	0	20.9	(20.9)
Holiday pay (transferred to the accumulated absences adjustment account)	0.7	0	0	0.7	(0.7)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account)	(86.3)	0	46.1	(40.2)	40.2
Total adjustments to revenue resources	**(191.6)**	**0**	**46.1**	**(145.5)**	**145.5**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	6.0	(6.0)	0	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	28.3	0	0	28.3	(28.3)
Use of the capital receipts reserve to finance new revenue expenditure	(4.0)	4.0	0	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	0.1	0	0.1	(0.1)
Total adjustments between revenue and capital resources	**30.3**	**(1.9)**	**0**	**28.4**	**(28.4)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	44.3	0	(44.3)	0	0
Total adjustments to capital resources	**44.3**	**0**	**(44.3)**	**0**	**0**
Total adjustments	**(117.0)**	**(1.9)**	**1.8**	**(117.1)**	**117.1**

Adjustments between accounting basis and funding basis under regulations - 2020/21

	Usable reserves				Unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
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)	(74.2)	0	0	(74.2)	74.2
Financial instruments (transferred to the financial instruments adjustments account)	3.6	0	0	3.6	(3.6)
Council tax and NDR (transferred to or from the collection fund)	(26.8)	0	0	(26.8)	26.8
Holiday pay (transferred to the accumulated absences adjustment account)	0.6	0	0	0.6	(0.6)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account)	(82.9)	0	43.1	(39.8)	39.8
Total adjustments to revenue resources	**(179.7)**	**0**	**43.1**	**(136.6)**	**136.6**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	8.3	(8.3)	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	24.8	0	0	24.8	(24.8)
Total adjustments between revenue and capital resources	**33.1**	**(8.3)**	**0**	**24.8**	**(24.8)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	51.5	0	(51.5)	0	0
Total adjustments to capital resources	**51.5**	**0**	**(51.5)**	**0**	**0**
Total adjustments	**(95.1)**	**(8.3)**	**(8.4)**	**(111.8)**	**111.8**

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021	Transfers out 2021/22	Transfers in 2021/22	Balance at 31 March 2022
	£m	£m	£m	£m	£m	£m	£m
General fund	(23.4)	0	0	(23.4)	0	0	(23.4)
Reserves held to deliver corporate priorities							
Strategic investment reserve	(5.8)	6.4	(5.4)	(4.8)	0.6	0	(4.2)
Reserves held to deliver organisational change							
Downsizing reserve	(5.7)	0	0	(5.7)	0.2	0	(5.5)
Risk management reserve	(2.0)	0	(4.4)	(6.4)	2.0	0	(4.4)
Transitional reserve	(151.2)	2.3	(52.8)	(201.7)	24.7	(38.7)	(215.7)
School reserves							
Individual school reserves	(47.4)	2.6	(45.4)	(90.2)	10.8	(16.0)	(95.4)
Other school reserves	(12.9)	5.3	(13.2)	(20.8)	0.8	(11.6)	(31.6)
Centrally managed schools maintenance reserve	(5.5)	5.5	(5.8)	(5.8)	5.8	(5.2)	(5.2)
Reserves held to meet service priorities							
Treasury management reserve	(11.6)	0.8	(18.4)	(29.2)	13.8	(20.9)	(36.3)
Business rates volatility	0	0	(5.0)	(5.0)	0	0	(5.0)
Directorate reserves	(67.0)	85.2	(116.4)	(98.2)	45.4	(82.4)	(135.2)
Election reserve	(1.3)	0	(0.4)	(1.7)	0.4	0	(1.3)
Total earmarked revenue and capital reserves	**(333.8)**	**108.1**	**(267.2)**	**(492.9)**	**104.5**	**(174.8)**	**(563.2)**

Notes supporting the movement in reserves statement

Reserves held to deliver corporate priorities

Strategic investment reserve

This reserve is held to support investment in areas such as economic development and also supports delivery of priorities within the corporate strategy.

Reserves held to deliver organisational change

Downsizing reserve

This reserve is set aside to support the council as it continues to deliver its agreed savings and develops its strategy to reduce costs over the next four years.

Risk management reserve

This reserve is intended to help the council manage risks to funding and service delivery going forward.

Transitional reserve

This reserve is primarily in place to support forecast funding shortfalls in future year budgets as outlined in the medium term financial strategy. The reserve also contains funding to support service transformation as agreed by Cabinet.

Schools' reserves

Under the Education Reform Act, schools are given most of their budgets to control. If a school does not spend its entire budget, the council holds it as a reserve for them to use in the future. This reserve cannot be used for any other purpose.

Reserves held to meet service priorities

These earmarked reserves consist of amounts carried forward for specifically agreed projects within departments. Some of these reserves are not only the funds of the county council and could relate to partners.

Note 16 - Capital expenditure and capital financing

2020/21		2021/22
£m		**£m**
1,091.7	**Opening capital financing requirement**	**1,109.4**
	Capital investment	
104.9	Property, plant and equipment	126.8
5.2	Intangible assets	8.1
21.3	Revenue expenditure funded from capital under statute	29.2
131.4	**Total capital investment**	**164.1**
	Sources of finance	
0	Capital receipts	(0.1)
(86.2)	Government grants and other contributions	(97.7)
	Sums set aside from revenue:	
(2.7)	Direct revenue contributions	(5.2)
(7.1)	Write down of PFI liability	(6.5)
(17.7)	Minimum revenue provision (MRP) for debt repayment	(21.8)
1,109.4	**Closing capital financing requirement**	**1,142.2**
	Explanation of movement in year	
24.8	Increase in underlying need to borrow (unsupported by Government financial assistance)	39.3
(7.1)	Write down of PFI liability	(6.5)
17.7	**Total movement**	**32.8**

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

This statement incorporates details of the movements in the capital financing requirement. This is a measure of the capital expenditure historically incurred by the council to be financed in future years by charges to revenue.

Note 17 - Capital contractual commitments

At 31 March 2022, the council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2022/23 or future years. (2020/21: £nil)

Note 18 - Property, plant and equipment

Movements in the property, plant and equipment valuations are detailed in the following tables:

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure	Assets under construction	Surplus assets	Total
	£m	£m	£m	£m	£m	£m
Carried at historical cost	**80.6**	**67.6**	**1,323.6**	**13.9**	**0**	**1,485.7**
Valued at current value as at:						
31 March 2022	976.1				27.0	**1,003.1**
31 March 2021	465.3					**465.3**
31 March 2020	592.3					**592.3**
Total cost or valuation	**2,114.3**	**67.6**	**1,323.6**	**13.9**	**27.0**	**3,546.4**

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Property, plant and equipment - movements in 2021/22

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2021	**2,149.0**	**80.2**	**1,235.9**	**9.6**	**24.7**	**3,499.4**	**160.8**
Additions	20.5	5.9	87.7	11.9	0.8	**126.8**	0
De-recognition – disposals	(20.0)	(19.4)	0	0	(1.4)	**(40.8)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	(24.1)	0	0	0	2.4	**(21.7)**	2.2
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(14.9)	0	0	0	(2.4)	**(17.3)**	(0.1)
Assets reclassified	3.8	0.9	0	(7.6)	2.9	0	0
At 31 March 2022	**2,114.3**	**67.6**	**1,323.6**	**13.9**	**27.0**	**3,546.4**	**162.9**
Depreciation and impairment							
At 1 April 2021	**(122.9)**	**(53.1)**	**(200.8)**	**0**	**(0.3)**	**(377.1)**	**(5.1)**
Depreciation charge	(44.4)	(5.2)	(24.7)	0	(0.1)	**(74.4)**	(3.7)
Depreciation written out to revaluation reserve	35.0	0	0	0	0.1	**35.1**	2.3
Depreciation written out to the surplus/deficit on provision of services	3.8	0	0	0	0	**3.8**	1.5
De-recognition	1.1	19.4	0	0	0	**20.5**	0
At 31 March 2022	**(127.4)**	**(38.9)**	**(225.5)**	**0**	**(0.3)**	**(392.1)**	**(5.0)**
At 1 April 2021	**2,026.1**	**27.1**	**1,035.1**	**9.6**	**24.4**	**3,122.3**	**155.7**
At 31 March 2022	**1,986.9**	**28.7**	**1,098.1**	**13.9**	**26.7**	**3,154.3**	**157.9**

Property, plant and equipment - movements in 2020/21

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2020	**2,128.5**	**79.0**	**1,170.6**	**2.5**	**26.8**	**3,407.4**	**173.3**
Additions *	27.3	4.9	65.3	7.1	0.3	**104.9**	0.3
De-recognition – disposals	(28.2)	(3.7)	0	0	(2.8)	**(34.7)**	(18.9)
Revaluation increases/(decreases) recognised in the revaluation reserve	26.2	0	0	0	0.1	**26.3**	4.1
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(4.7)	0	0	0	0.2	**(4.5)**	2.0
Assets reclassified	(0.1)	0	0	0	0.1	0	0
At 31 March 2021	**2,149.0**	**80.2**	**1,235.9**	**9.6**	**24.7**	**3,499.4**	**160.8**
Depreciation and impairment							
At 1 April 2020	**(106.3)**	**(50.7)**	**(179.0)**	**0**	**(0.2)**	**(336.2)**	**(4.8)**
Depreciation charge	(42.9)	(6.0)	(21.8)	0	(0.1)	**(70.8)**	(4.1)
Depreciation written out to revaluation reserve	22.6	0	0	0	0	**22.6**	1.9
Depreciation written out to the surplus/deficit on provision of services	3.1	0	0	0	0	**3.1**	1.5
De-recognition	0.6	3.6	0	0	0	**4.2**	0.4
At 31 March 2021	**(122.9)**	**(53.1)**	**(200.8)**	**0**	**(0.3)**	**(377.1)**	**(5.1)**
At 1 April 2020	**2,022.2**	**28.3**	**991.6**	**2.5**	**26.6**	**3,071.2**	**168.5**
At 31 March 2021	**2,026.1**	**27.1**	**1,035.1**	**9.6**	**24.4**	**3,122.3**	**155.7**

* The additions figure includes donated assets of £3.6 million.

Note 19 - School assets

Schools included on the council's balance sheet

31 March 20201			31 March 2022	
Number of schools	Value of land and buildings		Number of schools	Value of land and buildings
	£m			£m
247	780.5	Community schools	244	762.3
11	123.0	Foundation schools	11	118.5
260	621.5	Voluntary aided schools	257	611.6
50	120.0	Voluntary controlled schools	50	117.2
568	**1,645.0**	**Total**	**562**	**1,609.6**
13	155.7	Schools subject to PFI contracts	13	157.9

The table shows the number and values associated with each type of school included within the council's balance sheet.

The number of schools has reduced as six schools chose to take up academy status in 2021/22.

The council has 13 schools subject to PFI contracts, the buildings for which are shown on the council's balance sheet together with the related liability.

Note 20 - Heritage assets

	Paintings and furniture	Other museum artefacts	Manuscripts and books	Total
	£m	£m	£m	£m
Cost or valuation				
At 31 March 2022	**3.0**	**11.1**	**14.6**	**28.7**
At 31 March 2021	**3.0**	**11.1**	**14.6**	**28.7**

Heritage assets are those non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge or culture.

Paintings, furniture and other artefacts

The museum service contains around 140,000 items, which cover a variety of artefacts relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects.

Manuscripts and books

Lancashire also holds a libraries special collection that consists of publications held for their historical and cultural importance.

Collections and their records can be accessed in a number of ways from virtual access to physical examination of items on display in exhibitions. For any items held in store, a mutually convenient appointment is needed to view them.

Note 21 - Long term debtors

31 March 2021		31 March 2022
£m		£m
13.1	Transferred Debt [1]	12.6
28.1	Finance Lease Debtor [2]	26.9
41.2	**Total**	**39.5**

1 Transferred debt is managed for other authorities as a result of various local government reorganisations, which is being repaid over time.

2 Finance lease debtor is a long term debtor due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 30).

Note 22 - Short term debtors

31 March 2021		31 March 2022
£m		£m
21.7	Council tax	29.5
1.4	Non-domestic rates	1.3
32.3	Other receivables	43.0
116.3	Trade receivables	162.8
(17.7)	Less impairment allowance	(8.2)
154.0	**Total**	**228.4**

Note 23 - Cash and cash equivalents

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

31 March 2021		31 March 2022
£m		**£m**
0.3	Cash held by the council	(18.9)
(39.9)	Bank current accounts	49.2
224.1	Short term deposits under 3 months	114.4
184.5	**Total**	**144.7**

Note 24 - Short term creditors and receipts in advance

31 March 2021		31 March 2022
£m		**£m**
(115.1)	Trade payables	(198.2)
(29.7)	Council tax	(27.1)
(13.8)	Non-domestic rates	(5.6)
(57.0)	Other payables	(60.8)
(215.6)	**Total**	**(291.7)**

31 March 2021		31 March 2022
£m		**£m**
(7.5)	Receipts in advance	(13.2)
(0.1)	Government grants receipts in advance (revenue)	(0.2)
(23.3)	Government grants receipts in advance (capital)	(52.9)
(30.9)	**Total**	**(66.3)**

Note 25 – Provisions

Funds are set aside to provide for specific expenses for which the exact cost and timing are still uncertain.

	Balance at 1 April 2021	Additional provision made in 2021/22	Spending met from the provision in 2021/22	Unused amounts reversed in 2021/22	Balance at 31 March 2022
	£m	£m	£m	£m	£m
Insurance provision	(22.9)	(15.1)	6.8	0	(31.2)
MMI provision	(2.8)	0	0	0	(2.8)
Other long term provisions	(1.1)	(0.5)	0	0	(1.6)
Total long term provisions	**(26.8)**	**(15.6)**	**6.8**	**0**	**(35.6)**
Business rates appeals	(9.8)	(6.1)	0	9.8	(6.1)
Other short term provisions	(3.5)	(5.7)	0	0.1	(9.1)
Total short term provisions	**(13.3)**	**(11.8)**	**0**	**9.9**	**(15.2)**
Total provisions	**(40.1)**	**(27.4)**	**6.8**	**9.9**	**(50.8)**

Insurance provision

Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance, which are below the insurance excess and the self-insured limits.

Municipal Mutual Insurance (MMI)

Provision in respect of MMI for costs due to be paid under the Scheme of Arrangement for managing the outstanding liabilities resulting from claims being made.

Business rates appeals

This provision accounts for the 9% share of the business rates appeals impact estimated by the 12 Lancashire Districts.

Early retirement provision

This provision is for future voluntary redundancy costs.

Other provisions

All other provisions are individually insignificant.

Note 26 - Financial instruments

A financial instrument is a contract, which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments. The term covers both financial assets such as bank deposits, investments and loans by the council and amounts receivable and financial liabilities including amounts borrowed by the council and amounts payable. Financial instruments are classified based on the council's business model for holding the instrument and their cash flow characteristics.

Full disclosure notes in respect of financial instruments are provided in the technical annex.

The disclosures include:

- Gains and losses on financial instruments;
- Fair value of assets and liabilities;
- The nature and extent of risks arising from financial instruments.

Financial assets

Financial assets should be classified and measured at fair value, with changes in fair value recognised in the profit and loss as they arise (FVPL), unless specific criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income (FVOCI).

The financial assets at fair value through profit and loss relate to LOBO loan investments with other local authorities. Further information is included in the forward contract agreement section of the technical annex.

Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows) comprising:

- Cash in hand;
- Bank current account;
- Loans to other local authorities;
- Loans to companies;
- Lease receivables, and
- Trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the council's business model is to both collect those cash flows and sell the instrument; and equity investments that the council has elected into this category). These assets are measured and carried at fair value with gains and losses due to changes in fair value charged to the financial instruments revaluation reserve until the asset is disposed of and the gain or loss is charged to the comprehensive income and expenditure statement.

These assets comprise bonds issued by banks, building societies and the UK government.

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

31 March 2021				31 March 2022		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
32.5	57.1	**89.6**	Amortised cost	24.5	21.0	**45.5**
554.1	0	**554.1**	Financial assets at fair value through other comprehensive income	580.9	30.9	**611.8**
0	209.2	**209.2**	Financial assets at fair value through profit and loss	0	80.5	**80.5**
586.6	**266.3**	**852.9**	**Total investments**	**605.4**	**132.4**	**737.8**
0	184.5	**184.5**	Cash and cash equivalents	0	144.7	**144.7**
28.1	98.6	**126.7**	Debtors #	26.9	154.6	**181.5**
614.7	**549.4**	**1,164.1**	**Total financial assets**	**632.3**	**431.7**	**1,064.0**
# The debtors figure stated is lower than the debtors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial asset – payments in advance and non-exchange transactions						
13.1	*55.4*	*68.5*	*Debtors which do not meet the definition of a financial instrument*	*12.6*	*73.8*	*86.4*
41.2	*154.0*	*195.2*	*Balance sheet total*	*39.5*	*228.4*	*267.9*

Financial liabilities

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

- Short term loans from other local authorities;
- Long term loans from the Public Works Loan Board and other local authorities;
- Private finance initiative contracts;
- Trade payables for goods and services received.

The financial liabilities at fair value through profit and loss relate to the UK government bonds that the council is committed to purchase at a future date. Further information is included in the forward contract agreement section of the technical annex.

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The financial liabilities disclosed in the balance sheet are analysed across the following categories:

31 March 2021			Category	31 March 2022		
Long term	**Short term**	**Total**		**Long term**	**Short term**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
(897.3)	(489.0)	**(1,386.3)**	Financial liabilities at amortised cost	(881.0)	(325.1)	**(1,206.1)**
0	(162.5)	**(162.5)**	Financial liabilities at fair value through profit and loss	0	(64.7)	**(64.7)**
(1.3)	(144.6)	**(145.9)**	Creditors #	(1.3)	(227.0)	**(228.3)**
(133.0)	(6.5)	**(139.5)**	Other financial liabilities (PFI) at amortised cost	(126.2)	(6.8)	**(133.0)**
(1,031.6)	**(802.6)**	**(1,834.2)**	**Total financial liabilities**	**(1,008.5)**	**(623.6)**	**(1,632.1)**
# The creditors figure stated is lower than the creditors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial liability – receipts in advance and non-exchange transactions						
0	*(71.0)*	*(71.0)*	*Creditors which do not meet the definition of a financial instrument*	*0*	(64.6)	(64.6)
(1.3)	*(215.6)*	*(216.9)*	*Balance sheet total*	(1.3)	(291.7)	(293.0)

Note 27 – Other current liabilities

31 March 2021		31 March 2022
£m		**£m**
(6.5)	PFI Liability	(6.8)
(162.5)	Short positions in investments	(64.7)
(169.0)	**Total**	**(71.5)**

Note 28 – Other long term liabilities

31 March 2021		31 March 2022
£m		**£m**
(1,516.2)	Pension liability	(1,148.2)
(133.0)	PFI liability	(126.2)
(0.1)	Other long term liabilities	(0.1)
(1,649.3)	**Total**	**(1,274.5)**

Note 29 - Private finance initiative (PFI)

The council has the following PFI contracts:

Fleetwood High School

The council signed a PFI contract with Fleetwood PPP Limited in 2001 to build and service a new single site school. The arrangement runs from September 2002 to August 2027.

Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in four separate phases under contract with Catalyst Education (Lancashire) Limited. Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the council for nil consideration. The significant risks that the council is exposed to under these PFI schemes are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, either by the council or by the contractor. This may be in the form of voluntary termination by the council, termination by the contractor on council default, or termination by the council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

For each contract, the council makes an agreed payment each year, which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year but is otherwise fixed. An estimate of 8.34% is made for future inflation within the model.

Each school is made available for use in the following priority order:

(i) provision of education services;
(ii) community use, and
(iii) third party use.

The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

The assets used to provide services at the schools are recognised on the council's balance sheet. Movements in their value over the year are detailed in the analysis of the movement on the property, plant and equipment balance in Note 18.

Fleetwood High School

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2022/23	0.4	0.7	1.0	2.1
Payment within 2 to 5 years	2.4	3.5	4.3	10.2
Payment within 6 to 10 years	0.2	0.5	0.6	1.3
Total	**3.0**	**4.7**	**5.9**	**13.6**

Building schools for the future (BSF)

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2022/23	13.3	6.1	12.1	31.5
Payment within 2 to 5 years	59.9	32.3	48.5	140.7
Payment within 6 to 10 years	122.5	51.9	44.0	218.4
Payment within 11 to 15 years	63.9	38.0	25.0	126.9
Total	**259.6**	**128.3**	**129.6**	**517.5**

Outstanding PFI liability

31 March 2021		31 March 2022
£m		£m
(146.6)	**Balance outstanding at start of year**	**(139.5)**
7.1	Payments during the year	6.5
(139.5)	**Balance outstanding at year end**	**(133.0)**

The tables show payments due to be made under the PFI contracts. The payments can be reduced if the contractor fails to meet availability or performance standards.

The payments made to the contractor are described as unitary payments; they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred, and interest payable whilst the capital expenditure remains to be reimbursed.

Note 30 - Leases

Council as lessor – finance leases

Finance lease debtor (net present value of minimum lease payments)

31 March 2021		31 March 2022
£m		£m
1.1	Current	1.2
28.1	Non-current	26.9
12.4	Unearned finance income	11.3
41.6	**Gross investment in the finance lease**	**39.4**

Lancashire County Council has recognised a finance lease debtor for the borrowing raised on behalf of Blackpool Council to settle the PFI liability in respect of the waste PFI scheme. The assets underpinning the finance lease are the land and buildings comprising the waste plants.

31 March 2021			31 March 2022	
Gross investment	Minimum lease payments		Gross investment	Minimum lease payments
£m	£m		£m	£m
2.2	1.1	Not later than one year	2.2	1.2
9.0	4.9	Later than one year and not later than 5 years	9.0	5.1
30.4	23.2	Later than 5 years	28.2	21.8
41.6	**29.2**	**Total**	**39.4**	**28.1**

The council has a gross investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee, and finance income earned by the council whilst the debtor remains outstanding.

Note 31 - Reserves

Usable reserves

31 March 2021		31 March 2022
£m		£m
(23.4)	General fund	(23.4)
(352.7)	Earmarked reserves	(407.6)
(116.8)	School reserves	(132.2)
(492.9)	**Total earmarked reserves**	**(563.2)**
(142.1)	Capital grants unapplied reserve	(140.3)
(8.4)	Capital receipts reserve	(10.3)
(643.4)	**Total usable reserves**	**(713.8)**

Unusable reserves

31 March 2021		31 March 2022
£m		£m
44.7	Financial instruments adjustment account	41.3
64.2	Financial instruments revaluation reserve	101.7
(1,024.9)	Revaluation reserve	(1,003.2)
(1,031.6)	Capital adjustment account	(1,054.9)
1,598.1	Pensions reserve	1,190.0
20.2	Collection fund adjustment account	(0.7)
29.1	Accumulated absences adjustment account	28.4
(300.2)	**Total**	**(697.4)**

Financial instruments adjustment account

2020/21 £m		2021/22 £m
48.3	**Balance at 1 April**	**44.7**
(3.6)	Proportion of premiums incurred in previous financial years to be charged against general fund balance	(3.4)
44.7	**Balance at 31 March**	**41.3**

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Financial instruments revaluation reserve

2020/21 £m		2021/22 £m
27.7	**Balance at 1 April**	**64.2**
36.5	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	37.5
64.2	**Balance at 31 March**	**101.7**

The financial instruments revaluation reserve contains the gains arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Disposed of and the gains are realised.

Revaluation reserve

2020/21 £m		2021/22 £m
(1,004.9)	**Balance at 1 April**	**(1,024.9)**
(65.8)	Upward revaluation of assets	(51.9)
16.9	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	38.5
(48.9)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(13.4)**
21.4	Difference between fair value depreciation and historical cost depreciation	22.6
7.5	Accumulated gains on assets sold or scrapped	12.5
28.9	**Amount written off to the capital adjustment account**	**35.1**
(1,024.9)	**Balance at 31 March**	**(1,003.2)**

The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when 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 revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

Capital adjustment account

2020/21		2021/22
£m		**£m**
(1,017.8)	**Balance at 1 April**	**(1,031.6)**
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
70.8	Charges for depreciation and impairment of non-current assets	74.4
1.4	Revaluation losses/(gains) on property, plant and equipment including assets held for sale	13.5
3.5	Amortisation of intangible assets	3.3
21.3	Revenue expenditure funded from capital under statute	29.2
31.8	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	22.7
(7.1)	Write down of PFI liability	(6.5)
(28.9)	Adjusting amount written out of the revaluation reserve	(35.1)
(925.0)	**Net written out amount of the cost of non-current assets consumed in the year**	**(930.1)**
	Capital financing applied in the year	
(77.8)	Capital grants and contributions credited to the comprehensive income and expenditure statement	(99.5)
(8.4)	Application of capital grants to capital financing from the capital grants unapplied account	1.8
0	Application of capital receipts to capital financing from the capital receipts reserve	(0.1)
(17.7)	Statutory provision for the financing of capital investment charged against the general fund	(21.8)
(2.7)	Capital expenditure charged against the general fund	(5.2)
(106.6)		**(124.8)**
(1,031.6)	**Balance at 31 March**	**(1,054.9)**

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction or enhancement.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Pensions reserve

2020/21		2021/22
£m		£m
1,152.9	**Balance at 1 April**	**1,598.1**
371.0	Re-measurement of the net defined benefit liability/(asset)	(538.4)
160.9	Reversal of items relating to retirement benefits debited or credited to the surplus on the provision of services in the comprehensive income and expenditure statement	213.6
(86.7)	Employer's pension contributions and direct payments to pensioners payable in the year	(83.3)
1,598.1	**Balance at 31 March**	**1,190.0**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, 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 council makes employer's contributions to pension funds or eventually pay 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 council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The difference between the balance on the pensions reserve and the pensions liability is due to the payment in advance covering the future service and deficit recovery payments for the 3 years 2020/21 to 2022/23.

Accumulated absences adjustment account

2020/21		2021/22
£m		£m
29.7	**Balance at 1 April**	**29.1**
(29.7)	Settlement or cancellation of accrual made at the end of the preceding year	(29.1)
29.1	Amounts accrued at the end of the current year	28.4
(0.6)	**Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**(0.7)**
29.1	**Balance at 31 March**	**28.4**

The accumulated absences adjustment account absorbs the differences that would otherwise arise on the general fund balance from accruing for annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

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Note 32 - Cash flows from operating activities

The net surplus or deficit on the provision of services in the comprehensive income and expenditure statement has been subject to the following adjustments in order to arrive at the net cash flows from operating activities:

The cash flows for operating activities include the following items:

2020/21		2021/22
£m		**£m**
(61.5)	Interest received	(35.3)
44.1	Interest paid	37.7

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

2020/21		2021/22
£m		**£m**
70.8	Depreciation	74.4
1.4	Impairment and downward/(upward) valuations	13.5
3.5	Amortisation of intangible assets	3.3
(2.3)	Increase/(decrease) in impairment for bad debts	(2.9)
13.5	Increase/(decrease) in creditors	77.3
(19.4)	(Increase)/decrease in debtors	(5.3)
0.2	(Increase)/decrease in inventories	(1.2)
(7.6)	Movement in pension liability	170.5
31.8	Carrying amount of non-current assets sold	22.7
(17.3)	Other non-cash items charged to the surplus or deficit on the provision of services	4.0
74.6	**Total**	**356.3**

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

2020/21		2021/22
£m		£m
(37.8)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(28.5)
(8.3)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.0)
(94.5)	Capital grants credited to the surplus on the provision of services	(95.9)
(140.6)	**Total**	**(130.4)**

Note 33 - Cash flows from investing activities

2020/21		2021/22
£m		£m
(106.7)	Purchase of property, plant and equipment, investment property and intangible assets	(134.9)
(6,948.3)	Purchase of short term and long term investments	(5,885.8)
8.3	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6.0
6,654.2	Proceeds from the sale of short term and long term investments	5,900.0
96.4	Other capital grants and receipts from investing activities	101.8
(296.1)	**Net cash flows from investing activities**	**(12.9)**

Note 34 - Cash flows from financing activities

2020/21		2021/22
£m		£m
1,078.8	Cash receipts from short term and long term borrowing	1,022.3
26.9	Appropriate to/from Collection Fund Adjustment Account	(20.8)
(1,250.0)	Repayment of short term and long term borrowing	(1,201.1)
(7.1)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(6.5)
(151.4)	**Net cash flows from financing activities**	**(206.1)**

Note 35 - Reconciliation of liabilities arising from financing activities

	1 April 2021	Financing cash flows		Non-cash changes	31 March 2022
		Acquisitions	Repayments		
	£m	£m	£m	£m	£m
Long term borrowing	897.3	249.6	(260.7)	(5.2)	881.0
Short term borrowing *	489.0	772.7	(940.4)	3.8	325.1
PFI liabilities *	139.5	0	(6.5)	0	133.0
Total	**1,525.8**	**1,022.3**	**(1,207.6)**	**(1.4)**	**1,339.1**

	1 April 2020	Financing cash flows		Non-cash changes	31 March 2021
		Acquisitions	Repayments		
	£m	£m	£m	£m	£m
Long term borrowing	844.8	275.0	(72.5)	(150.0)	897.3
Short term borrowing *	714.7	803.8	(1,177.5)	148.0	489.0
PFI liabilities *	146.6	0	(7.1)	0	139.5
Total	**1,706.1**	**1,078.8**	**(1,257.1)**	**(2.0)**	**1,525.8**

* The short term element of PFI liabilities is shown within PFI liabilities rather than short term borrowing.

Note 36 - Related party transactions

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

Central government

Central government has effective control over the general operations of the council, as it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax). Grant income from government departments is shown in Note 9.

Other public bodies (subject to common control by central government)

The council's material transactions with other public bodies relate primarily to precepts received from other local councils, the summary of which is shown in Note 8 - Taxation and Non Specific Grants.

The council is the host to pooled budget arrangements with several Clinical Commissioning Groups, for the Better Care Fund and for Learning Disabilities. Transactions and balances for both funds are detailed in Note 35.

Chief officers

Officers are appointed by the council to boards or committees of various organisations to act on behalf of the council in their official capacities. All officers are required to declare any relevant interests and those of their family members.

For 2021/22, there are no transactions for services to organisations in which chief officers have declared interests.

Members

Members of the council have direct control over the council's financial and operating policies. Members are also appointed by the council to boards or committees of various organisations to act on behalf of the council in their official capacities. The total of Members' allowances paid is shown in Note 12. Details of Members' interests are recorded in a formal Register of Interest, which is open to public inspection.

For 2021/22, there are no material transactions for services to organisations in which Members have declared interests.

Lancashire County Pension Fund

The Lancashire County Pension Fund is administered by Lancashire County Council.

The council incurred costs of £1.0 million in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £72.4 million to the fund in 2021/22.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire County Council.

The council's Chief Executive and Director of Resources is responsible for the preparation and sign off of the Lancashire County Pension Fund accounts. For this service, the pension fund is recharged an element (2%) of the Chief Executive and Director of Resources' salary.

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. The interests are detailed in the table below:

Company	Interest	Relationship
Lancashire County Developments Limited	100%	Subsidiary
Lancashire Renewables Limited	87.5%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Lancashire Enterprise Partnership Limited	33%	Joint venture (Dormant company)
Active Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire UDF Limited	100%	Subsidiary (Dormant company)
Lancashire UDF - SPV2 Limited	100%	Subsidiary

Inclusion in the Lancashire County Council Group is dependent upon the extent of the council’s interest and control over the entity. Where the value of the interest is considered immaterial, the company is not consolidated in the group accounts.

The transactions of Lancashire County Developments Limited are included within the council's group accounts.

Details of transactions with the other companies are shown in the following tables.

Lancashire Renewables Limited

Lancashire Renewables Limited is a subsidiary of Lancashire County Council and manages the two strategic waste management facilities at Leyland and Thornton.

2020/21		2021/22
£m		£m
28.6	Payments made during the year to Lancashire Renewables Limited	28.8
(3.6)	Income received during the year from Lancashire Renewables Limited	(5.5)
1.0	Amounts owed at the year end from Lancashire Renewables Limited	1.3
(1.0)	Amounts owed at the year end to Lancashire Renewables Limited	(1.2)

Marketing Lancashire Limited

Marketing Lancashire is a destination management organisation for Lancashire. Its aims include growing the visitor economy and developing the destination as a place to visit, work and invest in.

2020/21		2021/22
£m		£m
0.7	Payments made during the year to Marketing Lancashire Limited	0.5

Active Lancashire Limited

Active Lancashire Limited is a county sport partnership and charity operating in the Lancashire and South Cumbria public health regions.

2020/21		2021/22
£m		£m
0.1	Payments made during the year to Active Lancashire Limited	0

Local Pensions Partnership Limited

Lancashire County Council entered into a joint venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds. Lancashire Pensions Partnership operates the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies. In the case of the Lancashire County Pension Fund, the Pension Fund Committee.

2020/21		2021/22
£m		£m
0.2	Payments made during the year to Local Pensions Partnership Limited	0.1
(0.1)	Income received during the year from Local Pensions Partnership Limited	(0.2)
0.1	Amounts owed at the year end from Local Pensions Partnership Limited	0.5
0	Amounts owed at the year end to Local Pensions Partnership Limited	(0.4)

Note 37 - Pooled budgets

Pooled budget for learning disabilities

2020/21		2021/22
£m	**Funding provided to the pooled budget**	**£m**
(113.7)	Lancashire County Council	(113.7)
(1.2)	NHS Morecambe Bay CCG	(1.2)
(1.6)	NHS Fylde and Wyre CCG	(1.6)
(0.2)	NHS Blackpool CCG	(0.2)
(2.1)	NHS Chorley and South Ribble CCG	(2.1)
(1.1)	NHS Greater Preston – central pool	(1.1)
(1.1)	NHS West Lancashire CCG	(1.1)
(1.9)	NHS East Lancashire CCG	(1.9)
(0.5)	Other	(0.5)
(123.4)	**Total**	**(123.4)**
	Expenditure met from the pooled budget	
147.5	Lancashire County Council	148.2
1.6	NHS Morecambe Bay CCG	1.7
2.3	NHS Fylde and Wyre CCG	2.3
0.3	NHS Blackpool CCG	0.3
0.1	NHS Greater Preston CCG	0.1
3.1	NHS Chorley and South Ribble CCG	3.0
1.6	NHS Greater Preston – central pool	1.6
1.6	NHS West Lancashire CCG	1.6
1.6	NHS East Lancashire CCG	1.7
159.7	**Total**	**160.5**
36.3	**Net (surplus)/deficit arising on the pooled budget during the year**	**37.1**
33.4	**Council share of the net (surplus)/deficit**	**34.1**

The council is the host partner of the pooled funds in respect of learning disability services and the better care fund. The arrangements are made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The council has a pooled budget arrangement with the Lancashire Clinical Commissioning Groups for the provision of support for people with learning disabilities. Any surplus or deficit is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

Better care fund

2020/21 £m	Funding provided to the pooled budget	2021/22 £m
(16.7)	Lancashire County Council (Disabled facilities grant)	(16.7)
(29.7)	NHS East Lancashire CCG	(31.2)
(14.7)	NHS Greater Preston CCG	(15.4)
(13.3)	NHS Chorley and South Ribble CCG	(14.0)
(14.5)	NHS Fylde and Wyre CCG	(15.2)
(11.3)	NHS Morecambe Bay CCG	(12.1)
(8.4)	NHS West Lancashire CCG	(8.8)
(108.6)	**Total**	**(113.4)**
	Expenditure met from the pooled budget	
28.8	Lancashire County Council (Social care)	30.6
20.5	NHS East Lancashire CCG	21.5
10.0	NHS Greater Preston CCG	10.5
9.4	NHS Chorley and South Ribble CCG	9.9
9.8	NHS Fylde and Wyre CCG	10.1
7.8	NHS Morecambe Bay CCG	8.2
5.6	NHS West Lancashire CCG	5.9
16.7	Lancashire County Council (Disabled facilities grant)	16.7
108.6	**Total**	**113.4**
0	**Net surplus/(deficit) arising on the pooled budget during the year**	**0**

Highlighted as a key element of public service reform, the better care fund (BCF) has a primary aim to drive closer integration and improve outcomes for patients, service users and carers. The fund is a partnership arrangement whereby clinical commissioning groups and the council contribute an agreed level of resource into a single pooled budget that is then used to commission or deliver health and social care services.

The BCF plan sets out the council and its partners' vision to deliver an integrated health and social care system to reduce the demand on acute hospital and care home provision in favour of sustainable integrated neighbourhood health and social care. The regulations require that one of the partners is nominated as the host of the pooled budget and this body is then responsible for the budget's overall accounts and audit. It has been agreed that Lancashire County Council will act as the host for the BCF agreement in Lancashire.

Note 38 – Agency services

Lancashire Local Enterprise Partnership

The council acts as accountable body for the Lancashire Local Enterprise Partnership (LEP) and processes transactions through its financial ledger using the council's procedures and processes as set out in the LEP assurance framework. The LEP is a collaboration of leaders from local businesses, universities and local councils, who direct economic growth and drive job creation. The council has no entitlement to retain any funds or interest generated from funds or to direct the use of these funds.

Where the council is merely an agent for the expenditure, these transactions are not reflected within the council's accounts. However, where the council is the project sponsor for a scheme then expenditure incurred will be recognised within the council's financial statements.

Income

2020/21		2021/22
£m		**£m**
(38.6)	Growth deal	0
(78.6)	City deal *	(42.6)
(17.1)	Getting building fund	(17.0)
(0.9)	LEP core activity funding	(0.8)
(0.9)	LEP additional projects	(1.0)
(0.3)	Growth hub	(0.3)
(136.4)	**Total income**	**(61.7)**

* The City deal total includes contributions of £3.8 million from Lancashire County Council in 2021/22. (2020/21: £3.8 million)

Expenditure

2020/21		2021/22
£m		**£m**
84.5	Growth deal	26.3
59.4	City deal	62.3
0	Get building fund	13.8
1.5	LEP core activity funding	1.0
0.8	LEP additional projects	1.0
0.3	Growth hub	0.3
146.5	**Total expenditure**	**104.7**

In 2021/22, expenditure totalling £57.6 million was spent on LCC schemes. (2020/10: £56.2 million)

Growing places

2020/21		2021/22
£m		**£m**
5.4	Payments out	4.1
(5.6)	Repayments	(8.6)
(0.3)	Loan interest	(0.2)
(0.5)	**Total**	**(4.7)**

Reserves

2020/21		2021/22
£m		**£m**
(92.1)	**Balance at 1 April**	**(82.6)**
(136.4)	Income	(61.7)
146.5	Expenditure	104.7
(0.5)	Growing places	(4.7)
(0.1)	Employment liabilities	(0.1)
(82.6)	**Balance at 31 March**	**(44.4)**

Note 39 – Material items of income and expense

Transfers to academy status

When a maintained school converts to academy status, the school's buildings held on the council's balance sheet are treated as a disposal. The carrying value of the asset is written off to financing and investment income and expenditure in the comprehensive income and expenditure statement. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

During the year, six schools transferred to academy status. The value of the disposals totalled £18.4 million.

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School	Value
	£m
St Josephs Catholic Primary School	1.6
St Matthew's CE Primary School	2.2
Accrington Huncoat Primary School	1.8
Oswaldtwistle West End Primary School	1.8
St John with St Michael CE Primary School	1.9
The Hollins Technology College	9.1
Total	**18.4**

Technical annex

Bowland heather moorland
Photo: Graham Cooper

Income, expense, gains and losses on financial instruments – 2021/22

The gains and losses on financial instruments recognised in the comprehensive income and expenditure statement are shown in the following tables:

	Financial liabilities		Financial assets			Total
	Amortised cost	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss	
	£m	£m	£m	£m	£m	£m
Interest expense	35.8	0	0	0	0	35.8
Loss on de-recognition	0	6.5	0	0.1	10.9	17.5
Impairment losses	0	0	(9.5)	0	0	(9.5)
Fees paid	0.5	0	0	0	0	0.5
Interest payable and similar charges	**36.3**	**6.5**	**(9.5)**	**0.1**	**10.9**	**44.3**
Interest income	0	0	(2.8)	(5.6)	(2.0)	(10.4)
(Increases)/decreases in fair value	0	(7.3)	0	0	4.6	(2.7)
Gain on de-recognition	0	0	(2.0)	(22.9)	(14.6)	(39.5)
Interest and investment income	**0**	**(7.3)**	**(4.8)**	**(28.5)**	**(12.0)**	**(52.6)**
Net impact on the surplus or deficit on provision of services	**36.3**	**(0.8)**	**(14.3)**	**(28.4)**	**(1.1)**	**(8.3)**
Loss on revaluation	0	0	0	37.5	0	37.5
Impact on other comprehensive income	**0**	**0**	**0**	**37.5**	**0**	**37.5**
Net gain/(loss) for the year	**36.3**	**(0.8)**	**(14.3)**	**9.1**	**(1.1)**	**29.2**

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Income, expense, gains and losses on financial instruments – 2020/21

	Financial liabilities		Financial assets			Total
	Amortised cost	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss	
	£m	£m	£m	£m	£m	£m
Interest expense	41.6	0	0	0	0	41.6
Loss on de-recognition	0	0	0	0.5	0	0.5
Impairment losses	0	0	(0.8)	(0.1)	0	(0.9)
Fees paid	0.4	0	0	0	0	0.4
Interest payable and similar charges	**42.0**	**0**	**(0.8)**	**0.4**	**0**	**41.6**
Interest income	0	0	(5.5)	(3.0)	(3.3)	(11.8)
(Increases)/decreases in fair value	0	(36.0)	0	0	23.8	(12.2)
Gain on de-recognition	0	0	0	(34.1)	(4.4)	(38.5)
Interest and investment income	**0**	**(36.0)**	**(5.5)**	**(37.1)**	**16.1**	**(62.5)**
Net impact on the surplus or deficit on provision of services	**42.0**	**(36.0)**	**(6.3)**	**(36.7)**	**16.1**	**(20.9)**
Loss on revaluation	0	0	0	36.5	0	36.5
Impact on other comprehensive income	**0**	**0**	**0**	**36.5**	**0**	**36.5**
Net gain/(loss) for the year	**42.0**	**(36.0)**	**(6.3)**	**(0.2)**	**16.1**	**15.6**

Fair value of financial assets and liabilities

Financial instruments, except those classified at amortised cost, are carried in the balance sheet at fair value. For most assets, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the following table, split by their level in the fair value hierarchy.

Level 1	Fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
Level 2	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
Level 3	Fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Allowances for impairment have been calculated for assets held at amortised cost by applying a forward looking 'expected loss' impairment model that focuses on the risk that a loan will default rather than whether a loss has been incurred.

Fair value of financial assets

31 March 2021				31 March 2022		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
			Financial assets held at fair value through other comprehensive income			
554.1	554.1	1	Bond, equity and property funds	1	580.9	580.9
			Financial assets held at fair value through profit and loss			
79.5	79.5	1	Bond, equity and property funds	1	56.4	56.4
129.7	129.7	2	Bond, equity and property funds	2	24.1	24.1
209.2	**209.2**		**Total**		**80.5**	**80.5**
			Financial assets held at amortised cost			
10.2	11	2	Local authority bonds	2	10.2	10.2
15.2	17.4	2	Long term bank deposits	2	7.2	7.7
28.1	35.8	2	Lease receivables	2	26.9	31.2
7.1	8.6	2	Long term loans to companies	2	7.1	6.3
60.6	**72.8**		**Subtotal**		**51.4**	**55.4**
823.9	**836.1**		**Total**		**712.8**	**716.8**
340.2			Assets for which fair value is not disclosed #		351.2	
1,164.1			**Total financial assets**		**1,064.0**	
28.1			Long term debtors		26.9	
586.6			Long term investments		605.4	
98.6			Short term debtors		154.6	
266.3			Short term investments		132.4	
184.5			Cash and cash equivalents		144.7	
1,164.1			**Total financial assets**		**1,064.0**	

The fair value of short term financial assets including trade receivables is assumed to approximate to the carrying amount.

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The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made. This shows a notional future profit (based on economic conditions at the end of the financial year) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

31 March 2021				31 March 2022		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
			Financial liabilities held at amortised cost			
(284.6)	(341.4)	2	Long term PWLB loans	2	(279.6)	(294.5)
(1.3)	(1.2)	2	Long term creditors	2	(1.3)	(1.1)
(591.3)	(572.0)	2	Long term loans	2	(591.4)	(536.4)
(21.4)	(23.0)	2	Other long term loans	2	(10.0)	(10.2)
(139.5)	(220.2)	2	PFI liabilities	2	(126.2)	(171.4)
(1,038.1)	**(1,157.8)**		**Total financial liabilities held at amortised cost**		**(1,008.5)**	**(1,013.6)**
			Financial liabilities held at fair value through profit and loss			
(162.5)	(162.5)	1	Short term liabilities for short investments	1	(64.7)	(64.7)
(162.5)	**(162.5)**		**Total financial liabilities held at fair value through profit and loss**		**(64.7)**	**(64.7)**
(633.6)			Liabilities for which fair value is not disclosed #		(558.9)	
(1,834.2)	**(1,320.2)**		**Total financial liabilities**		**(1,632.1)**	**(1,078.3)**
			Recorded on balance sheet as:-			
(144.6)			Short term creditors		(227.0)	
(489.0)			Short term borrowings		(325.1)	
(169.0)			Other current liabilities		(71.5)	
(1.3)			Long term creditors		(1.3)	
(897.3)			Long term borrowing		(881.0)	
(133.0)			Other long term liabilities		(126.2)	
(1,834.2)			**Total financial liabilities**		**(1,632.1)**	

The fair value of short term financial liabilities including trade payables is assumed to approximate to the carrying amount

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date. This shows a notional future loss (based on economic conditions at the end of the financial year) arising from a commitment to pay interest to lenders above current market rates.

Nature and extent of risks arising from financial instruments

The council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks.

The council's 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 a central finance team, under policies approved by the council in the annual Treasury Management Strategy.

The strategy also imposes a maximum sum and duration that the council can invest in an institution. This is dependent upon the quality of credit rating and in 2021/22 the investment portfolio has maintained a very high AA credit rating.

A main principle of the credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating.

Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to the council.

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 an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies.

Credit risk – treasury investments

The table below summarises the credit risk exposures of the council's treasury investment portfolio by credit rating:

31 March 2021		Credit rating	31 March 2022	
Long term	**Short term**		**Long term**	**Short term**
£m	**£m**		**£m**	**£m**
213.0	47.1	AAA	244.8	61.8
366.2	219.1	AA	261.9	70.6
0	0	BAA1	91.5	0
579.2	**266.2**	**Total**	**598.2**	**132.4**
7.1	0	Credit rating not applicable	7.1	0
586.3	**266.2**	**Total investments**	**605.3**	**132.4**
0.3	0.1	Accrued interest excluded	0.1	0
586.6	**266.3**	**Total investments**	**605.4**	**132.4**

The maximum single commercial exposure is to GILT UKTI 0 ⅛ 03/22/2073 at £133 million, which is lower than individual counterparty limit of £500 million for cash deposits. Overall the portfolio is diversified by the use of 47 counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The council manages aged debt within the agreed policy. Loss allowances on treasury investments have been calculated on the 12 month expected credit loss model by reference to historic default data published by credit rating agencies, multiplied by 67% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. For local government and central government investments these have been excluded for this loss allowance calculation. There are minimal non-material credit losses of less than £0.1 million due as at 31 March 2022.

This is as most of the investments held were not below Moody's Aa2 level apart from the EDF bonds showing as BAA1. In 2021/22 there are no treasury investments that have suffered a significant increase in credit risk since initial recognition.

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Credit risk: trade receivables

The impairment allowance on trade debtors has been calculated using the lifetime credit losses basis. The impairment allowance loss on other financial assets has been calculated based on the expected 12-month credit loss.

	Trade debtors	Total
	£m	£m
Balance at 1 April 2021	**(17.7)**	**(17.7)**
Impairment allowance for trade debtors	9.5	**9.5**
Balance at 31 March 2022	**(8.2)**	**(8.2)**

Liquidity risk

Liquidity risk is the danger that the council will have insufficient funds in its bank account to make the payments necessary to meet its financial obligations.

The maturity analysis of principal sums borrowed is as follows:

31 March 2021		31 March 2022
£m		£m
490.9	Less than 1 year	328.9
490.9	**Total short term borrowing**	**328.9**
47.9	1 to 2 years	47.7
435.6	3 to 5 years	435.7
90.7	6 to 10 years	82.6
456.1	More than 10 years	441.2
1,030.3	**Total long term borrowing**	**1,007.2**
1,521.2	**Total borrowing**	**1,336.1**

The council has a comprehensive cash flow management system, which seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the Public Works Loans Board and access to the investment portfolio, which is also considered to be liquid. There is no significant risk that the council will be unable to raise finance to meet its commitments under financial instruments.

Market risk

Market risk is the possibility that financial loss might arise as a result of changes in interest rates and stock movements.

The council is exposed to interest rate movements on its borrowings and investments. Movement in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

Borrowing at variable rates	The interest expense charged to the surplus or deficit on the provision of services will rise
Borrowing at fixed rates	The fair value of the liabilities will fall
Investments at variable rates	The interest income credited to surplus or deficit on the provision of services will rise
Investments at fixed rates	The fair value of the investments will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the comprehensive income and expenditure statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in other comprehensive income or the surplus or deficit on the provision of services as appropriate.

There is a significant level of short term borrowing which needs to be regularly refinanced as part of the strategy to benefit from low short term interest rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the council to switch from short term to long term borrowing should the UK enter a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by two factors:

- Maturing and available for sale short term investments, which could be used to pay down debt, should it become cost effective to do so.
- Long term loans of over £500 million with both the Public Works Loans Board and UK bond issuance, with maturity dates beyond 31 March 2026 with guaranteed interest rates.

The council's strategy takes advantage of market conditions whilst managing interest rate risk. The treasury management team proactively reviews interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The effect if interest rates were 1% higher with all other variables held constant

The following table attempts to quantify the interest rate risk. The impact of a 1% fall in interest rates would be the same but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise.

	2021/22
	£m
Increase in interest payable on variable rate borrowings	2.3
Increase in interest receivable on variable rate investments	(4.0)
Decrease in fair value of traded investments	4.6
Decrease in fair value of borrowings held for trading	(15.0)
Impact on surplus on the provision of services	**(12.1)**
Decrease in fair value of fixed rate other comprehensive income investment assets	67.9
Impact on other comprehensive income and expenditure	**55.8**
Decrease in fair value of fixed rate loans and investments	3.4
Decrease in fair value of fixed rate borrowings	(69.4)

Information on the overall borrowing amounts held on the balance sheet along with the interest rates and maturity information is as follows:

	Borrowing at 31 March 2022	Contractual rates 2021/22	Average rate paid 2021/22	Years to maturity at 31 March 2022
	£m	%	%	
Long term borrowing				
Fixed rate funding:				
Public works loan board	(279.6)	1.57 to 4.625	3.399	Over 1 year to 48 years
Long term bonds	(241.1)	1.625	1.625	38 years
Other long term loans	(5.0)	3.8	3.8	10 years
Total fixed rate funding	**(525.7)**			
Variable rate funding:				
Long term bonds	(350.3)	1.031	1.031	3 years
Salix funding	(5.0)	0	0	
Total long term borrowing	**(881.0)**			
Short term borrowing				
Fixed rate funding:				
Public works loan board	(5.0)	4.500	4.500	Less than 1 year
Other market loans	(242.0)	0.05 to 3.15	0.286	Less than 1 year
Accrued interest	(3.0)			
Total fixed rate funding	**(250.0)**			
Variable rate funding:				
Shared investment scheme	(71.8)	0.50 to 0.75	0.168	Less than 1 year
Salix funding	(1.8)	0	0	Less than 1 year
Other variable funding	(1.5)	0.5	0.122	Less than 1 year
Total variable funding	**(75.1)**			
Total short term borrowing	**(325.1)**			
Total borrowing	**(1,206.1)**			

Forward contract agreement

In 2019/20 the council entered into a forward contract agreement in which it agreed to purchase £90 million of UK government bonds at a future time for a sale price of £150.2 million, to mitigate market risk relating to local authority loans made to other local authorities. During 2021/22 the council sold five out of these six local authority loans and also purchased £50 million of the UK government bonds to offset these sales. At 31 March 2022 the fair values represented in the comprehensive income and expenditure statement recognised an overall gain of £5.4 million.

	Financial liabilities at fair value through profit and loss	**Financial assets at fair value through profit and loss**	**Impact on comprehensive income and expenditure statement**
	£m	**£m**	**£m**
Fair value adjustment	(7.3)	1.9	(5.4)

The council is exposed to interest rate movements when it invests and borrows that can affect the fair value of assets and liabilities. Through investing in other local authorities the council was exposed to changes in the market value of those loans which in part varied due to the prevailing interest rate. Through the undertaking of a forward contract loan which is exposed to this same risk but negatively correlated in its affect, the potential impact is effectively hedged.

The fair value through profit and loss assets relate to LOBO loan investments with other local authorities and were valued at 31 March 2022, using the Bermudian SWAP basis, in accordance with industry standards. This methodology resulted in a decrease on the balance sheet values for these assets. There was a decrease in market prices for the UK government bonds and therefore reduced the liability owed by the council which offset the fair value losses from the LOBO assets resulting in a net gain of £5.4 million for these transactions.

Defined benefit pension schemes

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

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

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the fund are calculated in accordance with the LGPS regulations. The regulations require an actuarial valuation to be carried out every three years and require the contributions to be set with a view to targeting the fund's solvency. The detailed provisions are set out in the fund's funding strategy statement.

The council also participates in some other defined benefit pension arrangements, governed under statute, but these other schemes are unfunded.

These other arrangements relate to:

Teachers

The council's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The council is, however, responsible for paying some additional pensions to retired teachers that were awarded at the point of retirement.

Health workers

The council's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

NEST pension scheme

The council's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

Governance and risk management

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

Lancashire County Pension Fund

The fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund. The Pension Fund Committee comprises twelve county councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Borough Council, Blackpool Council and trade unions. The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the panel and committee are published in the Investment Strategy Statement.

Risks and investment strategy

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

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The objective of the fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

Other price risk

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

Interest rate risk

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

Currency risk

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

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur financial loss. The selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner. Deposits are not made with banks and financial instructions unless they meet the fund's credit criteria. The fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risk

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

Other risks

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

Amendments, curtailments and settlements

The provisions of the fund were amended with effect from 1 April 2014. For service up to 31 March 2014, benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary.

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

Settlements shown in the accounting figures relate to the admission of new employers into the fund, and who take on part of the council's assets and liabilities as a result of employing members who have accrued benefits with the council.

Schemes for teachers and transferred NHS staff

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the council.

Funding the liabilities

Contributions to the arrangements are set by the government for teachers and NHS staff pension schemes, having taken advice from the government actuary, no liability is reflected in the council's balance sheet. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the council is responsible. Only this additional pension to retired teachers' part of the liability, which directly falls to the council, is recognised within the council's balance sheet and these liabilities are shown under teachers' pension scheme figures within the following tables. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment risk

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the council's contributions to them.

Transactions relating to retirement benefits

The council recognises the costs of post-employment/retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement.

The following transactions have been made in the comprehensive income and expenditure statement and the movement in reserves statement during the year:

- In 2021/22 £75.2 million was paid to the Department for Education for teachers' pension costs. This represents 23.7% of teachers' pensionable pay (2020/21 £73.3 million and 23.7%).
- In 2021/22, the council paid £0.3 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 17% of pensionable pay (2020/21: £0.3 million and 17%).
- The council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2021/22, these amounted to £7.4 million, representing 2.3% of pensionable pay (2020/21: £7.8 million and 2.5%).

In addition to the recognised gains and losses included in the comprehensive income and expenditure statement, a re-measurement of the net defined liability gain of £538.4 million (2020/21: £371.0 million loss) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a £122.8 million gain.

Transactions relating to retirement benefits

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2021/22	**2020/21**	**2021/22**	**2020/21**
	£m	**£m**	**£m**	**£m**
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	180.0	134.6	0	0
Past service cost	0	0	0	0
(Gain)/loss from settlements and curtailments	0.4	0.5	0	0
Administration expenses	2.7	2.5	0	0
Financing and investment income and expenditure				
Net Interest expense	28.3	20.8	2.2	2.5
Total post-employment benefit charged to the surplus or deficit on the provision of services	**211.4**	**158.4**	**2.2**	**2.5**
Other post-employment benefit charged to the comprehensive income and expenditure statement				
Re-measurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(464.0)	(299.7)	0	0
Experience (gains)/losses on liabilities	56.9	(96.7)	0.4	(1.7)
Actuarial (gains)/losses arising on changes in financial assumptions	(90.8)	760.7	0.9	8.4
Actuarial (gains)/losses arising on changes in demographic assumptions	(40.8)	0	(1.0)	0
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**(327.3)**	**522.7**	**2.5**	**9.2**
Movement in reserves statement				
Reversal of net charges made to the (surplus)/deficit on the provision of services for post-employment benefits in accordance with the Code	211.4	158.4	2.2	2.5
Actual amount charged against the general fund balance for pensions in the year				
Employers' contributions payable to the scheme	**73.3**	**76.8**	**10.0**	**9.9**

Assets and liabilities in relation to retirement benefits

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

2020/21			2021/22	
Local government pension scheme	Teachers' pension scheme		Local government pension scheme	Teachers' pension scheme
£m	£m		£m	£m
3,795.0	0	Fair value of plan assets	4,310.9	0
(5,201.6)	(109.6)	Present value of the defined benefit obligation	(5,317.1)	(101.9)
(1,406.6)	**(109.6)**	**Net liability arising from defined benefit obligation**	**(1,006.2)**	**(101.9)**

Reconciliation of the movements in fair value of the scheme assets:

2020/21		2021/22
£m		£m
3,434.2	**Opening balance as at 1 April**	**3,795.0**
299.7	Re-measurement (assets)	464.0
84.5	Interest on plan assets	79.7
(2.5)	Admin expenses	(2.7)
76.8	Employer contributions	73.3
25.8	Contributions from scheme participants	27.2
(123.5)	Benefits/transfers paid	(125.6)
3,795.0	**Closing balance as at 31 March**	**4,310.9**

Reconciliation of present value of the scheme liabilities

2020/21			2021/22	
Funded liabilities: Local government pension scheme	**Unfunded liabilities: Teachers' pension scheme**		**Funded liabilities: Local government pension scheme**	**Unfunded liabilities: Teachers' pension scheme**
£m	**£m**		**£m**	**£m**
(4,476.7)	**(110.4)**	**Opening balance as at 1 April**	**(5,201.6)**	**(109.6)**
(134.5)	0	Current service cost	(180.0)	0
(105.3)	(2.5)	Interest on pension liabilities	(108.2)	(2.0)
(25.8)	0	Contributions from scheme participants	(27.2)	0
123.5	9.9	Benefits/transfers paid	125.6	10.0
(0.5)	0	Curtailment cost	(0.4)	0
96.7	1.7	- Experience gains/(losses) on liabilities	(56.9)	(0.4)
(760.7)	(8.3)	- Actuarial gains/(losses) arising from changes in financial assumptions	90.8	(0.9)
0	0	- Actuarial gains/(losses) arising from changes in demographic assumptions	40.8	1.0
81.7	0	Lump sum early payment of contributions	0	0
(5,201.6)	**(109.6)**	**Closing balance as at 31 March**	**(5,317.1)**	**(101.9)**

Local Government Pension Scheme assets comprised:

31 March 2021 £m	Asset category	Quoted in active markets (Y/N)	31 March 2022 £m
	Equities:		
0	Financials	Y	5.1
	Bonds:		
0	UK corporate	Y	17.7
0	Overseas corporate	N	15.9
	Property:		
1.7	Offices *	N	2.0
31.6	Industrial/warehouse *	N	32.1
3.7	Shops	N	3.8
28.0	Multi let commercial building *	N	30.9
	Alternatives:		
0	UK private equity	N	95.3
304.5	Overseas private equity	N	259.9
455.1	Infrastructure	N	491.1
507.3	Credit funds *	N	576.9
126.5	Pooled fixed income*	N	187.4
475.4	Indirect property funds	N	375.9
38.8	UK pooled equity *	N	40.6
1,738.6	Overseas pooled equity funds *	N	2,067.6
	Cash:		
93.7	Cash accounts *	N	119.6
(9.9)	Net current assets *	N	(11.0)
3,795.0	**Total assets**		**4,310.9**

* The 31 March 2021 figures have been disaggregated.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates and salary levels. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer, an independent firm of actuaries. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary are shown in the following table.

2020/21		2021/22
Mortality assumptions		
Longevity at 65 for current pensioners		
22.4 years	Male	22.3 years
25.1 years	Female	25.0 years
Longevity at 65 for future pensioners		
23.9 years	Male	23.7 years
26.9 years	Female	26.8 years
Financial assumptions		
2.7%	Rate of CPI inflation	3.3%
4.2%	Rate of increase in salaries	4.8%
2.8%	Rate of increase in pensions	3.4%
2.1%	Rate for discounting scheme liabilities	2.8%

Sensitivity analysis

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

	Impact on the net defined benefit liability	Projected service cost for next year	Projected net interest cost for next year
	£m	£m	£m
Rate for discounting scheme liabilities (increase by 0.1%)	(90.0)	(4.5)	(1.6)
Rate of inflation (increase by 0.1%)	91.6	4.7	2.6
Rate of increase in pay growth (increase by 0.1%)	8.0	0	0.3
1 year increase in life expectancy	159.2	5.5	4.5
Change in investment returns (increase by 1%)	(43.2)	0	(1.2)
Change in investment returns (decrease by 1%)	43.2	0	1.2

Impact on the council's cash flows

Actuarial valuations are required to be carried out every three years. The last actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On 7 May 2020, the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its future service and deficit recovery payments for the three years 2020/21 to 2022/23. The value of the payment totalled £120.5 million and has the purpose of generating a cash saving for the council.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2022 are £54.3 million. Expected contributions for the teachers and health workers in the year are £103.9 million and £0.3 million respectively.

McCloud judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. The figures include an allowance for the McCloud judgement.

Guaranteed minimum pension equalisation (GMP) – historic transfers

UK and European law require pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the 'Barber' judgement) and this includes providing equal benefits accrued from that date to reflect the differences in guaranteed minimum pensions.

In December 2020 a further High Court ruling extended GMP equalisation costs to historic transfers, potentially creating a further liability for pension schemes. However, it is unclear at this point how this latest ruling may (or may not) be relevant in the LGPS. Given the uncertainty around whether this applies to public sector schemes, the difficulty in obtaining the necessary historic data and the low likelihood of a material impact for employers, no adjustment has been included in the pension figures.

Significant accounting policies

General principles

Basis of preparation

The Accounts and Audit Regulations 2015 require the county council to prepare an annual statement of accounts in accordance with proper accounting practices, mainly the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom, supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis, under the assumption that the county council will continue in existence for the foreseeable future. The accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

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.

Where an event occurring after the balance sheet date provides evidence of conditions that existed at the balance sheet date, the amounts recognised in the statement of accounts are adjusted.

Where an event that occurs after the balance sheet date is indicative of conditions that arose after the balance sheet date, the amounts recognised in the statement of accounts are not adjusted, but where this would have a material effect, it is disclosed in the notes to the accounts.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

Group accounts

The county council has a material interest in a subsidiary company, which has been consolidated into the county council's group accounts on a line-by-line basis, after eliminating intra-group transactions.

An entity could be material but still not consolidated if all of its business is with the county council and eliminated on consolidation – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

Pooled budgets

The county council is the host partner of the pooled funds in respect of learning disability services, Better Care Fund and integrated home response and falls lifting service. The arrangements are made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The arrangements are accounted for as joint operations and, therefore, the county council accounts for its share of the funds' assets, liabilities, expenditure and income.

Prior period adjustments, changes in accounting policies, estimates and errors

Prior period adjustments are made where there are material adjustments applicable to prior years arising from a change in accounting policies or to correct a material error.

Where a change to accounting policies is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

Accounting policies for income

Recognition of income

Income is accounted for in the financial year in which the activity it relates to takes place, which may not be the same year in which cash payments are received. This means that revenue from the sale of goods or the provision of services is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.

Interest receivable on investments is accounted for as income 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 income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and non-domestic rates income

Both council tax and non-domestic rates are collected by the 12 Lancashire district councils (billing authorities) on behalf of the county council.

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. However, the amount to be reflected in the general fund is determined by regulation, therefore, there is an adjustment for the difference between the accrued income and the amount required by regulation to be credited to the general fund made through the movement in reserves statement and the collection fund adjustment account.

The year-end balance sheet includes the council's share of debtors (arrears and collection fund surpluses), creditors (prepayments, overpayments and collection fund deficits) and provisions (non-domestic rates appeals).

Lancashire has a non-domestic rates pool which was established on 1 April 2016. It comprises the county council and most but not all of the local authorities in Lancashire, with Ribble Valley Borough Council designated as lead authority. Lancashire County Council will receive 10% of the overall retained levy with each district within the pool retaining 90% of their levy. In the Lancashire non-domestic rates pool each council bears its own risk and takes its own reward under the pool agreement.

The net retained levy for the county council is shown within non-domestic rates retention income in the comprehensive income and expenditure statement.

Government grants and other contributions

Government grants, third party contributions and donations are recognised when there is reasonable assurance that the county council will comply with the conditions attached to the payments, and the grants or contributions will be received.

Revenue grants are recognised in the comprehensive income and expenditure statement when the conditions attached to the grant or contribution have been satisfied.

At the end of the year if any grant monies are unspent, this is transferred to an earmarked reserve. When the grant is applied, an amount equal to the expenditure is transferred back from the earmarked reserve to the general fund.

Where conditions attached to the grants or contributions have not been met, monies received to date are carried in the balance sheet as receipts in advance and credited to the comprehensive income and expenditure statement when the conditions are satisfied.

Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. This income is then 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.

Where grant conditions have not been satisfied then the monies received are carried in the balance sheet as receipts in advance.

Accounting policies for costs

Recognition of expenditure

Expenditure is accounted for in the financial year in which the activity it relates to takes place, not simply when cash payments are made.

Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest payable on borrowings is accounted for as expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

Charges to revenue for non-current assets

Services are charged with the following amounts to record the cost of holding property, plant and equipment during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off.

Employee benefits

Employee benefits payable during employment

Short term employee benefits such as wages and salaries, paid annual leave and paid sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the comprehensive income and expenditure statement.

An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement to the accumulated absences adjustment account.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the county council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the respective service in the comprehensive income and expenditure statement, at the earlier of when the county council can no longer withdraw the offer of those benefits or when the county council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, regulations require the general fund to be charged with the amount payable to the pension fund rather than the amount calculated under accounting standards. Adjustments are made in the movement in reserves statement to transfer the accounting standards based entries to the pension reserve and replace these with the amount payable to the pension fund.

Post-employment benefits

Employees of the county council are members of three separate pension schemes:

- Teachers' pension scheme, administered by Capita Teachers' pensions on behalf of the Department for Education (DfE);

- Local government pension scheme administered by Lancashire County Council and the Local Pensions Partnership;
- NHS pension scheme administered by NHS Business Services Authority on behalf of the Secretary of State for Health.

Each scheme provides defined benefits to members e.g. retirement lump sums and pensions, earned whilst employees are working for the county council.

The county council recognises the cost of post-employment benefits in the cost of services when they are earned by employees, although these benefits will not actually be payable until employees retire.

Statutory provisions require the general fund to be charged with the amount payable by the county council to the pension fund or directly to pensioners in the year, not the amount calculated according to accounting standards. The real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement and replaced with the cash paid to the pension fund and pensioners.

The balance on the pensions reserve measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The arrangements for the teachers' scheme and NHS scheme mean that liabilities for these benefits cannot be identified to the county council. The schemes are accounted for as if they were a defined contributions scheme and no liability for future payments of benefits is recognised in the balance sheet. The education and public health service revenue accounts are charged with the employer's contributions payable to teachers' and NHS pensions respectively.

Local government pension scheme

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

Liabilities are discounted to their value at current prices using a discount rate.

The assets of the local government pension fund attributable to the county council are included in the balance sheet at their fair value:

- Quoted securities – current bid market price;
- Unquoted securities – professional estimate of market value;
- Unitised securities – current bid price;
- Property – market value.

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

Service costs:
Current service cost is the increase in liabilities as a result of years of service earned this year and is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.

Past service cost is the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned

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in earlier years this is charged to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.

Net interest on the net defined benefit liability:
The expected increase in the present value of liabilities during the year as they move one year closer to being paid, offset by the interest on assets; which is the interest on assets held at the start of the year and cash flows occurring during the period. The result is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Re-measurements:
These comprise the return on plan assets (excluding amounts included in net interest) and actuarial gains and losses. Actuarial gains and losses are the changes in the net pension liability, which arise because actuaries have updated their assumptions.

Re-measurements are charged to the pensions reserve as other comprehensive income and expenditure.

Contributions paid to the Lancashire County Pension Fund:
Cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

Discretionary benefits

The county 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 (including teachers) 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.

Long term contracts

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services, with the works and services received under the contract during the financial year.

Overheads and support services

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

Private finance initiative (PFI)

PFI and similar contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the county council is deemed to control the services that are provided under the PFI schemes, and as ownership of the property, plant and equipment will pass to the county council at the end of the contracts for no additional charge, the county council carries the assets used under the contracts on the balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability, for amounts due to the scheme operation to pay for the capital investment.

Non-current assets related to these contracts and recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the county council.

The county council makes agreed payments each year to the operators, increased in line with inflation where stated in the contract and similarly reduced if performance falls below minimum standards in any year.

The charge made up of the cost of services received during the year, which is charged to the relevant service line in the comprehensive income and expenditure statement and a charge for the property, which is split between:

- The interest charge on the outstanding liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- The contingent rent, debited to the financing and investment income line in the comprehensive income and expenditure statement;
- The payment towards the outstanding liability which is applied to write down the balance sheet liability;
- Lifecycle replacement costs (split between revenue and capital costs). Revenue lifecycle costs are debited to the relevant service in the comprehensive income and expenditure statement. Capital lifecycle costs are posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the county council a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential and, a reliable estimate can be made of the amount of the obligation.

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

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent assets

A contingent asset arises where an event has taken place that gives the county council a possible asset, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent liabilities

Contingent liabilities arise where either:

- a possible obligation has arisen from past events, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.

- a present obligation may arise from past events but it is not recognised because either it is not probable that the outflow of resources will be required or, the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Revenue expenditure funded from capital under statute

Capital expenditure incurred during the year that does not create an asset of the county council is charged to the relevant service in the comprehensive income and expenditure statement but funded from capital sources.

An adjustment is made in the movement in reserves statement from the general fund to the capital adjustment account to reverse out the amounts charged so that there is no impact on the level of council tax.

Value added tax (VAT)

The comprehensive income and expenditure account excludes amounts relating to VAT and will be included as an expense, only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Accounting policies for assets and liabilities

Cash and cash equivalents

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

Cash and cash equivalents are shown net of bank overdrafts and form an integral part of the council's cash management strategy.

Financial instruments

Financial instruments are recognised on the balance sheet when the county council becomes a party to the contractual provisions of a financial instrument.

Except for financial assets carried at fair value, all other financial liabilities and financial assets represented by investments, borrowing, cash, debtors and creditors are carried on the balance sheet at amortised cost.

Financial assets

Financial assets are classified based on the business model for holding the financial assets and their expected cash flow characteristics.

Financial assets are classified into one of three categories:

Financial assets measured at amortised cost

Where the county council's business model is to hold investments to collect contractual cash flows, the financial assets are classified as amortised cost.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are initially measured at purchase price and are subsequently measured at their amortised cost.

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

There is no recognition of gains or losses on fair value until reclassification or de-recognition of the asset. Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

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

The county council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the county council is not subject to a high degree of credit risk. These assets are measured and carried at fair value. Interest is recognised in the comprehensive income and expenditure statement on the same basis as for amortised cost financial assets, as described above.

All gains or losses due to changes in the fair value of the assets (both realised and unrealised) are charged to the other comprehensive income and expenditure line in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

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

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

These assets are measured and carried at fair value.

All gains and losses due to changes in fair value are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement as they arise.

Expected credit loss model

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

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at fair value and carried at amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable, are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The amount presented in the balance sheet is the outstanding principal repayable plus accrued interest. Interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase or settlement. Where premiums and discounts are charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years.

The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Property, plant and equipment

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and, the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Property, plant and equipment is recognised where the initial cost or value exceeds £10,000.

Measurement

Assets are initially recognised at cost, comprising:

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement.

Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the balance sheet using the following measurement bases:

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value – highest and best
Operational property, plant and equipment	Current value - existing use value

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

For non-property assets, principally furniture and equipment, that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets 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 three years.

Valuations are undertaken internally by Lancashire County Council's estates service with valuations for specialist operational properties undertaken by external professional valuers.

Valuations are provided as at 1 April and are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.

Revaluation gains and losses

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

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Depreciation

Depreciation is an accounting estimate used to charge the cost of an asset to services over its useful economic life.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Buildings	5-50 years depending upon the nature of the asset
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years depending upon the nature of the asset
Roads and highways infrastructure	10-120 years depending upon the nature of the asset

Depreciation is not charged on land, community or heritage assets, as they do not have a determinable finite useful life. Assets under construction are not depreciated until they are available for use. Assets held for sale and investment properties are revalued every year and therefore depreciation is not charged on these assets.

Depreciation is calculated on a straight-line basis meaning that the asset's value reduces equally each year over its life.

Depreciation is charged from the month of acquisition until the month of disposal.

Depreciation is generally charged on buildings as a single asset. However, where an asset has major components whose cost is significant in relation to the overall cost of the asset, and the lifetime of the component is significantly shorter than that of the asset, the major component is depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Impairment

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

Where impairment losses are identified, they are accounted for the same way as revaluation losses.

Minimum revenue provision

The county council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement, which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are replaced by the MRP in the earmarked reserves balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement, for the difference between the two.

Non-current assets held for sale

Where it is highly probable that property assets will be disposed of within the next 12 months the asset is reclassified as assets held for sale. Depreciation is not charged on assets held for sale.

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

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

Disposal of assets

When an asset is disposed of, the carrying amount of the asset in the balance sheet is written off to the other operating expenditure line in the comprehensive income and expenditure statement, as part of the gain or loss on disposal. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The net loss or gain on disposal is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account (for any sale proceeds greater than £10,000) the capital receipts reserve.

Capital receipts can only be used to fund new capital investment or, be set aside to reduce the council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

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The collection has an indeterminate life and is subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

The valuation of the county council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which is not considered economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the county council's holding.

The county council has a detailed acquisitions and disposal policy, further information on which can be obtained from the county council. Disposals will not be made with the principal aim of generating funds.

Investment property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. They are not used for service delivery.

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the balance sheet date. Gains and losses on revaluation and disposal are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Rental income is credited to the financing and investment income line in the comprehensive income and expenditure statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account.

Fair value measurement

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

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

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

Leases

Leases are classed as finance leases, where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Where the county council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal and replaced by a long term debtor in the balance sheet at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

Reserves

The county council sets aside specific amounts as reserves for future policy purposes or, to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement.

When expenditure is incurred which is to be financed from an earmarked reserve, the expenditure is charged to the appropriate service revenue account in that year. An equal amount is transferred from the reserve to the general fund in the movement in reserves statement

Certain reserves are held for technical accounting purposes in respect of non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the county council. These reserves are explained in the relevant notes.

Schools

The balance of control for local authority maintained schools, foundation, voluntary aided and voluntary controlled schools are all deemed to lie with the council, therefore schools' assets, liabilities, reserves and cash flows are recognised in the council's financial statements as if they were transactions of the council.

Schools' non-current assets (school buildings and playing fields) are recognised on the balance sheet where the council directly owns the assets, where the council holds the balance of control of the assets or, where the school or the school governing body own the assets or have had rights to use the assets transferred to them.

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the council's property, plant and equipment as the council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

School assets are derecognised in full on the date that a school transfers to academy status.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency. DSG is allocated to budgets delegated to individual schools and centrally retained council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Group accounts and explanatory notes

Langden Valley Crop
Photo: Charlie Hedley

Introduction

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. These are classified into the categories of subsidiaries, joint ventures and associates.

The CIPFA Code of Practice requires that where an authority has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the council's financial activities and the resources employed in carrying out those activities.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the council's interest and control over the entity. Where an entity is considered immaterial, it is not included in the group accounts. Details of the council's relationships with other entities are detailed in the notes supporting the group accounts.

Group comprehensive income and expenditure statement

2020/21				2021/22		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
583.0	(216.9)	366.1	Adults	657.7	(255.2)	402.5
8.8	(0.3)	8.5	Policy, information, commissioning and safeguarding	10.3	(1.3)	9.0
70.2	(108.7)	(38.5)	Public health and wellbeing	78.1	(88.2)	(10.1)
239.6	(23.1)	216.5	Education and children's services	251.9	(27.4)	224.5
17.8	(11.4)	6.4	Growth, environment and planning	27.6	(12.8)	14.8
134.2	(32.2)	102.0	Highways and transport	146.0	(34.0)	112.0
2.1	0	2.1	Organisational development	2.1	0	2.1
83.7	(14.4)	69.3	Waste management	87.9	(17.8)	70.1
72.8	(29.9)	42.9	Finance	28.7	(10.5)	18.2
27.4	(6.1)	21.3	Corporate	30.8	(6.3)	24.5
54.9	(32.9)	22.0	Strategy and performance	48.1	(28.0)	20.1
76.2	(12.2)	64.0	Chief executive services	48.6	(24.9)	23.7
979.7	(979.5)	0.2	Schools	1,101.5	(1,029.4)	72.1
0	0	0	Digital services	33.8	(2.4)	31.4
2,350.4	**(1,467.6)**	**882.8**	**Cost of services**	**2,553.1**	**(1,538.2)**	**1,014.9**
33.4	(8.3)	25.1	Other operating income and expenditure	23.8	(8.7)	15.1
64.4	(80.7)	(16.3)	Financing and investment income and expenditure	57.3	(47.5)	9.8
0	(974.6)	(974.6)	Taxation and non-specific grant income	0	(1,009.4)	(1,009.4)
2,448.2	**(2,531.2)**	**(83.0)**	**(Surplus)/deficit on provision of services**	**2,634.2**	**(2,603.8)**	**30.4**
3.9	0	3.9	Taxation on profit on ordinary activities *	0	0	0
2,452.1	**(2,531.2)**	**(79.1)**	**Group (surplus)/deficit**	**2,634.2**	**(2,603.8)**	**30.4**
		(48.9)	(Surplus)/deficit on revaluation of non-current assets			(13.4)
		371.0	Remeasurement of the net defined benefit pension liability/(asset)			(538.4)
		36.5	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			37.5
		358.6	**Other comprehensive (income) and expenditure**			**(514.3)**
		279.5	**Total comprehensive (income) and expenditure**			**(483.9)**

* Taxation figures for 2021/22 are not yet available

2021/22

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2021	**(492.9)**	**(8.4)**	**(142.1)**	**(643.4)**	**(300.2)**	**(943.6)**	**(61.9)**	**(1,005.5)**
Movement in reserves during 2021/22								
Total comprehensive income and expenditure	46.7	0	0	46.7	(514.3)	(467.6)	(23.3)	(490.9)
Adjustment between accounting basis and funding basis under regulations	(117.0)	(1.9)	1.8	(117.1)	117.1	0	0	0
(Increase)/decrease in year	**(70.3)**	**(1.9)**	**1.8**	**(70.4)**	**(397.2)**	**(467.6)**	**(23.3)**	**(490.9)**
Balance at 31 March 2022	**(563.2)**	**(10.3)**	**(140.3)**	**(713.8)**	**(697.4)**	**(1,411.2)**	**(85.2)**	**(1,496.4)**

2020/21

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**	**(46.8)**	**(1,285.0)**
Movement in reserves during 2020/21								
Total comprehensive income and expenditure	(64.0)	0	0	(64.0)	358.6	294.6	(15.1)	279.5
Adjustment between accounting basis and funding basis under regulations	(95.1)	(8.3)	(8.4)	(111.8)	111.8	0	0	0
(Increase)/decrease in year	**(159.1)**	**(8.3)**	**(8.4)**	**(175.8)**	**470.4**	**294.6**	**(15.1)**	**279.5**
Balance at 31 March 2021	**(492.9)**	**(8.4)**	**(142.1)**	**(643.4)**	**(300.2)**	**(943.6)**	**(61.9)**	**(1,005.5)**

31 March 2021		Note	31 March 2022
£m			£m
3,122.4	Property, plant and equipment		3,154.3
28.7	Heritage assets		28.7
70.1	Investment properties	8	86.2
12.5	Intangible assets		17.4
582.0	Long term investments		600.3
41.2	Long term debtors		39.5
3,856.9	Long term assets		**3,926.4**
267.7	Short term investments		133.5
3.2	Inventories		4.1
155.0	Short term debtors		228.8
35.1	Payments in advance		19.9
184.5	Cash and cash equivalents		144.7
2.4	Assets held for sale		0
647.9	Current assets		**531.0**
(487.6)	Short term borrowing		(315.6)
(215.2)	Short term creditors		(292.2)
(33.0)	Receipts in advance		(67.2)
(13.4)	Short term provisions		(15.7)
(169.0)	Other current liabilities		(71.5)
(918.2)	Current liabilities		**(762.2)**
(26.8)	Long term provisions		(35.6)
(6.4)	Deferred tax liability	9	(6.4)
(897.3)	Long term borrowing		(881.0)
(1.3)	Other long term creditors		(1.3)
(1,649.3)	Other long term liabilities		(1,274.5)
(2,581.1)	Long term liabilities		**(2,198.8)**
1,005.5	Net assets		**1,496.4**
(643.4)	Usable reserves	10	(713.8)
(300.2)	Unusable reserves	10	(697.4)
(27.6)	Subsidiary usable reserves	10	(38.2)
(34.3)	Subsidiary unusable reserves	10	(47.0)
(1,005.5)	Total reserves		**(1,496.4)**

2020/21		Note	2021/22
£m			**£m**
79.1	Net surplus/(deficit) on the provision of services		(30.4)
65.1	Adjustments to net surplus/deficit on the provision of services for non-cash movements	11	336.1
(140.6)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	11	(130.4)
3.6	**Net cash flows from operating activities**		**175.3**
(301.4)	Investing activities	12	(15.7)
(151.7)	Financing activities	13	(199.4)
(449.5)	**Net increase/(decrease) in cash or cash equivalents**		**(39.8)**
634.0	Cash and cash equivalents at the beginning of the reporting period		184.5
184.5	**Cash and cash equivalents at the end of the reporting period**		**144.7**

Note 1 - General notes to the financial statements

Where figures in the group accounts differ materially from the council's accounts, the relevant explanatory notes have been prepared on a consolidated basis.

Note 2 - Group accounting policies

The accounting policies of the council's subsidiary company have been aligned with the council's accounting policies.

The subsidiaries of Lancashire County Developments (Property) Limited and Lancashire County Developments (Investments) Limited are consolidated into the group accounts of Lancashire County Developments Limited.

Lancashire County Developments Limited has been consolidated using the acquisition accounting basis. This is a full, line-by-line consolidation of the financial transactions and balances of the council and Lancashire County Developments Limited. 100% of all balances and transactions are consolidated, with the minority interest recognised as an unusable reserve in the group balance sheet. To avoid overstating the figures within the group financial statements, all inter-group transactions and balances between the council and Lancashire County Developments Limited have been eliminated.

Lancashire County Developments Limited has the same reporting date as the council. Year-end accounts to 31 March 2022 have been used for consolidation.

Note 3 - Entities not consolidated

Details of the council's relationships with other entities are outlined below:

An entity could be material but still not consolidated (if all of its business is with the council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

Company	Interest	Relationship
Lancashire Renewables Limited	87.5%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Lancashire Enterprise Partnership Limited	33%	Joint venture (Dormant company)
Active Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire UDF Limited	100%	Subsidiary (Dormant company)
Lancashire UDF - SPV2 Limited	100%	Subsidiary

Note 4 - Entities consolidated

Lancashire County Developments Limited has been consolidated into the council's group accounts.

Lancashire County Developments Limited

Company registration number: 01624144

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989.

Lancashire County Developments Limited (LCDL) is an economic development agency for the County. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The council controls 80% of the members' voting rights, with the other two members of the company (Blackburn with Darwen Borough Council and Blackpool Council) having 10% of voting rights each. It is classed as a subsidiary of the county council.

County Councillors have been appointed as directors on the board. The council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited - owns and manages two commercial estates in Lancashire;
- Lancashire County Developments (Investments) Limited - has an investment portfolio of business loans to companies operating in Lancashire within key sectors to enable start up and economic growth.

Note 5 - Group fees payable to auditors

2020/21		2021/22
£000		£000
	Fees in respect of Lancashire County Council	
87.0	Fees incurred with regard to external audit services provided by Grant Thornton	93.0
7.8	Fees incurred for certification work undertaken by Grant Thornton	7.0
5.0	Fees payable in respect of other services provided by Grant Thornton	10.0
33.9	Fees payable in respect of additional prior year statutory audit work	68.4
0	Reimbursement from Public Sector Audit Appointment	(17.2)
133.7	**Total fees for Lancashire County Council**	**161.2**
	Fees in respect of Lancashire County Developments Limited	
24.8	Fees incurred with regard to external audit services provided by Beever and Struthers	25.2
4.0	Fees payable in respect of other services provided by Beever and Struthers during the year	13.9
28.8	**Total fees for Lancashire County Developments Limited**	**39.1**
162.5	**Total**	**200.3**

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Note 6 - Group taxation

Taxation expenses are only applicable to subsidiary companies of Lancashire County Council.

2020/21		2021/22
£m		£m
0.3	Deferred tax: origination and reversal of timing differences	*
3.6	Capital gains	*
3.9	**Total deferred tax**	*
3.9	**Taxation on profit on ordinary activities**	*

* Taxation figures for 2021/22 are not yet available

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021	Transfers out 2021/22	Transfers in 2021/22	Balance at 31 March 2022
	£m	£m	£m	£m	£m	£m	£m
Total earmarked reserves of the council	**(333.8)**	**108.1**	**(267.2)**	**(492.9)**	**104.5**	**(174.8)**	**(563.2)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	(7.0)	(15.7)
Profit and loss account	(18.9)	0	0	(18.9)	0	(3.6)	(22.5)
Total revenue and capital reserves of the subsidiary	**(27.6)**	**0**	**0**	**(27.6)**	**0**	**(10.6)**	**(38.2)**
Total reserves	**(361.4)**	**108.1**	**(267.2)**	**(520.5)**	**104.5**	**(185.4)**	**(601.4)**

Note 8 – Group investment properties

2020/21		2021/22
£m		**£m**
(4.2)	Rental Income from investment property	(4.5)
1.0	Direct operating expenses arising from investment property	1.9
(3.2)	**Total**	**(2.6)**

2020/21		2021/22
£m		**£m**
44.7	**Balance as at 1 April**	**70.1**
6.4	Additions	3.5
0	Disposals	(0.1)
19.0	Net gains/(losses) from fair value adjustments	12.7
70.1	**Balance as at 31 March**	**86.2**

The items of income and expense shown in the table have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

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

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

Valuation process for investment properties

The fair value of the investment property is revalued annually as at 31 March.

The 2021/22 commercial unit valuations have been undertaken by Cushman and Wakefield, in accordance with the appropriate sections of the current edition of the RICS Valuation — Global Standards, which incorporate the International Valuation Standards and the RICS UK national supplement (RICS Red Book).

Basis of valuation

The fair value of the properties has been primarily derived using comparable recent market transactions on arm's length terms.

Where the market approach is used, properties are valued by reference to market-based evidence using observed prices for recent market transactions for comparable properties. Where appropriate, adjustments are made to market price information to reflect differences in the legal, economic or physical characteristics of the property being valued. These include significant unobservable adjustments to reflect differences in the nature, condition and location of the property, tenure and encumbrances. Where an income approach, or market approach with significant unobservable adjustment has been used, valuations are predominately based on unobservable inputs and accordingly are categorised as level 3 within the fair value hierarchy. Where a market approach does not include significant unobservable adjustments, these assets are categorised as level 2.

Fair value hierarchy

Details of the council's investment properties and information about the fair value hierarchy are as follows.

31 March 2021			Property type	31 March 2022		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
70.1	70.1	3	Commercial units	3	86.2	86.2
70.1	**70.1**		**Total**		**86.2**	**86.2**

Fair value measurement of investment properties using significant unobservable inputs – level 3

Details of the valuation techniques and significant unobservable inputs used in determining the fair value measurement of investment property classified within level 3 are set out in the following table together with a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs.

Site	Fair value at 31 March 2022 £m	Valuation technique	Unobservable inputs	%
Lancashire business park	71.9	Market rent	Net initial yield	4.15
			Reversionary yield	6.76
			Nominal equivalent yield	5.77
			True equivalent yield	5.97
White Cross business park	15.2	Market rent	Net initial yield	5.91
			Reversionary yield	9.70
			Nominal equivalent yield	8.51
			True equivalent yield	8.93

Significant changes in rental income and rent growth; vacancy levels or discount rate would result in a significantly lower or higher fair value. All other factors being equal, a higher equivalent yield or discount rate would lead to a decrease in the valuation of an asset while an increase in the current or estimated future rental stream would have the effect of increasing the capital value and vice versa.

Note 9 - Deferred taxation

2020/21		2021/22
£m		£m
(2.5)	**Balance as at 1 April**	*
(3.9)	Charge for the year	*
(6.4)	**Balance as at 31 March**	*

* Taxation figures for 2021/22 are not yet available

Taxation expenses are only applicable to subsidiary company of Lancashire County Council. The deferred taxation balance consists of accelerated capital allowances.

Note 10 - Group reserves

The total usable reserves are shown in the table below:

31 March 2021		31 March 2022
£m		£m
(23.4)	General fund	(23.4)
(352.7)	Earmarked reserves	(407.6)
(116.8)	School reserves	(132.2)
(492.9)	**Total earmarked reserves of the council**	**(563.2)**
(142.1)	Capital grants unapplied reserve	(140.3)
(8.4)	Usable capital receipts	(10.3)
(643.4)	**Total usable reserves of the council**	**(713.8)**
(27.6)	Usable reserves of the subsidiary	(38.2)
(671.0)	**Total usable reserves of the group**	**(752.0)**

The table below shows the group's unusable reserves:

31 March 2021 £m		31 March 2022 £m
44.7	Financial instruments adjustment account	41.3
64.2	Financial instruments revaluation reserve	101.7
(1,024.9)	Revaluation reserve	(1,003.2)
(1,031.6)	Capital adjustment account	(1,054.9)
1,598.1	Pensions reserve	1,190.0
20.2	Collection fund adjustment account	(0.7)
29.1	Accumulated absences adjustment account	28.4
(300.2)	**Total unusable reserves of the council**	**(697.4)**
(34.3)	Revaluation reserve for subsidiary	(47.0)
(334.5)	**Total unusable reserves of the group**	**(744.4)**

The revaluation reserve for the subsidiary is detailed below.

31 March 2021 £m		31 March 2022 £m
(19.2)	**Balance as at 1 April**	**(34.3)**
(19.0)	Upward revaluation of assets	(12.7)
3.9	Deferred taxation	*
(15.1)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(12.7)**
(34.3)	**Balance as at 31 March**	**(47.0)**

* Taxation figures for 2021/22 are not yet available

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

2020/21		2021/22
£m		**£m**
(61.2)	Interest received	(35.0)
44.1	Interest paid	37.7

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

2020/21		2021/22
£m		**£m**
70.8	Depreciation	74.4
1.4	Impairment and downward/(upward) valuations	13.5
3.5	Amortisation of intangible assets	3.3
(2.3)	Increase/(decrease) in provision for bad debts	(2.5)
13.6	Increase/(decrease) in creditors	76.4
(19.4)	(Increase)/decrease in debtors	(4.9)
0.2	(Increase)/decrease in inventories	(1.2)
(7.6)	Movement in pension liability	170.5
31.8	Carrying amount of non-current assets sold	22.7
(26.9)	Other non-cash items charged to the surplus or deficit on the provision of services	(16.1)
65.1	**Total**	**336.1**

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

2020/21		2021/22
£m		**£m**
(37.8)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(28.5)
(8.3)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.0)
(94.5)	Capital grants credited to the surplus on the provision of services	(95.9)
(140.6)	**Total**	**(130.4)**

Note 12 - Group cash flows from investing activities

2020/21		2021/22
£m		**£m**
(106.7)	Purchase of property, plant and equipment, investment property and intangible assets	(134.9)
(6,955.5)	Purchase of short term and long term investments	(5,890.0)
10.2	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7.4
6,654.2	Proceeds from the sale of short term and long term investments	5,900.0
96.4	Other capital grants and receipts from investing activities	101.8
(301.4)	**Net cash flows from investing activities**	**(15.7)**

Note 13 - Group cash flows from financing activities

2020/21		2021/22
£m		£m
1,078.5	Cash receipts from short term and long term borrowing	1,029.0
26.9	Appropriate to/from collection fund adjustment account	(20.8)
(1,250.0)	Repayment of short term and long term borrowing	(1,201.1)
(7.1)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(6.5)
(151.7)	**Net cash flows from financing activities**	**(199.4)**

Pension fund accounts and explanatory notes

Astley Hall, Chorley

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Lancashire County Pension Fund

Fund account for year ended 31 March 2022

2020/21		Note	2021/22
£m	**Dealing with members, employers and others directly involved in the Fund**		**£m**
416.3	Contributions *	6	161.5
10.8	Transfers in from other pension funds	7	15.9
427.1	**Additions from dealings with members**		**177.4**
(291.8)	Benefits	8	(306.6)
(17.3)	Payments to and on account of leavers	9	(14.4)
(309.1)	**Withdrawals from dealing with members**		**(321.0)**
118.0	**Net (withdrawals)/additions from dealings with members**		**(143.6)**
(116.4)	Management expenses	10	(168.1)
1.6	**Net (withdrawals)/additions including fund management expenses**		**(311.7)**
	Returns on investments		
143.8	Investment income	11	200.1
1,022.2	Profit and losses on disposal of investments and changes in the value of investments	13	1,217.8
1,166.0	**Net return on investments**		**1,417.9**
1,167.6	**Net increase in the net assets available for benefits during the year**		**1,106.2**
8,437.7	**Opening net assets of the scheme**		**9,605.3**
9,605.3	**Closing net assets of the scheme**		**10,711.5**

* Contributions for the year ended 31 March 2021 include employer contributions of £261.1m paid in respect of the 3-year period ending 31 March 2023 including £178.4m that was received in advance, of which £87.3m relates to the year ending 31 March 2022.

Net assets statement as at 31 March 2022

31 March 2021		Note	31 March 2022
£m			£m
9,490.9	Investment assets	13	10,644.0
108.4	Cash deposits	13	55.4
9,599.3	**Total net investments**		**10,699.4**
12.6	Current assets	19	19.9
(6.6)	Current liabilities	20	(7.8)
9,605.3	**Net assets of the fund available to fund benefits at the end of the reporting period**		**10,711.5**

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2022 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 1 - Pension Fund operations and membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 as amended.
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees, whether active, deferred or retired members, of Lancashire County Council, the unitary and district councils in Lancashire and a range of other scheduled and admitted bodies within the geographic county of Lancashire. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee comprises twelve County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at [lancashirecountypensionfund.org.uk.](lancashirecountypensionfund.org.uk)

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The investments of the Fund are managed by the Local Pensions Partnership Investments Ltd (LPPI) and the administration functions by Local Pensions Partnership Administration Ltd, which are wholly owned subsidiaries of Local Pensions Partnership (LPP)a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA).

The Lancashire Local Pension Board assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at lancashirecountypensionfund.org.uk.

Membership

Membership of the LGPS is automatic although employees are free to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Employees are re-enrolled every 3 years under the government's auto-enrolment regulations.
Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership of the Fund, as at 31 March 2022 is detailed in the following table:

31 March 2021	Lancashire County Pension Fund	31 March 2022
313	Number of employers with active members[1]	305
139	Number of ceased employers (no active members but some outstanding liabilities)	157
	Number of active scheme members[2]	
25,594	County Council	26,545
28,683	Other employers	29,142
54,277	**Total**	**55,687**
	Number of pensioners	
26,093	County Council	27,024
26,313	Other employers	27,412
52,406	**Total**	**54,436**
	Number of deferred pensioners[2]	
35,697	County Council	36,583
35,419	Other employers	36,992
71,116	**Total**	**73,575**
177,799	**Total membership**	**183,698**

[1] includes employers for whom admission to the Fund is in progress
[2] March 2021 membership numbers have been adjusted to transfer 3,157 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 3,914 pending leavers has been made at 31 March 2022.

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2021/22 are based on the valuation at 31 March 2019. The latest valuation was at 31 March 2019 for the three years commencing 1 April 2020.

Employer contribution rates for 2021/22 range from 0.0% to 30.3% of pensionable pay, with a primary rate of 17.4%, and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

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Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

	Service Pre 1 April 2008	**Service post 1 April 2008 and pre 1 April 2014**	**Service post 1 April 2014**
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme).
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2021/22* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2022 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2021/22.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate certified by the fund actuary, in the payroll period to which they relate. Some employers exercise an option to pay future service rate contributions earlier than the due date, up to a period of 3 years in advance. These early contributions are recognised in the Fund account on receipt.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the scheme.

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with the appropriate legislation.

Individual transfers in or out are accounted for when received or paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Investment income

Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from pooled funds

Income (distributions) from pooled funds are recognised at the date of issue. It is the policy of the Fund to reinvest distributions on the LPPI Global Equities

Net income from properties

Rental income from leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Property expenditure is recognised on an accruals basis and is deducted from rental income to report net income from properties.

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled property funds are recognised on receipt within pooled property income.

Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income in the Fund account and comprise all realised and unrealised profits or losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

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Management expenses

The Fund discloses its pension fund management expenses on an accruals basis and in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)". Management expenses are broken down into the following categories:*

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the Fund must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

All administrative expenses are accounted for on an accruals basis.

Oversight and governance costs

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the pension fund committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All administering authority staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. All oversight and governance expenses are accounted for on an accruals basis.

Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers, custody fees and any fees payable to fund managers which are deducted from fund assets together with a recharge of costs incurred by Lancashire County Council in provision of treasury management services to the Fund. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses. All investment management expenses are accounted for on an accruals basis.

External investment manager and custodian fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

A number of the fee mandates in place include an element that is performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the latest available market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2021/22, 16.8m of fees is based on such estimates (2020/21: £12.1m).

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). More details can be found at note 16.

Freehold and leasehold properties

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. The risks and rewards of ownership of these properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value.

The properties were valued at open market value at 31 March 2022 by independent property valuers Avison Young in
accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards effective from 31 January 2022

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise of trade and other receivables and cash deposits and are recognised in the net asset statement at amortised cost.

Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

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

Financial liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised in the fund account as part of the change in value of investments.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 24).

Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The AVC providers to the Pension Fund during the year were Prudential and Utmost Life and Pensions. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

The net pension fund liability is calculated every three years by the appointed actuary, Mercer, and reviewed by the Fund and actuary during the intervening period. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is

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subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity, long term credit and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, long term credit and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities, long term credit and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines.

Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statement's totals £2,318.3m (2020/21: £1,884.7m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements totals £1,416.7m (2020/21: £1,261.6m excluding investment in loans secured on real assets). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Indirect core property investments	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £944.6m (2020/21: £831.7m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to relating to future experience. The main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed rate of return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied. Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, the impact of COVID19 / Ukraine and the court of appeal ruling on the Sergeant and McCloud cases. Further information can be found in note 24 to these accounts.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £608m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £132m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £355m. Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to future experience – the main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed real return on pension fund assets), the rate at which salaries are

		projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied.
Direct property valuations	The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Global Standards effective from 31 January 2022.	Investment properties held directly by the Fund are valued at £172.1m (2020/21: £159.7m). At 31 March 2022 this comprises property situated within the county boundary of Lancashire (£130.0m) and properties located in Wales (£35.6m) and Scotland (£6.5m).

Note 6 - Contributions receivable

2020/21		2021/22
£m	**By category**	**£m**
64.5	Members	67.7
	Employers:	
327.4	Normal contributions[1]	86.9
18.0	Deficit recovery contributions[1]	4.9
6.4	Augmentation contributions [2]	1.9
351.8	Total employers contributions	93.7
416.3	**Total contributions receivable**	**161.4**
	By type of employer	
175.8	County Council [1]	59.9
220.5	Scheduled bodies [1]	80.9
20.0	Admitted bodies	20.6
416.3		**161.4**

[1] Following the actuarial valuation in 2019, the Fund gave some employers the option of paying their 3-year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2021 include £178.4m received in advance.

[2] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment.

Note 7 - Transfers in from other pension funds

2020/21		2021/22
£m		**£m**
10.8	Individual transfers in from other schemes	15.9
10.8		**15.9**

Note 8 - Benefits payable

2020/21		2021/22
£m	**By category**	**£m**
246.9	Pensions	253.1
37.6	Commutation and lump sum retirement benefits	44.6
7.3	Lump sum death benefits	8.9
291.8	**Total benefits payable**	**306.6**
	By type of employer	
120.8	County Council	127.1
147.0	Scheduled bodies	153.8
24.0	Admitted bodies	25.7
291.8		**306.6**

Note 9 - Payments to and on account of leavers

2020/21		2021/22
£m		**£m**
0.8	Refunds to members leaving service	1.0
16.5	Individual transfers	13.4
17.3		**14.4**

Note 10 - Management expenses

2020/21		2021/22
£m		**£m**
4.0	Fund administrative costs	4.1
111.3	Investment management expenses[1]	162.6
1.1	Oversight and governance costs [2]	1.4
116.4		**168.1**

[1]The increase in investment management expenses in 21/22 is mainly due to a significant increase in the market value of the fund's assets.

[2] Oversight and governance costs above include external audit fees which amounted to £39,300 (2020/21: £39,300). Additional fees of £9,500 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime.

Investment management expenses

31 March 2022

	Total	Management fees	Performance related fees[2]	Transaction costs[1]
	£m	£m	£m	£m
Pooled investments	148.1	84.7	61.8	1.6
Pooled property investments	9.8	6.4	0.3	3.1
Property	4.5	0.2	4.3	
Cash deposits	0.1			
	162.5	**91.3**	**66.4**	**4.7**
Custody fees	0.1			
	162.6			

31 March 2021

	Total	Management Fees	Performance Related fees[2]	Transaction Costs[1]
	£m	£m	£m	£m
Pooled investments	108.7	49.6	55.9	3.2
Pooled property investments	1.9	1.9	-	0.0
Property	0.7	0.2	0.5	-
Cash deposits	-			
	111.2	**51.6**	**56.4**	**3.2**
Custody fees	0.1			
	111.3			

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

Note 11 - Investment income

2020/21		2021/22
£m		£m
0.4	Fixed interest securities	0.9
120.3	Pooled investment vehicles	166.5
15.1	Pooled property investments	25.1
8.1	Net rents from properties	7.7
(0.1)	Interest on cash deposits	(0.1)
143.8	**Total investment income**	**200.1**

Note 12 - Property income

2020/21		2021/22
£m		£m
9.9	Rental income	10.6
(1.8)	Direct operating expenses	(2.9)
8.1	**Net income**	**7.7**

Note 13 - Reconciliation of movements in investments

	Market value as at 1 April 2021	Purchases at cost	Sales proceeds	Change in market value	Market value as at 31 March 2022
	£m	£m	£m	£m	£m
Fixed interest securities	44.5	118.1	(85.1)	(1.1)	76.4
Index linked securities	-	-	-	-	-
Pooled investment vehicles	8,056.7	832.9	(572.9)	1,070.9	9,387.5
Pooled property investments	1,161.8	-	(353.7)	136.5	944.6
Private equity	12.5	-			12.5
Direct property	159.7	0.9	-	11.5	172.1
	9,435.2	**951.9**	**(1,011.7)**	**1,217.8**	**10,593.1**
Cash deposits	108.4				55.4
Loan Investments	55.0				50.0
Investment accruals	0.8				0.9
Net investment assets	**9,599.3**				**10,699.4**

	Market value as at 1 April 2020	Purchases at cost	Sales proceeds	Change in market value	Market value as at 31 March 2021
	£m	£m	£m	£m	£m
Fixed interest securities	142.5	210.2	(313.3)	5.1	44.5
Index linked securities	-	2,079.3	(2,079.3)	(0.0)	0.0
Pooled investment vehicles	6,913.5	508.3	(413.1)	1,048.0	8,056.7
Pooled property investments	1,130.1	59.6	(1.9)	(26.1)	1,161.8
Private equity	12.5	-	-	-	12.5
Direct property	110.2	54.3	-	(4.8)	159.7
	8,308.8	**2,911.8**	**(2,807.6)**	**1,022.2**	**9,435.1**
Cash deposits	108.8				108.4
Loan investments	3.0				55.0
Investment accruals	8.8				0.8
Net investment assets	**8,429.4**				**9,599.3**

Investments analysed by fund manager

31 March 2021 £m	31 March 2021 % of net investment assets		31 March 2022 £m	31 March 2022 % of net investment assets
Private equity investments				
773.8	8.1%	LPPI Private Equity Fund	907.7	8.5%
Private equity investments managed outside of LPPI Private Equity Fund				
12.4	0.1%	Trilantic Capital Partners	12.1	0.1%
12.5	0.1%	Local Pensions Partnership Limited	12.5	0.1%
798.7	**8.3%**	**Total private equity investments**	**932.3**	**8.7%**
Long term credit investments				
1,167.9	12.2%	LPPI Credit Investments	1,342.2	12.5%
Credit investments managed outside of LPPI Credit Investments Fund				
48.3	0.5%	CRC	31.1	0.3%
22.5	0.2%	Neuberger Berman	26.6	0.3%
14.5	0.2%	Pimco Bravo	11.1	0.1%
5.6	0.1%	EQT	4.1	-
2.8	-	Hayfin	1.5	-
1,261.6	**13.1%**	**Total long term credit investments**	**1,416.7**	**13.2%**
Fixed income investments				
309.6	3.2%	LPPI Fixed Income Fund	398.6	3.7%
Liquid credit investments managed outside of LPPI Fixed Income Fund				
208.0	2.2%	LPPI internal and LCC Treasury Management	182.6	1.7%
517.6	**5.4%**	**Total fixed income investments**	**581.2**	**5.4%**
Global equity investments				

4,506.5	46.9%	LPPI Global Equities Fund	5,164.5	48.3%
4,506.5	**46.9%**	**Total global equity investments**	**5,164.5**	**48.3%**
Infrastructure investments				
940.5	9.8%	LPPI Global Infrastructure Fund	1,255.4	11.8%
Infrastructure investments managed outside of LPPI Global Infrastructure Fund				
68.7	0.7%	Arclight Energy	66.9	0.6%
59.8	0.6%	Icon Infrastructure Partners	40.4	0.4%
17.0	0.2%	Highstar Capital	14.1	0.1%
7.9	0.1%	Pike Petroleum Holdings LLC	5.5	0.1%
3.2	-	Eastern Generation Holdings LLC	3.7	-
1.5	-	Capital Dynamics Red Rose	-	-
158.1	**1.6%**		**130.6**	**1.2%**
1,098.6	**11.4%**	**Total infrastructure investments**	**1,386.0**	**13.0%**
Diversifying strategy investments				
94.8	1.0%	LPPI Diversifying Strategies Fund	101.9	1.0%
94.8	**1.0%**	**Total diversifying strategies investments**	**101.9**	**1.0%**
Property investments				
Directly held properties				
159.7	1.7%	Knight Frank	172.1	1.6%
Pooled property funds				
Core property				
831.3	8.7%	LPPI Real Estate Fund	944.6	8.8%
Non-core property				
330.5	3.4%	HH No.1 Limited	-	-
1,321.5	**13.8%**	**Total property investments**	**1,116.7**	**10.4%**
9,599.3	**100.0%**	**Net investment assets**	**10,699.4**	**100.0%**

The investments are primarily held in pooled funds as identified above. These represent more than 5% of the net assets of the Fund but the funds are made up of a range of investments, none of these individual investments represent more than 5% of the fund.

31 March 2020			31 March 2021	
£m	% of total fund		£m	% of total fund
3,454.7	41.0%	LPPI Global Equities Fund	4,506.5	46.9%
958.1	11.4%	LPPI Credit Investments	1,167.1	12.2%
947.4	11.3%	LPPI Global Infrastructure Fund	940.5	9.8%
799.7	9.5%	LPPI Real Estate Fund	831.3	8.7%
750.0	8.9%	LPPI Private Equity Fund	774.2	8.1%

Fixed interest securities

31 March 2021		31 March 2022
£m		£m
18.3	UK corporate bonds quoted	42.8
-	Overseas public sector	-
26.1	Overseas corporate bonds/supernational bonds quoted	33.6
44.4		**76.4**

Pooled investment vehicles

31 March 2021		31 March 2022
£m	**UK funds:**	**£m**
309.6	Fixed income funds	398.6
164.5	Private equity	185.6
942.0	Infrastructure	1,255.4
1,170.7	Long term credit investments	1,343.8
1,161.8	Property funds	944.6
94.8	Diversifying strategies	101.9
	Overseas funds:	
85.3	Fixed income funds	68.8
621.9	Private equity	734.2
156.6	Infrastructure	130.6
5.6	Long term credit investments	4.1
4,506.5	Equity funds[1]	5,164.5
9,219.3		**10,332.1**

[1]The LPPI Global Equities Fund includes UK equities.

Direct property investments

31 March 2021		31 March 2022
£m		**£m**
128.4	UK – freehold	134.4
31.3	UK – long leasehold	37.7
159.7		**172.1**

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants.

Details of these directly owned properties are shown in the table.

31 March 2021		31 March 2022
£m		**£m**
110.2	**Opening balance**	**159.7**
	Additions:	
52.8	• Purchases	-
1.3	• New construction	0.5
0.3	• Subsequent expenditure	0.4
-	Disposals	-
(4.8)	Net increase in market value	11.5
159.7	**Closing balance**	**172.1**

Leases

All directly held investment properties are leased to tenants. There are no investment properties held by the Fund used for purposes other than to generate rental income.

Residual asset risk

The independent valuation of the direct property portfolio considers the level of committed tenancies amongst other variables. Lessees do not have an option to purchase the properties at the expiry of their lease period and all rental contracts include market review clauses in the event that the lessee exercises an option to renew. Rental income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). As at 31 March 2022, the Fund has the following future minimum lease payments due from tenants.

2020/21		**2021/22**
£m		**£m**
0.6	Leases expiring within one year	0.3
17.8	Leases expiring between one and five years	12.9
62.9	Leases expiring later than five years	69.2
81.3	**Total future minimum lease payments receivable under existing non-cancellable leases**	**82.4**

The above disclosures have been reduced by a credit loss allowance of 2.6% (2020/21: 2.5%) per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This adjustment is based on experience of rents outstanding 28 days after the due date.

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

Cash deposits

31 March 2021		31 March 2022
£m		**£m**
69.1	Sterling	33.2
39.3	Foreign currency	22.2
108.4		**55.4**

Note 14 - Financial instruments classification

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31 March 2022

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	76.4		
Loan investments		50.0	
Pooled investment vehicles	9,387.5		
Pooled property investments	944.6		
Directly held private equity	12.5		
Cash deposits		55.4	
Investment accruals	0.9		
Debtors		19.9	
Total financial assets	**10,421.9**	**125.3**	
Financial liabilities			
Creditors			7.8
Total financial liabilities			**7.8**

31 March 2021

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	44.5		
Loan investments		55.0	
Pooled investment vehicles	8,056.7		
Pooled property investments	1,161.8		
Directly held private equity	12.5		
Cash deposits		108.4	
Investment accruals	0.8		
Debtors		12.6	
Total financial assets	**9,276.2**	**176.0**	
Financial liabilities			
Creditors			6.6
Total financial liabilities			**6.6**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1206.3m. Note 13 outlines the change in Market Value of Fund Asset's, of which, £841.0m relates to unrealised gains and £365.4m relates to realised gains on the disposal of assets. Direct property is not included within this figure. (2020/21: £1022.2m gain)

Note 16 - Financial instruments – fair value hierarchy

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPPI Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided by the managers of the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Ordinarily, valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

31 March 2022

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	5,639.0	944.6	3,838.3	10,421.9
Loans and receivables	29.8	75.6	-	105.4
Non-financial assets at fair value through profit and loss (property holdings)	-	172.1	-	172.1
Net investment assets	**5,668.8**	**1,192.3**	**3,838.3**	**10,699.4**

31 March 2021

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	4,842.3	849.6	3,584.4	9,276.2
Loans and receivables	98.2	65.1		163.4
Non-financial assets at fair value through profit and loss (property holdings)		159.7		159.7
Net investment assets	**4,940.5**	**1,074.4**	**3,584.4**	**9,599.3**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties; existing lease terms; nature of tenancies,	Not required.
Pooled property investments - core property	Level 2	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Pooled property investments - non-core property	Level 3	Value of equity holding in Real Estate Investment Trust.	Underlying investment valued at existing use valuation for social housing; discount rates; house price index; retail price index; staircasing rates (the rate of progressive tenant ownership % on a part-rent, part-buy ownership agreement).	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Description of asset	Assessed valuation range[1]	Value at 31 March 2022	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Private equity funds	13.5%	932.3	1,057.7	806.9
Infrastructure funds	5.6%	1,386.5	1,464.3	1,308.7
Long term credit	5.6%	1,348.8	1,424.5	1,273.1
Fixed income funds	5.6%	68.8	72.6	64.9
Diversifying strategies	5.6%	101.9	107.7	96.2
Level 3 investments		**3,838.3**		

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity funds	Infrastructure funds	Long term credit funds	Property funds	Diversifying strategies	Total level 3 investments
	£m	£m	£m	£m	£m	£m	£m
Market value 1 April 2021	**85.3**	**798.8**	**1,098.6**	**1,176.4**	**330.5**	**94.8**	**3,584.4**
Purchases during the year and derivative payments	0.1	130.8	257.7	100.4	0.0	0.0	489.0
Sales during the year and derivative receipts	(17.9)	(378.3)	(62.0)	(41.1)	343.8	(3.2)	(846.3)
Unrealised gains / (losses)	(5.1)	211.7	35.7	40.9	0.0	10.3	293.5
Realised gains	6.4	169.2	56.3	72.2	13.3	0.0	317.5
Market value 31 March 2022	**68.8**	**932.3**	**1,386.5**	**1,348.8**	**0.0[1]**	**101.9**	**3,838.3**

[1]Level 3 Property Funds consisted only of an investment in HH No.1 Limited, which was sold in 2021/22

Note 17 - Nature and extent of risks arising from financial instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2021/22 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	5.8%
Total equities	13.5%
Alternatives	5.6%
Total property	4.2%

The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is also shown):

Asset type	31 March 2022	Potential market movements (+/-) [1]	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	6,097	13.5%	6,917	5,277
Alternatives	3,303	5.6%	3,489	3,118
Total property	1,117	4.2%	1,164	1,070
Total bonds (including index linked)	76	5.8%	81	72
Total assets available to pay benefits	**10,593**	**6.4%**	**11,267**	**9,919**

[1]The potential market movement has been separately assessed for each asset class including the total assets of the fund, as such, the sum of the potential change in individual assets may not equal the potential change of the total assets of the fund.

Asset type	31 March 2021	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	5,305.2	13.5%	6,018.8	4,591.7
Alternatives	2,764.6	5.2%	2,907.8	2,621.4
Total property	1,321.5	2.0%	1,347.6	1,295.3
Total bonds (including index linked)	44.5	5.4%	47.0	42.1
Total assets available to pay benefits	**9,435.8**	**6.3%**	**10,028.4**	**8,843.3**

Direct Property – Price Risk

The fund invests in and holds a direct property portfolio to obtain a return on investment via rental income. The properties are valued in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition). The valuer considers the equivalent yield, which represents the return a property will produce, to value the properties.

The below table shows the market value of the portfolio after a potential movement in the equivalent yield being obtained by the properties.

Asset type	Asset value as at 31 March 2021	Potential movement in equivalent yield				
		-0.5%	+0.5%	+1.0%	+1.5%	+2.0%
	£m	£m	£m	£m	£m	£m
Direct property	159.7	167.4	150.2	143.2	137.2	131.8

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2021	Asset type	31 March 2022
£m		£m
108.4	Cash and cash equivalents	55.4
108.4	**Total**	**55.4**

Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

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		Impact of	
	31 March 2022	1% increase	1% decrease
Asset type	£m	£m	£m
Cash and cash equivalents	55.4	0.6	(0.6)
Total change in assets available		**0.6**	**(0.6)**

		Impact of	
	31 March 2021	1% increase	1% decrease
Asset type	£m	£m	£m
Cash and cash equivalents	108.4	1.1	(1.1)
Total change in assets available		**1.1**	**(1.1)**

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than Sterling.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The following table summarises the Fund's currency exposure as at 31 March 2022 and as at the previous year end.

31 March 2021	Currency exposure – asset type	31 March 2022
£m		£m
5,128.3	Overseas equities	5,898.7
247.6	Overseas alternatives	203.5
26.2	Overseas bonds (including index linked)	33.6
5,402.1	**Total overseas assets**	**6,135.8**

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 5.5%. A 5.5% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2020/21: 6.1%).

A 5.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2022	Potential market movement +/- 5.5%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	5,898.7	323.1	6,221.8	5,575.6
Overseas alternatives	203.5	11.1	214.6	192.4
Overseas bonds (including index linked)	33.6	1.8	35.4	31.6
Total assets available to pay benefits	**6,135.8**	**336.0**	**6,471.8**	**5,799.6**

Currency exposure - asset type	Asset value at 31 March 2021	Potential market movement +/- 6.1%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	5,128.3	311.7	5,440.1	4,816.7
Overseas alternatives	247.6	15.0	262.5	232.5
Overseas bonds (including index linked)	26.2	1.6	27.8	24.6
Total assets available to pay benefits	**5,402.1**	**328.3**	**5,730.4**	**5,073.8**

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remain outstanding, and the cost of replacing the derivatives position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivatives contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31 March 2022 was £55.4m (31 March 2020: £108.4m) and was held with the following institutions:

31 March 2021	Summary	Rating	31 March 2022
£m			**£m**
	Bank deposit accounts		
72.0	Northern Trust	A2	33.3
-	Svenska Handelsbanken	AA2	21.0
36.0	Natwest	A1	0.9
	Cash float with property manager		
0.4	Barclays Bank Plc	A1	0.2
108.4	**Total**		**55.4**

Liquidity risk

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

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

The Fund has financial liabilities of £7.8m at 31 March 2022, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Utmost Life and Pensions and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2020 to 31 March 2021 for Prudential and are the latest available to the fund due to delays in the production of the annual benefits statement by the AVC provider and 1 September 2019 to 31 August 2020 for Utmost Life and Pensions and are not included in the Pension Fund accounts, in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Utmost Life and Pensions	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.6**	**31.1**	**31.7**
Income (incl. contributions, bonuses, interest and transfers in)	-	7.8	7.8
Expenditure (incl. benefits, transfers out and change in market value)	-	(4.3)	(4.3)
Value at the end of the year	**0.6**	**34.6**	**35.2**

Note 19 - Current assets

31 March 2021		31 March 2022
£m		**£m**
7.0	Contributions due – employers	10.5
5.4	Contributions due – members	6.4
0.2	Sundry debtors	3.0
12.6		**19.9**

Note 20 – Current liabilities

31 March 2021		31 March 2022
£m		**£m**
0.5	Unpaid benefits	1.5
6.1	Accrued expenses	6.3
6.6		**7.8**

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Note 21 - Contractual commitments

As at 31 March 2022 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £526.1m (2021: £657.1m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £65.2m (2021: £79.9m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

There are no outstanding commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio (2021: £0m).

There are no outstanding commitments in relation to the Pooled real estate fund (2021: £0m)

Note 22 - Related party transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £1.0m (2020/21: £0.8m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £32.5m to the Fund in 2021/22. A prepayment of contributions for the 3-year period starting 1st April 2020 totalling £120.5m, of which, £40.2m relates to 2021/22. Total employer contributions from the Council in 2020/21 amounted to £149.8m. All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses and liability modelling. Payments made for the year to 31 March 2022 amount to £4.9m (2020/21: £5.2m).

The Fund has a private equity investment of £12.5m in the Local Pensions Partnership as at 31 March 2022.

Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2022 payroll, are included within current assets in note 19.

Pension Fund Committee, Pensions Board and Senior Officers

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2021/22 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2022.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Finance and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2021/22

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/21 – 31/03/22	74,932	12,738	87,670
Director of Finance	01/04/21 – 31/03/22	2,269	359	2,627
Chief Executive and Director of Resources	01/04/21 – 31/03/22	4,560	-	4,560

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

2020/21

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund[2]	01/04/20 – 20/10/20 & 01/03/21 – 31/03/21	38,956	6,622	45,578
Director of Finance	01/04/20 – 31/03/21	2,232	352	2,585
Chief Executive and Director of Resources	01/04/20 – 31/03/21	4,443	-	4,443

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work

[2] The position of HoF was covered on an interim basis by an agency member of staff from 20/10/21 – 01/03/21, the total cost of this appointment was £58,500 and is in addition to the costs outlined above.

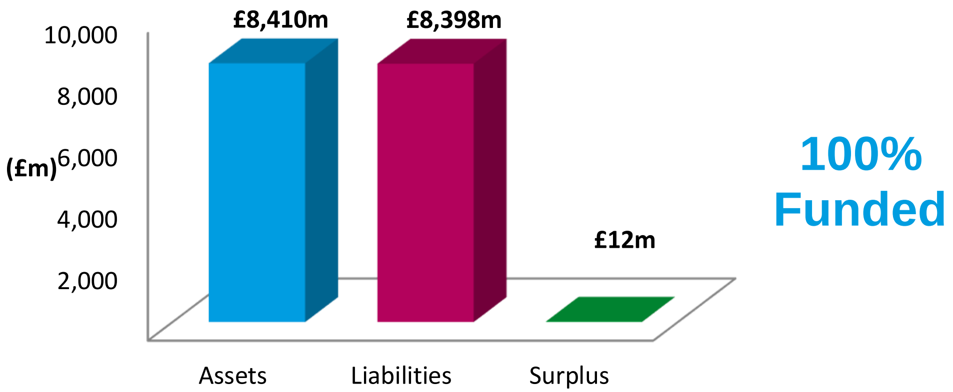
Note 24 - Funding arrangements

Accounts for the year ended 31 March 2022 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,410 million represented 100% of the Fund's past service liabilities of £8,398 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £12 million.



The valuation also showed that a Primary contribution rate of 17.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the last actuarial valuation the average recovery period adopted was 16 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) was an addition of approximately £2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process. The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.8% per annum	4.55% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). At the overall Fund level we estimate that the cost of the judgment was an increase in past service liabilities of broadly £68 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum at 31 March 2019.

Impact of Covid 19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be updated as a general rule but the Administering Authority has the power to review contributions between valuations where there is a material change in employer circumstances, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.3% per annum
Rate of pay increases	4.2% per annum	4.8% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.4% per annum

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was largely offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £13,126 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£273 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£207 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £301 million due to "actuarial gains" (i.e the effects of the *changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £13,305 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Leanne Johnston
Fellow of the Institute and Faculty of Actuaries

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

Mercer Limited
May 2022

Governance statements

Lancaster Castle

The Leader of the County Council (County Councillor Phillippa Williamson) and the Chief Executive and Director of Resources (Angie Ridgwell) both recognise the importance of having good management, effective processes, and other appropriate controls in place to run the county council in delivering services to the communities of Lancashire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how the corporate governance arrangements have been working across the group. To help do this both the Council's Corporate Management Team (CMT) and the Audit, Risk & Governance Committee undertake a review of the Council's governance framework and the development of the AGS.

This year, the Covid-19 crisis continued to bring unprecedented challenges for local government and the county council has sought to minimise disruption to the services we deliver. We have shown that the county council can thrive in the most challenging of circumstances. We have seen a combination of a flexible, dynamic, committed workforce and implementation of new ways of working that will reshape the council going forward. We also put in place a robust set of emergency governance measures to monitor and initially respond to the pandemic. However, as we have moved from response to recovery we have reverted to business-as-usual in most areas and our attention is turning to active surveillance and monitoring. We will maintain a state of readiness so that we can respond if we see any new variants emerging.

To ensure the AGS reflects the impact of the Covid-19 pandemic on governance, we have included a second conclusion on the adequacy of governance arrangements during this period.

On the 25 April 2022, the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the council is run. The final statement is signed by the Leader of the Council and the Chief Executive and Director of Resources.

Governance Issues

Overall, it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst they work well, our review has identified the following issues which are currently underway but not yet completed:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Reshaping the Council: ***Our Improvement Journey***	Chief Executive & Director of Resources supported by the Director of Organisational Development & Change	March 2023
Financial Sustainability	Director of Finance	Ongoing
Family Safeguarding	Executive Director of Education & Children's Services	March 2023
Integration and Innovation - Health and Social Care	Executive Director of Adult Services & Health & Wellbeing	March 2023
Provision of ICT	Director of Strategy & Performance	March 2023
Demand impact on Community and Services	Executive Director of Education & Children's Services Executive Director of Adult Services & Health & Wellbeing	March 2023
Covid – 19 Impact on Services & Communities	Chief Executive & Director of Resources supported by the Corporate Management Team	March 2023

Progress made against the issues identified in last year's AGS is reported in this year's statement.

We propose over the coming year to address the matters identified and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and the Cabinet. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.

P Williamson

County Councillor Phillippa Williamson
Leader of the Council

A Ridgwell

Angie Ridgwell
Chief Executive and Director of Resources

Signed on behalf of Lancashire County Council

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/Solace "*Delivering Good Governance in Local Government Framework*" (2016) (the Framework) helps fulfil this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

As mentioned in the executive summary, coronavirus will have impacted on governance since March 2020 and authorities also need to ensure that the AGS is current at the time of its publication, so it is essential therefore that the AGS reflects the impact of the Covid-19 pandemic on governance.

What is Corporate Governance?

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The Council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance "*Delivering Good Governance in Local Government*" (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the Council's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Key Elements of the County Council's Governance Framework

Key elements of Lancashire County Council's governance framework are set out below:

Leader, Cabinet and Council	Decision making	Risk and performance management
• The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets council tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework)	• Meetings were virtual (because of Covid-19 rules) but are now face to face. • Meetings are webcast • Decisions are recorded on the Council's website • Scheme of delegation	• Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members (CCPI) • Directors' complete assurance statements
Council's leadership team	**Scrutiny and review**	**External and internal audit and review**
• Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team • Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs • The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct	• Scrutiny Committees review council policy, decisions and budget proposals • Work to deliver local public sector accountability	• External audit provides an opinion on the Council's annual statement of accounts and commentary on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources • Internal audit provides regular assurance on the governance, risk management and internal control framework • External inspections provide an accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016; and
- a number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found on our website. This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. It sets out the requirements underpinning these principles and how the council ensures that it meets them along with the evidence base used to assess their effectiveness. This year it has been updated to include any further governance arrangements that have been put in place to manage the impact of Covid-19.

Managing Risk and Performance

Performance management is a key component of the Council's approach to achieving its outcomes. Part of this process involves identifying and where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored on the same basis and the greatest risks are elevated onto the Corporate Risk Register.

During the year, service risk & opportunity registers were reintroduced following their suspension and the introduction of service level situation reports as a response to Covid-19. The directorate level registers are updated regularly, and the Corporate Risk and Opportunity register was reported to Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk & Governance Committee.

The Audit, Risk & Governance Committee also monitor the effectiveness of risk management arrangements across the organisation. A review of this is undertaken annually by Internal Audit and reported to this committee. Internal Audit have recently completed a review of Risk Management and have provided **substantial assurance** that the council's corporate risk management framework is operating effectively.

Equality Impact Assessments are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established, and services prioritise budgets and spending to achieve intended outcomes. In recent years the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium-term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates. The quarterly report to the Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme. The final outturn position will be reported to Cabinet.

During the year, CCPI received high-level metrics relating to the corporate strategy, together with more detailed, service specific performance metrics which enabled members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). A detailed forward plan for the annual reports was developed with the Leader of the County Council, as Chair of the Cabinet Committee on Performance Improvement.

A Performance Board that is chaired by the Director of Strategy & Performance meets quarterly. The Board receives a suite of performance dashboards, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action to CMT. The board monitors against service level and corporate indicators and also co-ordinates the reporting of performance information to the cabinet Committee on Performance Improvement.

In their annual report 2021/22, the external auditors commented that reporting of performance information within the council is good and the LGA Peer Review stated that the Council has well established mechanisms for performance monitoring and can demonstrate a good understanding of service performance against similar councils elsewhere.

Managing Our Resources (value for money)

The Council's external auditors, in their assessment of 2020/21, concluded that the authority had demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

The auditors commented that despite uncertainty, and the challenges posed by covid-19 the Council had maintained a good financial position and that it placed the council in a strong financial position having planned its budgets for future years well in advance. The external auditors were satisfied that the council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. Their work did not identify any significant weaknesses but identified a small number of improvement recommendations. These recommendations have been taken forward.

Throughout 2021/22 projections were reported to both the CMT and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The current budget strategy remains to use budget savings with the use of reserves and capital receipts to ensure funding requirements are met. However, this will be impacted by our response to Covid-19 and the forecast will need to be reviewed considering any central government funding proposals for local government.

The external auditors also focussed on developing a detailed understanding of the governance arrangements in place at the authority and the changes instigated as a response to the pandemic. Their work on business as usual and adapted structures did not highlight any significant governance issues but identified a small number of improvement recommendations. These recommendations have been taken forward.

The Council ensures that it provides timely support, information, and responses to its external auditors – properly considering audit findings and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

Financial Sustainability

Financial sustainability remains a significant risk facing the County Council given the absence of a long-term financial settlement, the ongoing financial impact of Covid-19 and various funding changes likely to come into effect from 2022/23, including the outcome of the fair funding review.

Whilst satisfactory progress has been made to date in addressing the forecast financial shortfall over the strategy period due to significant savings programmes and the improved funding envelope for social care, further work is required to ensure the council can achieve a financially sustainable position over the medium term.

During the second year of the pandemic, originally planned savings have further been delayed particularly around social care. Timescales for savings plans have been revisited and reprofiled and now will be delivered in 2022/23 and beyond. Due to significant amounts of National Government support during 2021/22, and mitigating savings delivered on a one-off basis, the forecast 2021/22 year-end position is positive, alongside a more favourable financial settlement for 2022/23 than had originally been anticipated which has resulted in an improved MTFS position over the next three years. However, there are inherent risks, the impact of latent demand for services due to the pandemic, inflationary pressures due to the changing economic environment and savings delivery which are largely linked to reducing the future demand for services. There has been a strong track record of delivery of previous savings plans, with some being overachieved and arrangements are in place to track delivery of financial savings and take corrective actions when required.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, by the end of the financial year including the 2021/22 forecast underspend is sufficient to meet the forecast funding gap within the current MTFS covering the period 2022/23 to 2024/25.

Given the pressures arising from the ongoing pandemic, a formal service challenge process was not adopted in 2021/22 for delivery in 2022/23. Existing savings plans were reviewed and reprofiled where necessary and some service areas were able to identify additional income generation and efficiency plans which have been factored into the Medium-Term Financial Strategy (MTFS) and 2022/23 budget.

It should be noted that a further targeted service challenge review process will be undertaken as part of the 2023/24 budget process, as it is necessary that additional savings are identified to be delivered to ensure the council has a financially sustainable position going forward. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

The Council regularly updates its medium-term financial strategy. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels. The forecast is necessarily underpinned by a range of estimates and recommendations through the Corporate Management Team, Cabinet and the Audit, Risk and Governance Committee.

The financial management arrangements of the Council conform to the governance requirements of the CIPFA Statement on the *Role of the Chief Finance Officer in Local Government*.

Financial Management Code

The CIPFA Financial Management Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The code sets out six principles underpinned by a series of financial management standards identifying the professional standards to be met if a local authority is to meet the minimal expectations of financial management that are acceptable to meet the fiduciary duties to taxpayers, customers, and lenders.

Despite the Covid pandemic, the council has been able to undertake medium-term financial planning which has driven the annual budget-setting and monitoring process. Through the Budget Scrutiny Committee, and the Audit, Risk and Governance committee sources of assurance are recognised as an effective tool in delivering and demonstrating good financial management. The positive financial performance of the council during the year has once again evidenced that the long-term sustainability of local services is at the heart of the council's strategy supported by the prudent use of public resources.

How do we know our governance arrangements are working?

There are several ways we do this:

The Role of Management

The Corporate Management Team oversee the review of the Council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium-Term Financial Strategy.

Directors have the day-to-day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2021/22 that reports on service compliance and they produced regular directorate risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available, improvement plans are in place.

The Monitoring Officer regularly reviews the Council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to Directors and Heads of Service.

The Role of the Audit, Risk and Governance Committee

The Council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the Council by examining such areas as audit, risk management, internal control, counter fraud, treasury

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management and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

In addition to the standard items on the agenda, the committee considered reports on the following:

- Review of the Code of Conduct for Members - a report which provided an overview of the best practice recommendations of the Committee for Standards in Public Life in relation to local government standards. The committee considered the best practice recommendations and asked the Political Governance Working Group to review the proposals and report back their recommendations.
- Code of Conduct – Summary of Complaints.
- An update on the Overpayment of Salaries – a further report on this was requested by the committee.
- Assurance over the Pension Fund.

In July 2021, the Chairman presented his annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness.

The Role of the Head of Internal Audit

For 2021/22 the Head of Internal Auditor provided moderate assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.

In forming his opinion, he considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements. Audit work covered the full range of the council's services. The Council is in a much stronger financial position than many Local Authorities, however, the financial projections show that it still faces financial challenges. The county council has adapted well to the changing risk environment and appears to be operating as would be expected.

External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

External Auditor's Annual Report of Lancashire County Council 2020/21

The External Auditor's work did not identify any significant weaknesses in the county council's arrangements. Several improvement recommendations were identified and have been responded to appropriately.

Special Educational Needs & Disability Partnership Implementation Plan

The council received feedback from the DfE and NHSE on the SEND Progress Review that took place on 29 September 2021. Action had now been taken to address the outstanding five areas that were identified as requiring progress, and therefore Lancashire no longer required formal external monitoring and intervention.

LGA Peer Review

A team of experienced senior council officers and members from across the country spent a week carrying out a peer review. They looked at how we go about our business and spoke to a range of our colleagues as well as people from key partnerships. Following the review, they published a report making several improvement suggestions. An action plan has been produced and actions to address the recommendations made by the report are being progressed. Areas of focus include enhanced partnership working, decision making, new ways of working and corporate transformation.

Information Governance

The council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group meets quarterly and is attended by the Senior Information Risk Owner and Data Protection Officer. Services from Adult and Children's Social Care and Growth, Environment and Transport are now represented on the group. The annual review of policies took place in January 2022 and amendments were made to reflect our new ways of working and highlighting individual responsibility for keeping council information confidential and secure whilst working from home or agilely, and that any personal, confidential, or sensitive information must continue to be handled in accordance with IG Policies.

Services across the council have continued to be delivered during the public health crisis and whilst some resourcing issues have been experienced across the authority the council have been able to deliver all services during this period, and it has not been necessary to re-divert resources to critical areas or reinstate a Corporate Internal Resource Pool to meet demand.

Routine FOI reporting was resumed in November 2021, and these are shared with Heads of Service on a regular basis. Information Governance Quarterly performance statistics are provided to Business Intelligence and shared at Directorate Management Team and CMT.

Local Government & Social Care Ombudsman

During 2021/22 Full Council did not receive any public reports from the Local Government & Social Care Ombudsman.

Lancashire County Developments Limited

Lancashire County Developments Limited is an owned subsidiary of the County Council. As a material entity it forms part of the Council's group accounts. The County Council has the power to change decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet, and receive financial and performance reports. In the 2021/22 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.

Scrutiny Committees

The Council continues to operate with four scrutiny committees: Health, Education & Children's Services, Internal and External. These committees have developed and delivered workplans for the year and continue to meet regularly. There is regular attendance from Cabinet Members, Senior officers, and key partners, including NHS bodies, utility companies and government departments.

The work of the four Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

There is also a cross party Budget Scrutiny Review Panel. The Panel:

- Provides further support to the overall budget monitoring process
- Considers and formulates recommendations on Cabinet budget proposals
- Monitors progress of agreed budget savings

The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the County Council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.

The "Member Development Working Group" is another cross-party working group which reports into the Internal Committee, and is responsible for overseeing training, development, and support activities for councillors.

The Peer Review identified several areas for consideration in relation to scrutiny. An Internal Audit review of scrutiny administration was also undertaken and provided moderate assurance. The outcome of both the Peer Review and the Internal Audit review are being taken forward to consider improvements to the function.

Independent Remuneration Panel

The Independent Remuneration Panel met shortly after the election and made several recommendations to enhance the accountability of Special Responsibility Allowance holders, which have been adopted, for example with Champions reporting annually to Full Council as well as Cabinet.

County Council Elections 2021

Given the postponement of the elections in 2020 there were County, Police & Crime Commissioner, and district elections (7 districts) that took place across Lancashire on the 6 May 2021. Having combined elections is complex but given the added dimension of the pandemic this heightened the complexity and risk. As a result, the Returning Officer in conjunction with the Police Area Returning Officer published detailed directions and officers from all councils within Lancashire met monthly to ensure a consistent and collaborative approach across the county. Officers also maintained regular dialogue with the Electoral Commission throughout the preparations and delivery of the polls and worked with Lancashire Constabulary to maintain the integrity of the electoral process. No election petitions were submitted.

Officers and members were briefed on pre-election rules on local authority publicity.

Following the election, a full induction programme for new members was delivered that included guidance and training on personal safety.

Our New Deal for a Greater Lancashire

During 2021, Council leaders across Lancashire made a pledge to work together to deliver a bold vision for a County Deal to benefit the people of Lancashire. For months, all fifteen of the council leaders who make up Greater Lancashire worked in close collaboration to develop a set of ambitious and forward-thinking proposals.

In February 2022, a report about 'Our New Deal for a Greater Lancashire' completed its journey through all fifteen of Lancashire's councils. Leaders will now consider the implications of the government's levelling Up White Paper for our devolution ambitions before agreeing next steps.

EU Exit: Lancashire County Council preparedness

When the UK formally left the EU on the 31 January 2020, it moved from being a member state to the transition period and little changed in practice. In January 2021, the UK moved from transition to a new relationship, and wide-ranging change will likely result, albeit not immediately. People, communities, businesses, organisations, and our service areas will require time, clear communication, and support.

The council put in place an internal EU Exit Group, overseen by the Director of Corporate Services, to track key aspects of the UK's exit from Europe. Its role is focused on considering the implications for Lancashire and mitigating its impact.

Its areas of focus include Trade, State Aid, Workforce and EU Settled Status, including children looked after and care leavers of non-UK nationality, Border planning, Transfer of Powers/Regulatory change (GDPR, Employment Law, Procurement) and partnership working. The EU Exit Group continues to receive input from across council services. It has provided timely reports on the level of the council's preparedness with assurance and recommendations to Cabinet and corporate management team. It currently provides updates to Corporate Management Team.

The EU Exit Group will continue to review direct and indirect consequences on residents whilst monitoring cost drivers as markets/communities react to this change. In 2022 our focus remains Children Looked After/Care Leavers with no immigration status and those with pre-settled status, subsidy control regime, regulatory change resulting the Freedoms Bill and levelling up.

Lancashire County Pension Fund

Introduction

Lancashire County Pension Fund (LCPF) is a Pension Fund within the Local Government Pension Scheme (LGPS England & Wales) which is a funded pension scheme (not paid through taxation such as other public sector schemes). LCC is the body appointed under statute to act as the Administering Authority for LCPF. While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within LCC’s overall governance framework.

Governance documentation

LCPF produces its own Governance Compliance statement which has been prepared in accordance with the requirements of the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013. This statement sets out the Fund’s Governance Structure, scheme of delegation, and the terms of reference for its Governing Bodies, the Pensions Committee, and the Local Pensions Board. It is reviewed on an ongoing basis.

In addition, there are a number of strategy statements and policies which together ensure suitable governance of LCPF.

Governance Structure

- The Pension Fund Committee fulfils the role of 'Scheme Manager', as set out in regulations, for LCPF which includes the administration of benefits and strategic management of Fund investments and liabilities. It is responsible for establishing and monitoring the progress on the strategic objectives of LCPF through a rolling three-year Strategic Plan.

The Council has established two bodies to assist and support the Pension Fund Committee oversee LCPF:

- Pension Fund Investment Panel; and
- Lancashire Local Pension Board

The Pension Fund's Investment Panel provides expert professional advice to the Pension Fund Committee in relation to investment strategy. The Panel also supports the Head of Fund with the specialist advice required by the Pension Fund Committee.

The Local Pension Board's role is to assist Lancashire County Council as the Administering Authority in its role as Scheme Manager (as delegated to the Pension Fund Committee). This includes the following roles:

- to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS.
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
- in such other matters as the LGPS regulations may specify.

The Council is also responsible for the financial arrangements of the Lancashire County Pension Fund and a separate assessment of the adequacy of these arrangements is also required.

Risk Management

The management of risk is central to the activities of LCPF, and it has established its own risk management arrangements which include the following:

- Risks are monitored and assessed on a quarterly basis;
- Risk reporting and risk register are presented to the Pension Fund Committee and the Local Pension Board on a regular basis;
- Additional oversight is provided by the council's Audit, Risk & Governance Committee; and
- LCPF has a 'Risk Management Framework' policy document which is reviewed periodically and sets out all the risk management arrangements for managing all risks for the Fund.

The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with LCPF, including risks associated with managing scheme assets and pension liabilities;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk - evolving, new risk that is difficult to characterise or assess at this point in time, as the cause and / or how the risk will impact the organisation is unclear.

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Investment and Administration Services

Pensions administration and investment functions have since 2016 been delivered on behalf of LCPF by the Local Pension Partnership Limited (LPPL) a company group owned by Lancashire County Council and the London Pensions Fund Authority (LPFA). Pension administration services are provided by the administration arm of the Local Pensions Partnership, which is called Local Pensions Partnership Administration Limited (LPPA), with investment services being undertaken by the investment arm, Local Pensions Partnership Investments Limited (LPPI).

The Pension Fund Committee monitors the performance of these functions. For all arrangements where there is a relationship between the Fund and another organisation LCPF seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

Internal audit assurance

The table below details the work undertaken by the County Council's Internal Audit Service and the assurance it provides for 2021/22.

Audit work	Assurance
Assurance provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service	
Admission of employers to the fund	Substantial
Recovery of pension overpayments	Moderate
Accounting through the council's general ledger	Substantial
Employers' contributions- follow up	

Audit work	Assurance
Assurance relating to LPPA's administration of benefits	
Compliance Effectiveness - Deloitte	Effective with Scope for Improvement
Finance system implementation - Deloitte	Effective with Scope for Improvement
Assurance relating to Local Pensions Partnership Investments (LPPI)	
Type 1 Service auditor's assurance - KPMG	Unqualified opinion

Activities

The key activities of LCPF undertaken during 2021/22 were:

- Development of an employer risk framework and effective transition to an in-house employer risk service;
- Planning and preparation work for the 2022 valuation, including initial engagement with employers; and
- Review on investment services provided by LPPI to LCPF.

Specific actions are proposed for during 2022/23 including:

- Review the governance arrangements of LCPF in light of the implementation of a single code of practice by the Pensions Regulator;
- Review of shareholder governance arrangements in respect of LPP Group as documented within the shareholder agreement;
- Actuarial Valuation to assess financial health of LCPF and determine local employer contribution rates; and
- LCPF commence development of a communication strategy to meet the needs of all its stakeholder.

Strategic oversight of actions to address the Council's governance challenges in 2021/22

This section provides a concise high-level summary of strategic actions taken to address the Council's governance challenges for the 2021/22 financial year, and what arrangements are in place for oversight of delivery. These challenges were set out at the end of last year's AGS.

What action was to be addressed?	Governance actions taken

Reshaping the County Council: Our Improvement Journey
• Risk that the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond
 	
• Inability to secure sufficient resource (capacity) across the organisation to deliver on some areas of the Improvement Journey due to competing priorities and the need to prioritise capacity towards ongoing COVID-19 response and recovery.
 	
• Risk of not having a joined up, cohesive, corporate wide LCC change programme with CMT oversight and appropriately allocated resources.
 	
• Risk of multiple front doors with multiple gatekeepers to initiate change – Digital Services, Customer Access, operational services etc. This leads to:
	Capacity
	• "Front Door to Change" designed and implemented to support prioritisation & allocation of resource for change across organisation.
	• Core roles appointed to lead on the major elements (Staff Experience Lead, Customer Experience Lead, Analysis & Design Lead & PM Lead) who will drive and monitor progress against critical elements.
	
	Change Programme
	• Detailed Programme Management Office roadmaps developed with Adults, ECS and Public Health, and resourcing issues resolved.
	• Director of OD & Change involvement in change programme.
	
	Our ways of working
	• Improvement Journey priorities aligned with corporate priorities, subject to regular review by Strategic Improvement Board
	  ○ Staff Experience Board established, with plan in place for priority outcomes & deliverables for the next 12 months
	• Values & Behaviours developed and disseminated
	• Customer Experience:
	  ○ Customer Experience SRO appointed and funding in place to recruit customer experience lead
	• Programme governance:
	  ○ Head of Improvement appointed to drive Improvement Journey programme
	  ○ Corporate Programme Office transferred to Director of OD & Change to support alignment of capacity & focus with agreed strategic & Improvement Journey priorities
	• Data & Insight:

• A lack of strategic prioritisation, sequencing and link to organisational objectives • Too many completing asks • Silo working approach • Inconsistent approach to prioritisation and delivery of change projects • Inability to deliver a balanced budget post 2023/24	○ Adoption of Power Business Intelligence and agreement that it will become our core business analytics tool • Microsoft 365 landed – new tools and technology allowing flexible working • Significant programme of review of HR policy and procedures influencing flexible working and supporting desired new ways of working • Leadership and management development offer in place and evolving to meet needs of new ways of working • Recruitment of core team to develop & monitor Improvement Journey programme • Development of framework to create "Front Door to Change" to agree priorities, allocate appropriate resources • The council has in place several work streams that support the corporate strategy and our ways of working e.g., digital connectivity: inequalities workshops etc **Improved Partnership Working** • Through the refreshed corporate strategy, we have set out the county council's vision and approach, but we will also acknowledge that we cannot achieve this on our own. We have adopted a flexible approach to partnerships that will allow us and the people and businesses of Lancashire to respond to the needs of the county, in a way that benefits everyone. • We are maintaining several the joint/strategic decision-making groups e.g., Adult Social care and Health Partnership (Formerly ASC cell), OOH cell to build on the collaborative ways of working • These joint boards have decision making ability and will feed into the new Strategic Commissioning Board **A New County Council** • All administrative procedures relating to county councillor appointments completed. • Induction programme completed • All councillors supplied with appropriate IT/telephony equipment • Communications Strategy published **Financial Sustainability** • Updates provided to Cabinet through the Money Matters reports covering in-year financial position and medium-term financial strategy on a quarterly basis • Directorate Leadership Teams (DLT's) meet regularly and have a monthly focus on financial position and savings delivery chaired by the relevant Executive Director

	• Programme Office is supporting the overall programme of savings activity • Financial Benchmarking information (with other County Councils) produced and reviewed annually as a basis for identifying those service areas with most scope for further efficiencies • Continue to monitor the impacts of price changes via our regular monitoring activity updating our forecast outturn and the MTFS • Continue to work with staff to develop new options savings options and revisit options • Continue to seek out, learn from and adapt services to follow best practice
Family Safeguarding Model The Hertfordshire Family safeguarding approach does not deliver the expected outcomes	• High level implementation plan developed and being implemented • Appointed to Head of Service lead and practice/systems roles • Family safeguarding Group provides oversight, reporting to Keeping Children Safe Board • Whole system transformation to implement a new operating model for family safeguarding and early help delivery within the council. • Worked with key partners to establish the Team around the School and Settings approach across Lancashire, dedicating discrete early help staffing resources to support schools to respond more effectively to the early help needs of their children's families identified within the universal setting. • Implemented the Pan Lancashire Working Well with Families approach within the Lancashire Front Door. • Developed an Extra Familial Harm Team to support and manage the risks related to vulnerable adolescents.
SEND Partnership Implementation Plan Insufficient progress in delivering against the targeted action plan to address the five areas which continue to require improvement leading to ongoing intervention.	• The council received feedback from the DfE and NHSE on the SEND Progress Review that took place on 29 September 2021. Action had now been taken to address the outstanding five areas that were identified as requiring progress, and therefore Lancashire no longer required formal external monitoring and intervention.
Integration & Innovation In 2021, the Department of Health and Social Care published the legislative proposals for a Health and Care Bill. The proposals contained within the white paper **'Integration and innovation**: **working together to improve health and social care for all'** sets out a range of reforms. These include: • Making Integrated Care Systems (ICS) statutory bodies • Transferring the functions of Clinical Commissioning Groups to the ICS	• We are maintaining several joint/strategic decision-making groups e.g., Adult Social Care & Health Partnership, OOH cell, to build on the collaborative ways of working • Adult Social Care and Health Partnership Board has agreed a joint work programme and work is progressing • At a senior level, the County Council is involved in the ICP Development Advisory Group (Exec Director) and at the ICS Development Oversight Group (Chief Executive). This is pivotal to ensuing local government context and opportunity is understood and reflected in all plans and priorities • Regular Internal health integration meetings (cross directorate) chaired by the Chief Executive to ensure clear and consistent approach to all meetings with NHS • Briefings for county councillors involved in NHS meetings has been reinstated. Weekly meetings with lead cabinet members are taking place.

• Removing competition and changing procurement rules • Seeking to strengthen the voice/influence of local government • Introducing measures to enhance assurance of social care by CQC • Creating a standalone power for Better Care Fund • Encouraging joint appointments of executive directors to support integrated care/working • Strengthening the role of Health and Wellbeing Boards As mentioned above, several themes are particularly relevant to the future working relationship between health and local government, and these have been developed through 21/22.	
ICT Provision ***Oracle R12 to Fusion*** Oracle vR12 supports the heart of the council's people and financial resources. R12 is now end of life and is approaching the end of the final extended support period. LCC have embarked on a programme to replace R12 with Oracle Fusion and associated new processes for managing our money and our people information for 45,000 users. Failure to assign resources to the Oracle Fusion Programme will leave LCC without the ability to complete the project on time	**Oracle Fusion** • Fusion Project Board established, SRO identified, programme under active management of the Chief Digital Officer. • Appointed Systems Integrator to deliver technical implementation • Appointed Change Partner and with them to adopt new processes for all Fusion capabilities • Appointed Data migration partner and secured LCC resource to ensure data is R12 is cleaned and migrated in a timely manner to Fusion **Data** • Management information is provided through appropriate Service Management Line of Business Systems. These systems are supported through best practice reporting and through the contribution of the Business Intelligence Team. • New head of data has been recruited and is in post. The post supports the needs of the organisations data requirements and to ensure they are designed and architected in optimal ways to support service delivery and customer experience. • Next phase of planned work is to develop DaaS (Data as a Service) for Business Intelligence and the creation of Data Catalogues alongside a Master Data Management System which provides a single view of multiple systems

Data The organisation fails to use its data resource to good effect for the benefit of Lancashire residents ***Core Systems*** Lancashire has built up a 'technology debt' with regards to its major systems which help the organisation function in a modern, efficient, effective way	**Core Systems** • The appointment of the Chief Digital Officer, the insourcing of the IT function and the creation of a Head of Architecture are helping to support the development of improved ways of working. The Head of Architecture is responsible for having agreed roadmaps for maintained products either via a SaaS (Software as a Service) route or regular updates products to enable business department to have LOB systems that provide the support for their respective function. The top SaaS product is the migration to Oracle Fusion which is the subject of a separate risk. A Head of Digital Business Engagement post has also been filled to ensure that digital services understand and help to deliver service needs.
CV-19 Impact on Services & Communities Inability to adequately respond to the demands placed on Services because of increasing demands, capacity issues, and reduced resilience of staff. Staff across all services have worked in crisis response mode from the outset of the pandemic. Alongside this business-as-usual work is being undertaken across many services.	• Corporate Emergency Response Team (CERT) continued to meet at least fortnightly and considered current situation reports • Contingency plans are available to be activated as needed which would primarily stand down business as usual/non-critical work and where possible, redeploy staff to support priority work areas • Ongoing situation monitored at leadership team meetings • Increase capacity through sourcing additional resource • Ensure all staff take their annual leave entitlements • Team managers keep the focus on staff wellbeing in 1:1s and team meetings • Mitigating actions for loss of staff encapsulated for each individual service within the business continuity arrangements found in the Service Resilience Plans (SRPs); this includes identification of critical posts/functions, alternative arrangements for critical posts/functions, critical function analysis, specific responses in relation to Pandemic flu • These arrangements need to be viewed in line with the Corporate Emergency Response Plan (CERP) which provides the incident management and wider support structures in place. • Continue to monitor capacity and demand levels • Chief Executive, Executive Directors, Directors and Heads of Service to continue to share messages of thanks and appreciation • Raised issues at CERT if corporate guidance/action required • Consider the need to stand down business as usual to focus on the pandemic response or seek financial support to increase resources to maintain overall continuity of services • Covid- 19 incident management in place • Vaccination programme implemented • Local contact tracing implemented

	• Community Testing/workplace testing in place • Monthly staff webinars led by Directors to continue to share messages of thanks, appreciation and enable staff to showcase their best practice and fantastic response to the pandemic • Staffing issues and in particular staff welfare is a constant feature in leadership meetings
Demand Impact on Community & Services Demand for client-based services continues to increase resulting in increased budget pressures and poor outcomes for those people in receipt of our services	**Adult Social Care** • Financial support package agreed by CMT for residential and day service providers • Residential and day service providers have been called every day to monitor their 'stability' on a range of issues and pathways in place to address e.g. workforce, financial issues, PPE etc • Contracts team have dedicated resource to support providers on a day-to-day basis. Also have 'stand by' arrangements in place in case of provider failure • LSCFT have put in place a team to support people while they await a mental health bed • Commissioning team worked with Contracts team, NHS and the care sector market to review the Market Position Statement - this will better inform the current state of the market and enable more confident joint planning for future need • Adults' leadership team strong links with NWADASS and national work being done on wider market viability/reshaping • Position closely monitored by Adult Social Care & Health Partnership Board in form of ongoing reporting and jointly agreed action plans • Relationship with CQC maintained/safeguarding assessments being stepped back up (high risk safeguarding issues were monitored/actioned during Covid) • Service users and their families are being offered support and alternatives being offered/developed including links to community-based support **Children's Social Care** • Clear governance and accountability arrangements in place via the Keeping Children Safe Board • MASH / Demand Management group and Permanence and Children in Our Care group providing oversight of service improvements • Family Safeguarding Board providing leadership and oversight of Family Safeguarding Programme • Range of further activity to manage demand including Family Group Conferencing evaluation funded through a pan Lancashire bid, VCFS led model of support pilot in Preston to be extended • Where Our Children Live Strategy together with Sufficiency Strategy to ensure most effective use of provision and to help identify and address gaps in service • Delivery of Early Help Strategy

	• Delivery of Family Safeguarding • Evaluation of targeted interventions including Family Group Conferencing at pre proceedings, and VCFS model • Where Our Children Live Strategy and Sufficiency Strategy agreed by Cabinet • Review of Placement Costs • Ongoing consideration of Covid impact • Provide input into the developing NHS operational plan for CAMHS service developments and be sighted on / support ICS discussions on CAMHS related NHS investment proposals **SEND** • Alternative Provision Strategy agreed by Cabinet October 2021 • Delivery plans established • Delivery of priorities within the SEND sufficiency strategy • Consulted on Strategy • Ongoing consideration of Covid impact

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Governance Challenges for 2022/23 and onwards

The review of governance arrangements has identified the main areas where the Council will need to focus its efforts during 2022/23, to address changing circumstances and challenges. These are set out below. Completion or substantial progress against these objectives is due by the end of the financial year, in March 2023.

Reshaping the Council:

Our Improvement Journey

We are well on with making improvements and changes across the organisation and this work will continue to grow and develop over the next twelve months.

Our ways of working – we want to further develop our workplace model that optimises the performance of our people, places, processes, and technology. We want to leverage the best of what is possible today and continuously improve & adapt in response to future challenges. To help us do this we will engage our staff and establish 'change influencers' to help shape emerging proposals and develop new approaches.

Improved Partnership working – We will continue to build better alliances with our partners to deliver improved outcomes for the people of Lancashire. Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money. A key focus will be working towards the development of strengthened partnership working through our joint long term strategic plan 'A New Deal for a Greater Lancashire'. We will support Lancashire Leaders to strengthen governance and engage with Government with a unified voice.

A New County Council – Aspects of the governance framework/decision-making process will be addressed as part of the LGA Peer Review Action plan and response to the Internal Audit review of scrutiny. Discissions will continue to take place with political groups to improve communications with members on key issues and a member survey to take place in Spring.

Financial Sustainability – Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing from 2022/23 to 2024/25. However, on current forecasts it will be necessary that additional savings will be required to bring the council to a financially sustainable position. Therefore, a further targeted service challenge review process will be undertaken as part of the 2023/24 budget process.

Family Safeguarding

We have begun to develop a more strengths-based practice model, including the development of the Lancashire Family Safeguarding approach and the remodelled early-Help offer. Therefore, our area of focus over the next twelve months will be to implement the Family Safeguarding Model alongside a remodel of Children's Social Care, embedding the revised approach to school improvement and implementing the re-modelled Early Help services. We will also ensure the quality of practice continues to improve, eliminating inadequate practice and ensuring consistently good assessments and plans across county council early help services and children's social care.

Integration and Innovation

We will continue to work with health partners on our joint work programme and ensure continued senior County Council representation at the Integrated Care Provider Development Advisory Group (Exec Director) and at the Integrated Care System Development Oversight Group (Chief Executive). This is pivotal to ensuing local government context and opportunity is understood and reflected in all plans and priorities. We will also continue to hold regular Internal health integration meetings (cross directorate) that are chaired by the Chief Executive to ensure clear and consistent approach to all meetings with NHS colleagues. Briefings for county councillors involved in NHS meetings will continue as will weekly meetings with lead cabinet members.

ICT Provision

The Oracle Fusion programme will replace the existing system for managing our money and people resources, this will go live during 2022/23. To ensure smooth transition End User engagement sessions are being rolled out and we are identifying 'Hard to Reach' users in service areas. Business Readiness surveys and Business Readiness Assessments are to be completed for each service area. Work will continue to ensure our core systems are fit for purpose and that the organisation's data requirements are met.

Demand impact on Community and Services

Demand for client-based services continues to increase resulting in increased budget pressures that may lead to poor outcomes for those people in receipt of our services. Therefore, for Adult Social Care we will continue to work with a range of partners regarding social care reforms and look to strengthen the adult social care market capacity through fee adjustments and active engagement to identify creative solutions. In relation to Children's social care, we will implement what we have set out above and for SEND we will continue to invest in the service and deliver the priorities in our strategy.

Covid-19 Impact on Services and Communities

Since the onset of the pandemic in March 2020, covid-19 has had a significant impact on both the people of Lancashire and how we have delivered our services in the face of increasing demands. We will continue to have a key role to play in the coming months as we will be at the heart of building a stronger, healthier, and more prosperous Lancashire for our residents and businesses. Recently, the Government announced its plan for Living with Covid and will publish guidance in due course. We will assess the guidance when published and use it to help make difficult judgements based on the evidence regarding the impact on public health.

Monitoring Implementation

The key governance challenges facing the Council in 2022/23 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

The governance arrangements relating to the Register involve its review by the Corporate Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit, Risk and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a "risk score" and a residual score after mitigating actions have been applied.

Conclusion

Overall, the County Council has the appropriate systems and processes in place to ensure good governance is maintained. Whist these work generally well, the council has identified several areas where further improvements can be made to strengthen its governance framework. The governance of the County Council will continue to be monitored by the Audit, Risk & Governance Committee, Cabinet and Corporate Management Team.

Covid-19 Arrangements

Throughout the second year of the pandemic, there continued to be a tremendous amount of work done by staff and our partners to ensure that our response has been effective. The coronavirus pandemic has had, and will continue to have for some time, a significant impact on the operations of the Council. Over the period of review this has involved a move from response to recovery (and at one point a move back to response as infection rates increased), reverting to business-as-usual arrangements, the introduction of new activities and continued new ways of working. Over the longer term it will have an impact on changes to priorities, programmes, strategies, and plans. The Council has also learnt from new ways of working introduced in response to the pandemic and the response to the pandemic has continued to speed up some areas of change.

Financial Sustainability

The council's financial challenge has been exacerbated by two years of the Covid-19 pandemic, and, like all councils, we are facing financial pressures across the period of our medium-term financial strategy. During the second year of the pandemic, originally planned savings have further been delayed particularly around social care services. Timescales for some savings plans have been revisited and reprofiled to be delivered in 2022/23 and beyond. Due to significant amounts of National Government support during 2021/22, and mitigating savings delivered on a one-off basis, the forecast 2021/22 year-end position is positive, alongside a more favourable financial settlement for 2022/23 than had originally been anticipated which has resulted in an improved MTFS position over the next three years. However, there are inherent risks, the impact of latent demand for services due to the pandemic, inflationary pressures due to the changing economic environment and savings delivery which are largely linked to reducing the future demand for services. There has been a strong track record of delivery of previous savings plans, with some being overachieved and arrangements are in place to track delivery of financial savings and take corrective actions when required.

The External Auditors' most recent Annual Report commented that the Council had maintained a good oversight of its Covid-19 related costs and income losses for the first year of the pandemic. These were identified early on and subject to detailed monitoring and scrutiny. The MTFS was reviewed and updated during the year and quarterly reporting against the budget to cabinet was maintained. This approach has been mirrored throughout 2021/22.

The recent LGA Peer Review also stated that the Council had managed the cost pressures of Covid-19 particularly well.

Governance

At the start of the pandemic, we aligned our response to the Local Resilience Forum (LRF) structures to ensure clarity and continuity between our internal work and the wider partnership activity. This meant that we have a clear understanding of our essential role and could move and adapt to changing circumstances. However, during the year we reviewed our structures and some of the groups stood down.

At the last Corporate Emergency Response Team meeting on the 8 March 2022, it was agreed that we would follow suit of the LRF group and the meeting on the 5 April was our last. This does not mean that we think Covid has gone away but that we are standing down the top tier level of coordination and it will be for each directorate to coordinate themselves within their own service area.

The Incident Management Hub has also stood down, but the Health Protection Board will continue and will closely monitor the Covid-19 situation. We have also switched off special arrangements for dealing with covid i.e., setting outbreak management teams for Schools, Workplaces etc. Attention is turning to active surveillance and monitoring a state of readiness if we see any new variants emerging.

As we moved from response to recovery many of the internal governance arrangements, we had put in place during the first year of the pandemic were reviewed and reversed. Formal on-line meetings have reverted to face to face and the delegation of all Cabinet powers to officers at Head of Service or above has been removed. Directorate risk and opportunity registers were reintroduced, and the Corporate Risk & Opportunity register recommenced reporting to committee in September 2021.

Homebased working continued for most staff with the gradual return to the office from September 2021 as we introduced new accommodation and flexible working arrangements.

Improving economy, efficiency, and effectiveness

Many staff have been working so hard to look after others through this pandemic, but it is also important that they look after their own health and wellbeing. Keeping physically and mentally well is a challenge for us all. We have ensured that we have lots of useful information on the intranet about the help that we can offer, and guides to how people can help themselves. For colleagues not able to access the intranet, this information is also available on the staff section of our website, which anyone can access. All our wellbeing information is updated regularly. In aiming to support staff wellbeing, we have been able to maintain the efficient and effective delivery of statutory services.

Partnership working remains key and we continued to work with community partners throughout the year. The LGA peer review feedback stated that our response to covid-19 has been 'exemplary', and we continue to engage with the Lancashire and Cumbria Health & Care Partnership to ensure a joined up response.

Outbreak Management

Throughout the year controls were in place and functioned well. The testing strategy was refreshed to prioritise care homes and care sector vaccination levels were tracked. The 5-step community testing plan was revised and a local policy to encourage testing and isolation for those who tested positive was implemented. We continued to support schools, vaccination in care settings and developed a system for members of the public who do not have access to transport to access a 'drive thru' vaccination service. Children's social workers undertook twice weekly testing, and we ran a programme of awareness raising. We have started to collect data and archiving in relation to the Government announced Independent Inquiry.

The Corporate Emergency Response Plan has been reviewed, considering learning from Covid-19 as well as all the other responses to date. Service Response Plans are also being updated. A request for volunteers to support the NHS with administration roles was well received with thirty-six members of staff supporting the vaccination programme.

Vaccination & Testing

Work supporting the national vaccination programme continued throughout the year. This included the booster vaccination and vaccinations for school aged children. In terms of the testing programme, we continued to link with district councils to deliver their local strategies and provided support for testing people on the Afghan refugee settlement programme. We also continued to support district councils with out of hours contact tracing. Libraries were continually restocked with test kits.

Support Safe Return to Buildings

The Safer Working Group continued to meet throughout the year and co-ordinated the phased reopening of offices, some of which had been remodelled as part of the Our Ways of Working programme to support flexible and collaborative working. Risk assessments were undertaken, and key messages shared with staff.

Recovery Co-ordination

Throughout the year the focus was on business continuity and the potential impact that high staff absences may have on local public services including NHS, social care, emergency services and utilities. Modelling was undertaken because of the Omicron variant and services drew up plans to deal with up to 40% staff absences. Considering this the Recovery Plan was reviewed and updated.

Conclusion

The current coronavirus pandemic has tested the Council’s governance arrangements for a second year, and we are pleased to note that the governance framework continues to provide a strong foundation from which to respond to the challenging circumstances. We recognise the importance of continuously improving our practice, including learning from how we respond to major incidents. We have and we will continue to use this knowledge to ensure that the Council’s governance arrangements continue to provide effective foundations for the Council to achieve its objectives.

This version of the statement of accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

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Lancashire County Pension Fund - independent auditor's report

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Lancashire County Pension Fund - independent auditor's report

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Lancashire County Pension Fund - independent auditor's report

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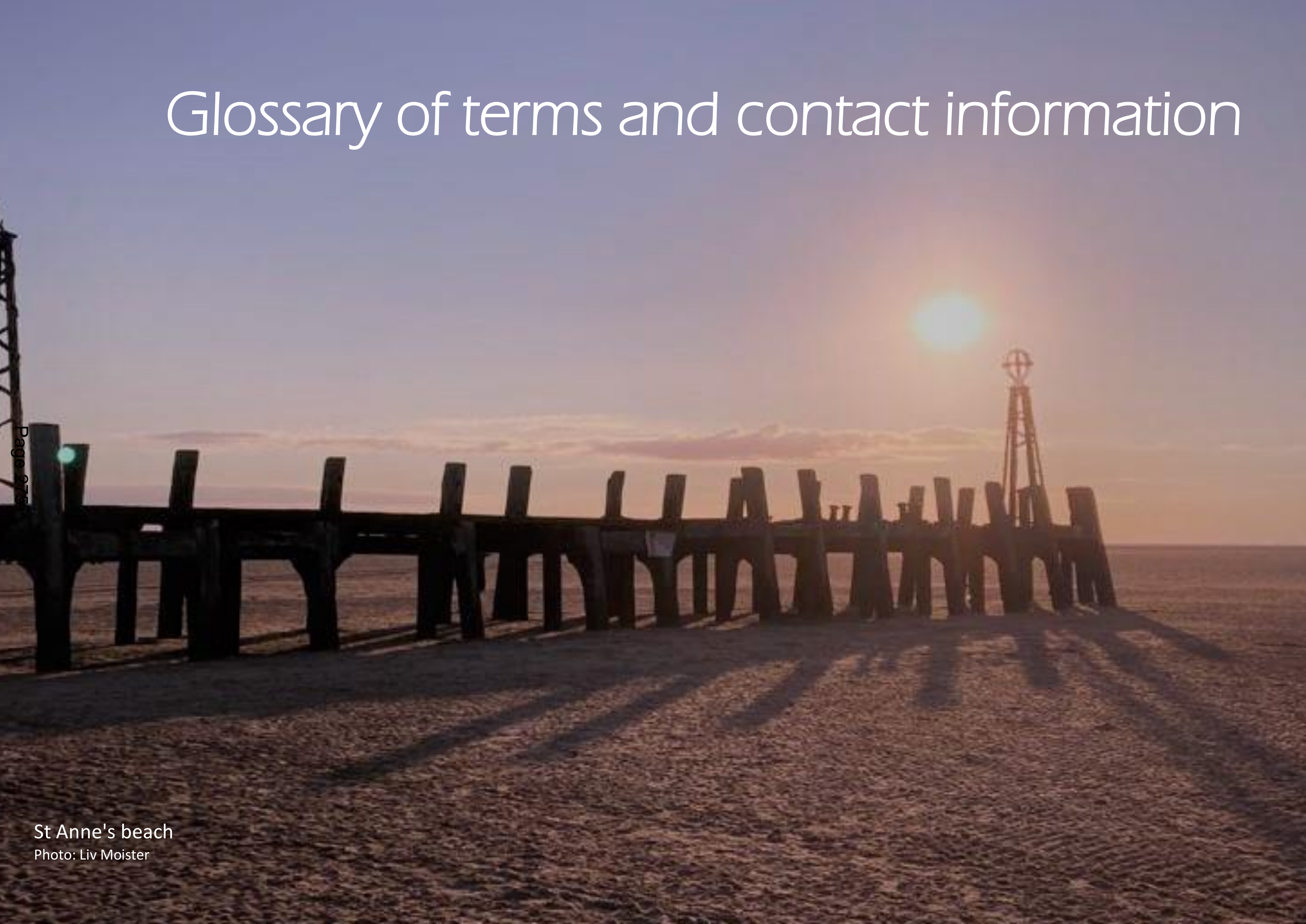
Glossary of terms and contact information



St Anne's beach
Photo: Liv Moister

A

Accounting policies

The rules and practices applied by the council that determine how the transactions and other events are reflected in the financial statements.

Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred or because the actuarial assumptions have been changed.

Associate

An associate is an entity over which an investor has significant influence.

C

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads and computer equipment.

Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the comprehensive income and expenditure statement and transferred into capital grants unapplied via the movement in reserves statement.

Capital receipts

Income received from the sale of land, buildings or equipment.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a ‘true and fair’ view of the financial position, financial performance and cash flows of the council.

Contingent asset

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

Contingent liabilities

A contingent liability is either:

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

Creditors

Amounts owed by the council for goods and services received but not paid for as at 31 March.

D

Debtors

Amounts owed to the council for goods and services provided but where the income had not been received by 31 March.

Depreciation

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

E

Earmarked reserves

The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

F

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Floating rate note

A bond with a variable interest rate. These bonds typically have coupons renewable every three months and pay according to a set calculation derived from the interest set for each quarter.

I

Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

Intangible assets

Assets which do not have a physical substance for example computer software licences.

International financial reporting standards (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.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

J

Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

M

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Minimum revenue provision

The minimum amount that the council must charge to the accounts to provide for the repayment of borrowing associated with capital expenditure.

N

Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

O

Operating lease

This is a type of lease, usually vehicles or equipment 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 council.

Operational assets

Assets used by the council in the delivery of services for which it has responsibility.

P

Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of errors.

Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

R

Related party

Related parties are bodies or individuals that have the potential to control or influence the council or be controlled or influenced by the council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Members, and senior officers and their close family members.

Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the council. Examples include works on property owned by other parties and capital grants to other organisations.

S

Subsidiary

A subsidiary is a company that is controlled by a holding or parent company.

Contact details

I would like to thank you for showing an interest in the council's finances and hope you find this information useful. We feel it is important that residents and businesses in the county understand all of the services that we provide and how council tax and business rates are spent during the year. If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

Corporate Finance
Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ

Agenda Item 7

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
(All Divisions);

Response to the Information Request from the External Auditor
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, Director of Finance, Tel: 01772 536154,
neil.kissock@lancashire.gov.uk

Executive Summary

The Audit, Risk and Governance Committee is asked to consider whether the responses included at Appendix A are consistent with its understanding of management procedures.

Recommendation

The Audit, Risk and Governance Committee is asked to agree the management response to the external auditor's information request, as set out at Appendix A.

Background and Advice

To comply with International Auditing Standards, each year Grant Thornton as the external auditor is required to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. They are also required to make enquiries as to management's knowledge of any actual, suspected or alleged fraud and to document management's view on some key areas affecting the financial statements.

A response to the questions posed by Grant Thornton has been prepared for consideration by the committee and is attached at Appendix A.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Lancashire County Council

The response to Grant Thornton will provide information to the external auditor to support their role in determining an opinion on the council's statement of accounts and value for money arrangements for 2021/22.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	The council received a number of grants as part of the government's efforts to mitigate the effects on local residents and businesses of the Coronavirus pandemic during 2021/22. The financial statements will reflect the receipt and use of these grants. Changes in demand for services due to the pandemic may also affect spending and income reflected in the Comprehensive Income and Expenditure Statement.
2. Have you considered the appropriateness of the accounting policies adopted by Lancashire County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies have been reviewed, and the policies to be adopted for the 2021/22 accounts were approved by the Audit, Risk and Governance committee in January 2022. There have been no events or transactions that have caused a change to the accounting policies.
3. Is there any use of financial instruments, including derivatives? If so, please explain.	Yes, the financial instruments recognised in the Comprehensive Income and Expenditure Statement are detailed in a note to the statement of accounts. These include: - Financial assets and liabilities at amortised cost - Other financial assets measured at fair value
4. Are you aware of any significant transaction outside the normal course of business?	No.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The note on 'Property, plant and equipment' within the statement of accounts will show any changes in the value of non-current assets during 2021/22.

Appendix A

6. Are you aware of any guarantee contracts?	The council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The council sets aside a provision for self-insured unasserted claims, and these claims are subject to an actuarial valuation every three years.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Lancashire County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The county council utilises external solicitors and counsel on a range of issues. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways, child protection and employment matters. The council maintains extensive records relating to both historic and current cases.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No material issues reported.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	As a large and complex organisation, the council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes, trade receivable is identified as requiring a credit loss provision, as required under IFRS 9. The council provides for those outstanding debtor balances that are not expected to be collected.

Fraud Risk Assessment

Question	Management response
1. Have Lancashire County Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The impact of risks on the council's financial sustainability is reviewed through the council's corporate risk register. The council has a robust system of governance through its frameworks of governance, risk management and control that seek to mitigate risk of fraud in the first instance. The council's senior management and political leadership regularly receive reports on the council's current and longer-term financial position. Financial reports are produced routinely on a monthly basis with an annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care. Budgets are composed on a hierarchical basis, such that the level of reporting from detail to corporate summary can be obtained dependant on need. The financial position is reported to Cabinet on a quarterly basis, which provides a commentary on the main risks and opportunities to date. Particularly focussing on the high value and demand led services such as waste, children and adult's social care. Corporate accountability for budgets is held at Director and Heads of Service levels, allowing for corrective actions to be employed effectively at an appropriate scale. The council continues to look to improve the integration of reporting across finance, performance and human resources such as to further support risk management outcomes.

2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Clearly all financial systems are susceptible to fraud. However, the transactions that yield the greatest number of potential and actual frauds as well as some of the largest values, are direct payments to service users or their representatives. The distribution through the council of grants from government, as a response to the Covid-19 pandemic, at speed to a wide variety of services and suppliers naturally brings an increased risk of fraudulent use of funds by recipient organisations and individuals.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lancashire County Council as a whole or within specific departments since 1 April 2021?	At this point there have been no significant instances of fraud, error, or other irregularity identified during the period either singly or collectively.
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The Internal Audit service provides a progress report to each meeting of the Audit, Risk and Governance Committee that highlights any unmitigated risks arising from the audit work undertaken. The committee has a record of interest in such matters and periodically invites directors to explain their responses to the risk issues raised and provide assurance regarding the action being taken. In a normal year all services update their risk and opportunity registers quarterly, these are assessed by the Deputy Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee on a quarterly basis.
5. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud?	No.

Are there particular locations within Lancashire County Council where fraud is more likely to occur?	
6. What processes do Lancashire County Council have in place to identify and respond to risks of fraud?	The council employs an investigator who reports to the Head of Internal Audit. That individual undertakes proactive counter fraud work, in particular directing the council's participation in the National Fraud Initiative, monitors and responds to the financial whistleblowing help-line, and undertakes investigations in accordance with the council's Fraud Response Plan.
7. How do you assess the overall control environment for Lancashire County Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	The frameworks of governance, risk management and control have been referred to in the response to question 1 in this section. These are subject to assurance through the three lines of defence operated by the council's service managers, assurance functions and internal audit, which functions independently and regularly reports to those charged with governance. Further, a range of external regulators assess whether the control environment is working effectively, from the Care Quality Commission and Ofsted to the Driver and Vehicle Standards Agency. The Head of Internal Audit has provided favourable assurance over the council's control environment in recent years. The work to support this has included audits of the council's financial controls including those designed to manage the risk of fraud.

8. Are there any areas where there is potential for misreporting?	The council's political decision-making reports are subject to an internal clearance process, requiring legal and financial clearance as a minimum, thus reducing the risk of misreporting through professional oversight.
9. How does Lancashire County Council communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	There are several mechanisms that include: - Induction - Intranet pages - Staff notices - Cascade briefings - Performance Development Reviews - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos - Whistle-blowing helplines addressing both financial and non-financial matters
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	The decision-making abilities of the most senior positions in the organisation would mean that these posts have the greatest ability to pose a fraud and corruption risk, however the council's scheme of delegation and professional oversight of political decision-making allows these risks to be mitigated.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	There is a range of relationships between the council and other organisations within the county and therefore the potential for these relationships to be used inappropriately. However, the only scope for significant fraud lies with post-holders at the level of a Head of Service or Director and it is expected that these individuals will operate within the seven principles of public life. Further, the council maintains a register of interests and any related parties should be clearly identified by post-holders to their line managers. No relationships are known to the council that could give rise to instances of fraud.

12. What arrangements are in place to report fraud issues and risks to the Audit, Risk and Governance Committee? How does the Audit, Risk and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The committee receives an annual report on counter fraud, investigations and whistleblowing activity. There have been very few investigations or whistleblowing activity during 2021/22.
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	There have been 15 whistleblowing complaints during the year. 11 have been closed and the underlying allegations not upheld/unsubstantiated. Work is ongoing on the other three cases. 1 case has been carried over from last year and is currently with the police.
14. Have any reports been made under the Bribery Act? If so, please provide details.	No.

Impact of Laws and Regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Lancashire County Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	There are a number of policies and procedures that are available to all employees via the intranet. These include: - The constitution - Scheme of delegation - Political decision making arrangements - Assurance statements This is supplemented by internal audit reviews. There were no changes to the council's regulatory environment in 2021/22 that may have a significant impact on the council's financial statements.
2. How is the Audit, Risk and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?	All committee reports are required to undergo an internal clearance process whereby relevant input is obtained from finance, legal, procurement, HR and other support services, before decisions are taken.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements?	No material issues identified.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.	The council sets aside a provision for self-insured unasserted claims, and these claims are subject to an actuarial valuation every three years.

5. What arrangements does Lancashire County Council have in place to identify, evaluate and account for litigation or claims?	The county council identifies litigation and claims from several sources that include service managers, external bodies serving notice and individuals submitting claims through established claims procedures. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways, child protection and employment matters. The council maintains extensive records relating to both historic and current cases. The council generally self-insures for claims up to £1m, above which insurance is procured. A provision is held on the council's balance sheet to cover the accruing liabilities based on an external actuarial valuation.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? If so, please provide details.	No material issues reported.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Lancashire County Council's 2020/21 financial statements? If so, please summarise: • the nature of the relationship between these related parties and Lancashire County Council • whether Lancashire County Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	There have been no changes to the related parties to date.
2. What controls does Lancashire County Council have in place to identify, account for and disclose related party transactions and relationships?	The group boundary assessment is updated annually by officers in legal and democratic services. All members and senior officers are required to complete a related parties disclosure each year. Enquiries are made across finance department teams to identify any new related party entities.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	The council's related parties in the main are its owned companies, that operate under the direction of their own Board of Directors transacting with the council through the council's normal decision-making processes.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The council has an urgent decision-making procedure managed by the Democratic services team.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Lancashire County Council will no longer continue?	The council's services are subjected to relevant inspections and external reviews, benchmarked to other organisations where relevant. The council monitors its performance regularly through its performance management framework. The council monitors its overall financial position monthly and reports the position to Cabinet quarterly.
2. Are management aware of any factors which may mean for Lancashire County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No.
3. With regard to the statutory services currently provided by Lancashire County Council, does Lancashire County Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Lancashire County Council to cease to exist?	Lancashire County Council expects to continue to deliver statutory services for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits Lancashire County Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements	Yes.

on a going concern basis will provide a faithful representation of the items in the financial statements?	

Accounting Estimates – General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Fair value estimations relating to property and pensions.
2. How does the council's risk management process identify and addresses risks relating to accounting estimates?	The accounting policies are reviewed annually by the Audit, Risk and Governance committee which considers the approach to accounting estimates in light of current issues and regulatory requirements.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
4. How do management review the outcomes of previous accounting estimates?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No.

6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
7. How does the council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	See Annex 1.
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Annex 1)?	None to date.

11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Annex 1, are reasonable?	The approaches are compliant with the CIPFA code of practice.
12. How is the Audit, Risk and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	The corporate finance department employs a team of suitably qualified and experienced accountants who can commission the work of experts as well as exercise their own professional judgement in determining the most appropriate accounting estimates. The accounting policies are reviewed annually by the Audit, Risk and Governance committee which considers the approach to accounting estimates in light of current issues and regulatory requirements.

Annex 1

Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	The council's internal valuers provide valuations as at 1 April based on a three-year rolling programme of valuations. In addition, high value assets are valued annually.	Internal professional review.	The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. External valuations have been obtained for the waste facilities.	The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date. A variation of 10% in the value of the council's land and buildings is stated in the accounts.	No.
Group investment property valuations	The council's company LCDL re-values is property assets annually	Internal professional review.	The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered	The value of the property assets will be driven by the demand for the assets of this nature.	No.

	through external valuers		Surveyors (RICS) professional standards using recognised measurement techniques.		
Depreciation	Depreciation is calculated based on the useful lives of the assets as set out in the accounting policies.	Internal professional review.	The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.	An assessment is made of the impact of a change of one year in the useful lives of the assets.	No.
PFI Liabilities	PFI model	Internal professional review.	No.	The PFI models are updated each year in line with RPI.	No.
Valuation of defined benefit net pension fund liabilities	The net liability to pay pensions is calculated every three years with annual updates in the intervening years.	Internal professional review.	Yes. A firm of consulting actuaries (Mercer) is engaged to provide the Council with expert advice about the	Changes to underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement	No.

			assumptions to be applied.	ages, mortality rates and expected returns on pension fund assets.	
Fair value investments estimates	Dependant on the specific investment.	Specialist review through the council's external advisors, Arlingclose.	Dependant on the specific investment.	Dependant on the specific investment.	No.
Fair value liability estimates	Dependant on the specific liability.	Specialist review through the council's external advisors, Arlingclose.	Dependant on the specific liability.	Dependant on the specific liability.	No.
Provisions	Actuarial valuation of the insurance provision is carried out every three years.	Claims handling and record keeping carried out through the council's internal legal team who use the information to identify any relevant trends and/or regulatory changes.	An actuarial valuation is carried out by AJ Gallaghers.	The council's claims history and records form the basis of the actuarial valuation and is used as a basis of evaluating the need for alternative estimates.	No.
Accruals	Management accounting models and business information.	Internal professional review.	The finance team is able to commission experts where considered necessary due to complexity and/or risk.	Dependant on the nature of the accrual.	No.

Credit loss and impairment allowances	Historic debt collection records are used to model collection rates per client categories.	Internal professional review.	The finance team is able to commission experts where considered necessary due to complexity and/or risk.	The council's debt collection history and records form the basis of the estimates and is used as a basis of evaluating the need for alternative estimates.	No.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
N/A;

Update on Management's Responses to the Recommendations of the External Auditor

Contact for further information:
Neil Kissock, Director of Finance, Tel: 01772 535611 or
Paul Bond, Head of Legal, Governance and Registrars, Tel: 01772 534676

Brief Summary

This report provides the Audit, Risk and Governance Committee with an update on management's responses to the external auditor's improvement recommendations, included in the Auditor's Annual Report 2020-21, as requested at the committee's last meeting held 25 April 2022.

Recommendation

The Audit, Risk and Governance Committee is asked to note the updates provided.

Detail

At the Audit, Risk and Governance Committee meeting held 31 January 2022, the committee considered the Auditor's Annual Report on Lancashire County Council for 2020-21. The Annual Report included two improvement recommendations relating to financial sustainability and three relating to governance.

Management's responses to the auditor's improvement recommendations were not included in the Annual Report in time for the meeting. Accordingly, the committee noted the Annual Report subject to management's responses being provided to the committee ahead of the Full Council meeting on 17 February 2022.

The completed Annual Report, including management's responses, was shared with committee members via email on 4 February 2022 and presented at the Budget Meeting of the Full Council on 17 February 2022.

As requested by the Chair of the Audit, Risk and Governance Committee at the committee meeting held 25 April 2022, information is provided below on progress relating to management's responses to each of the external auditor's recommendations.

Lancashire County Council

Financial Sustainability – Recommendation One

Recommendation:
A clearer distinction could be made between statutory and discretionary spending in the budgetary information provided to members and published on the web.

Management comment:
We are pleased that on the basis of a detailed and thorough review Grant Thornton have concluded that there are appropriate arrangements in place to ensure we manage risks to our financial sustainability with no serious risks identified. We have, in previous budget cycles, analysed the budget between statutory and non-statutory expenditure and reported this to Members. This exercise recognised that statutory expenditure was representing an increasing proportion of the overall budget but also that there are challenges with regard to the interpretation of statutory and discretionary as they relate to a number of service areas.

One of the key elements of previous, and future budget cycles, has been to look at how all services including statutory ones can be delivered differently to deliver better outcomes for individuals, often at a reduced cost overall, and discretionary or preventative services can often be key in supporting these changes. As an area of potential improvement this will be considered by the Member Budget Scrutiny Review Panel.

Progress update:
At its Annual Meeting on 26 May 2022, the Full Council approved a revised Overview and Scrutiny structure. The changes included disestablishing the former Budget Scrutiny Review Panel. Responsibility for budget scrutiny now lies with the (new) Scrutiny Management Board.

The Scrutiny Management Board met informally on 14 June 2022 to discuss how it would carry out budget scrutiny over the next year. The Board agreed to consider the auditor's improvement recommendation during its review of the 2023-24 budget and noted that the Director of Finance had requested information from the external auditor on good practice at different local authorities in relation to this recommendation.

Financial Sustainability – Recommendation Two

Recommendation:
Stakeholders should be consulted on all significant savings schemes/plans identified by the Council.

Management comment:
The report recognises the significant stakeholder engagement and consultations as part of the service challenges review process and the majority of current agreed savings plans resulted from this process. Subsequent agreed savings have been primarily efficiency or income related and we are not aware of any savings that should have been through a specific consultation process, before final decisions being made, that haven't.

As an area of potential improvement this will be considered by the member Budget Scrutiny Review Panel.

Progress update:
As with the first improvement recommendation on financial sustainability above and following the disestablishment of the Budget Scrutiny Review Panel, the Scrutiny Management Board will consider the auditor's improvement recommendation during its review of the 2023-24 budget.

Governance – Recommendation One

Recommendation:
Whilst gifts and hospitality received are declared, as with members interests there is not a central register of all gifts and hospitality received. Improvements could also be made to the level of detail captured on the councillor gifts/hospitality register such as date, value, whether it was accepted or declined.

Management comment:
This recommendation will be implemented.

Progress update:
An updated Gifts and Hospitality Register is available to view on the county council's website here: https://council.lancashire.gov.uk/mgListGifts.aspx

From June 2022, this list provides a central register of all gifts and hospitality declared by councillors, including date, value, and whether it was accepted or declined.

Gifts and hospitality declared by councillors prior to June 2022 can also be viewed on the county council's website.

Governance – Recommendation Two

Recommendation:
Whilst interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.

Management comments:
This recommendation will be implemented.

Progress update:
A central register of members' declarations of interests is available to view on the county council's website here:
https://council.lancashire.gov.uk/mgListDeclarationsOfInterest.aspx?RPID=728

This online register allows declarations of interest to be sorted by date, committee, category and councillor.

A record of members' interests can also be accessed via each councillors' biography and, in response to the auditors' recommendation, declarations of interests at council meetings can be viewed with the committee details on the council's website: https://council.lancashire.gov.uk/mgListCommittees.aspx?bcr=1

Governance – Recommendation Three

Recommendation:
The Council should aspire to ensure that all agenda items reported to committees are subject to sufficient challenge and scrutiny.

Management comment:
We are pleased that the External Auditor found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions.

Whilst we support the aspirations of this recommendation we have requested further evidence from the External Auditor so that we can consider this improvement recommendation in the context of the enhancements we are putting in place following the LGA Peer Review and the Internal Audit of scrutiny.

Progress update:

Following on from the LGA Peer Review, a number of actions have been put in place to support members in carrying out their role. These include:

- The establishment of a Member Engagement Panel to help strengthen member-officer relationships. The panel is used as a forum to identify member issues.

- To help establish a better rhythm for decision making, more briefings including operational briefings have been put in place. This should provide members with more information on which to challenge and scrutinise decisions.

- A member survey has been undertaken that aims to identify how members and officers can work better together. An action plan is being drafted.

- Full Council has introduced several changes to constitutional arrangements, including:

    - Changes to the scrutiny function, including the creation of an additional committee and better alignment with Cabinet Members' portfolios and the council's corporate priorities.

    - The disestablishment of the Cabinet Committee on Performance Improvement in order that performance and risk matters are now discussed at the main Cabinet meeting and therefore given a higher profile.

  - Asking the Political Governance Working Group to meet on a quarterly basis, to be a forum for matters relating to the political management of the authority and for regular engagement between political groups and key officers.

- A programme of scrutiny training has also been developed in conjunction with the Local Government Association. These steps have been taken with the aim of enhancing and improving scrutiny and accountability in the council.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

None identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
(Appendices 'A' to 'Y' refer)

Contact for further information:
Andrew Dalecki, Tel: 01772 533469, Head of Internal Audit,
andrew.dalecki@lancashire.gov.uk

Brief Summary

In the context of the committee's responsibility to consider updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the committee is asked to consider the internal audit progress report and outcomes of the work for 2022/23 for the period to 30 June 2022.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and note the report.

Detail

This report sets out for the committee the internal audit work performed under the audit plan for 2022/23 approved in April 2022.

Appendix A highlights key issues that the committee should be aware of at this point in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Appendix B sets out the audit assurance levels, and classification of residual risks used by the Internal Audit Service.

Appendices C – Y provide an executive summary relating to each individual internal audit assignment completed, since last reported to this committee on 25 April 2022.

Consultations

The Chief Executive and Director of Resources, the Director of Finance, and each of the Directors and/or Heads of Service who have sponsored the audit work reported here have been consulted.

Lancashire County Council

Implications:

This item has the following implications, as indicated:

Risk management

This report supports the Audit, Risk and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel

N/A
Reason for inclusion in Part II, if appropriate

N/A

Matters Arising from Internal Audit Work Completed During the Period to 30 June 2022

1 Introduction

1.1 This report highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights the issues arising from the work undertaken during the period to 30 June 2022 by the Internal Audit Service under the audit plan for 2022/23.

2 Progress against the internal audit plan

2.1 The majority of the 2021/22 audit plan has been completed. The audits detailed in the table at section 3.1 have been completed since the last Audit Risk and Governance committee meeting in April 2022.

2.2 Work to deliver the 2022/23 audit plan has commenced and is ongoing, with risk and control frameworks currently being developed with service managers and detailed testing is under way. The progress of audits from the 2022/23 audit plan are reported below.

Stage of audit process	Number	Percentage
Complete and reported to committee	0	0%
Draft report stage	0	0%
Progressing	13	16%
Not yet started/ at the planning stage	67	84%
Total number of audits	**80**	**100%**

2.3 The two audits detailed in the table below are at the draft reporting stage and are currently being discussed and agreed with managers. Draft reports have been issued for both.

Control area
Corporate Parenting Strategy
Transport Provision for Children

2.4 There are 80 audits on the audit plan (excluding follow-up work and grants). Since the plan was agreed by the Audit, Risk and Governance Committee in April 2022, we have received 5 requests to complete additional audit work that was not part of the original audit plan. Work in these five areas has either been completed or is ongoing. No audits have been removed from the plan. The details for the changes to the plan are set out below at section 5.

2.5 The Internal Audit Service also provides an out-sourced internal audit function to the Office of the Police and Crime Commissioner and Lancashire Constabulary, Lancashire Fire and Rescue Service, and Rossendale Borough Council. In Quarter 1 of the 2022/23 financial year the service has issued 15 final audit reports and 2 follow-up audit reports to our external clients. There are also 3 further audits at the draft reporting stage.

3 The assurance available from completed audit work

3.1 A brief summary of the assurance provided can be found in the table below. The matters arising from each of the completed audits are set out in the executive summaries provided at Appendices C – Y.

Control area	Assurance
Admission of Employers to the Pension Fund	Substantial
Council's Appointee and Deputy Role	Substantial
Covid Funding Streams	Substantial
General Ledger	Substantial
Community Test and Trace	Substantial
Facilities Management Cleaning Service	Substantial
Accounts Receivable	Substantial
Procurement During Covid	Moderate
Recruitment	Moderate
Disclosure and Barring Service (DBS) Policy and Process	Moderate
Contract Monitoring – Residential Care Providers	Moderate
Children Looked After - Sufficiency Strategy	Moderate
Children's Safeguarding Assurance Partnership	Moderate
Older People Care Services - Safeguarding Alerts	Moderate
Older People Service - Sickness Absence Management	Moderate
Contract Monitoring Homecare Framework Providers	Moderate
Debt Management	Moderate
Payment Card Industry Data Security Standards	Limited

Grant certification and special investigations

3.2 In addition to providing assurance to the council, some audit work is required by various central government departments, to provide them with assurance over the council's use of grant funding and attainment of funding conditions. A special investigation was also completed into the circumstances of an attempted bank mandate fraud against the council. The table below provides details of this completed work.

Control area
Culture Recovery Fund - Grants Programme
Peer Network Funding to Local Enterprise Partnerships (LEPS) Grant
Core Growth Hub Grant Funding to Local Enterprise Partnerships
Liverpool Combined Authority Local Energy Hub – Q3 2021/22
Skills Bootcamp

Supporting Families Grant Claims– Q1 2022/23
Bank Mandate Special Investigation

4 Follow-up of actions agreed arising from earlier audit work

4.1 The Internal Audit Service normally aims to follow up the action plans agreed by managers to address the risks identified through the audit process, to confirm that action has been taken. The plan for the year therefore includes an allocation of time for this work and the actions agreed in earlier years are being reviewed with the responsible officers.

4.2 As reported to the Committee during the last meeting in April 2022, a wider review of previously agreed management actions had commenced. The aim of this review was to establish the number of management actions that remain outstanding and therefore still require implementation.

4.3 As part of this review, we have assessed 554 management actions and sought status updates from managers across the council. From this review we established that 356 have been implemented and 83 have either been superseded as the risk profile has changed since the original audit, or further audit work in the same area has now provided additional assurance over the subject area.

4.4 The remaining 115 management actions are outstanding, of these 96 have a follow up review scheduled in the 2022/23 financial year as part of our normal follow up process. The remaining 19 outstanding management actions will continue to be followed up by seeking management assurance as to the progress made in their implementation.

Action status	**As at 30 June 2021**					
	Total		**Risk rating**			
			Critical	**High**	**Medium**	**Low**
Complete	356	64%	0	16	191	149
Incomplete	19	3%	0	7	8	4
Follow up Scheduled 22/23	96	17%	0	2	55	39
Superseded	83	15%	0	14	47	22
Total	554	100%	0	39	301	214

5 Amendments to the audit plan for 2022/23

5.1 It is important that the audit plan is a flexible plan, as was noted when the audit plan was agreed. At this stage of the financial year there are no audits that have been removed from the audit plan.

5.2 Internal Audit have been requested to complete audit assignments that were not originally included in the 2022/23 Audit plan. Since the Audit plan was agreed by the Audit, Risk and Governance Committee, we have been able to facilitate 5 requests for support and advice from various service areas across the council. We aim as a service to remain flexible in order that we can support and add value to the council when unexpected and fast-paced changes in risks occur. The table below details the audit work commenced or completed that was not originally included in the Audit plan.

Control area
Skills Bootcamp Grant Scheme
Peer Network Funding to Local Enterprise Partnerships (LEPS) Grant
ASC Covid Grants for Care Providers - Readiness for The Covid-19 Enquiry
Bank Mandate Special Investigation
Liverpool City Region Local Energy Hub Grant Funding

Audit assurance and residual risks

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of its objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve its objectives.

Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

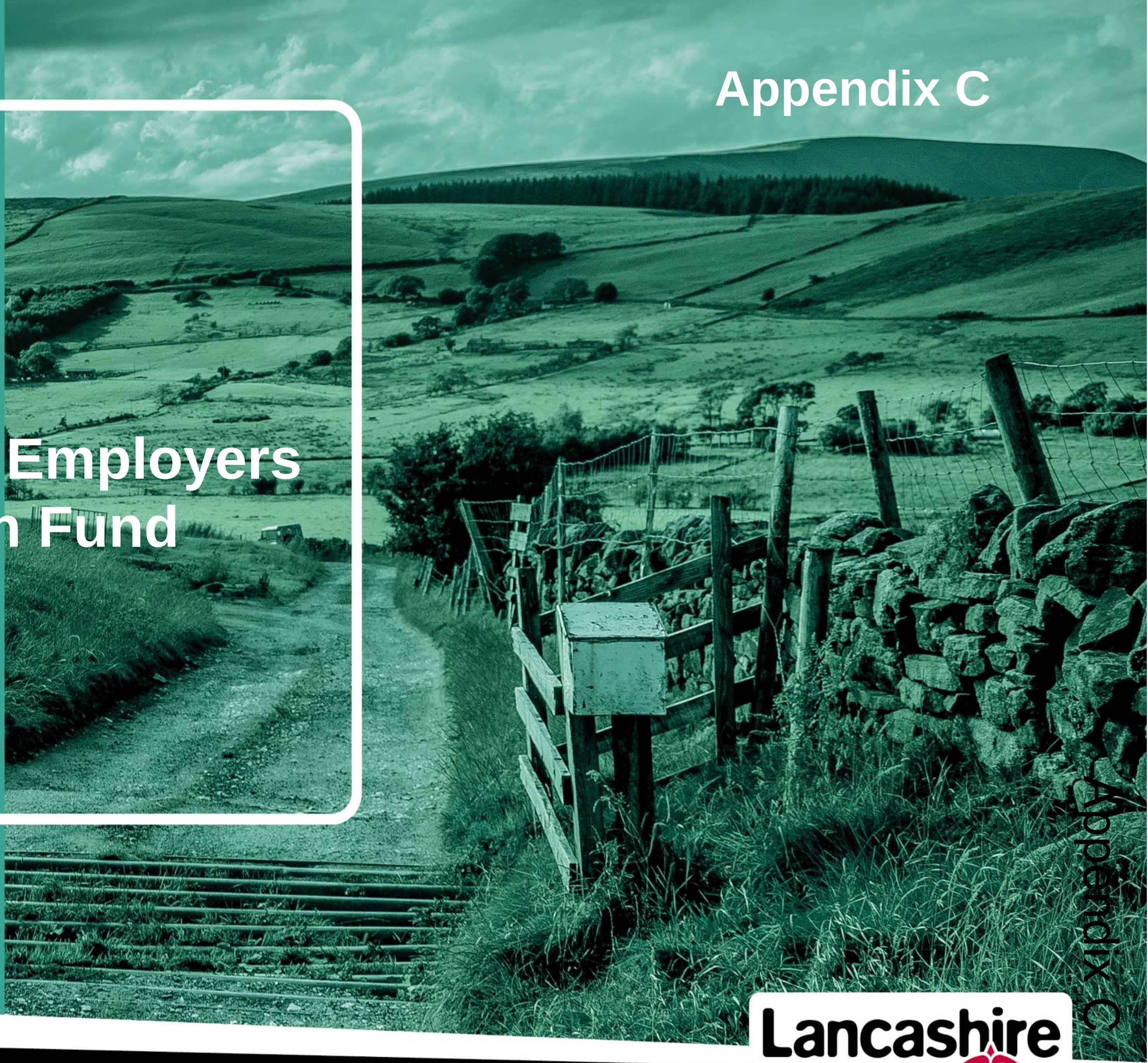
Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the county council's services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the council's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently*.

Medium residual risk: failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken*.

Low residual risk: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable*.

Appendix C



Internal Audit

Admission of Employers to the Pension Fund

2021/22

Appendix C

Lancashire County Council

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	1	1

The management of admissions to the Local Government Pension Scheme (LGPS) is operating effectively to mitigate the known risks to the Lancashire County Pension Fund (LCPF).

There is a detailed admissions and terminations policy which was agreed by the Pension Fund Committee and reflects statutory guidance. Admissions to the scheme and academy conversions are recorded in a comprehensive case tracker and managed in line with the policy. Although, the admission process is often not completed on a timely basis, this is mainly due to the time required to resolve technical queries. Risk assessments are carried out on all admissions to assess the financial strength of the prospective employer and help to determine whether a bond is required. Admission agreements are reviewed by legal services and signed by all parties prior to approval of admission to the scheme by the Head of Fund. Going forward, LCPF are intending to review admitted bodies financial strength on a periodic basis, which will further mitigate risks to the LCPF.

Agreed actions from the audit	Priority
As required in the admission agreement a process will be developed by LCPF (as the administering authority) to ensure that the admitted body and scheme employer assess the level of risk at no more than an annual interval. This will enable them to determine if a bond/indemnity needs to be introduced/varied to address the revised risk exposure.	
LCPF will introduce a timeline that details the expected time to achieve key steps for admissions to the scheme and academy conversions. The timeline will be shared with all relevant parties to ensure that all parties are aware of all key deadlines they are required to comply with, which in turn should increase the likelihood of compliance and improving processing times.	

Background

This report summarises the findings from the internal audit of admission of employers to the LCPF. The audit has been undertaken in accordance with the 2021/22 Internal Audit Plan.

Context

The LGPS is open to two basic types of employers, “Scheduled Bodies” and “Admitted Bodies” which are both covered under Schedule 2 of the LGPS Regulations 2013. When schools are granted 'Academy' status they become a scheduled body. They therefore automatically qualify to participate in the LGPS. Whereas admission bodies do not automatically qualify as employers within the scheme, but the LGPS regulations allow participation for employees of admission bodies, through an admission agreement.

Different types of employers will pose different risks to the LCPF, as such a key objective for the LCPF is to only admit employers where the risk to them is mitigated as far as possible. Certain employers may be required to provide a guarantee or alternative security before entry will be allowed. Since March 2021 LCPF have completed the admission process for two bodies and four new academies have joined the LCPF.

Previous audit

This area has not been previously audited.

Scope of Audit

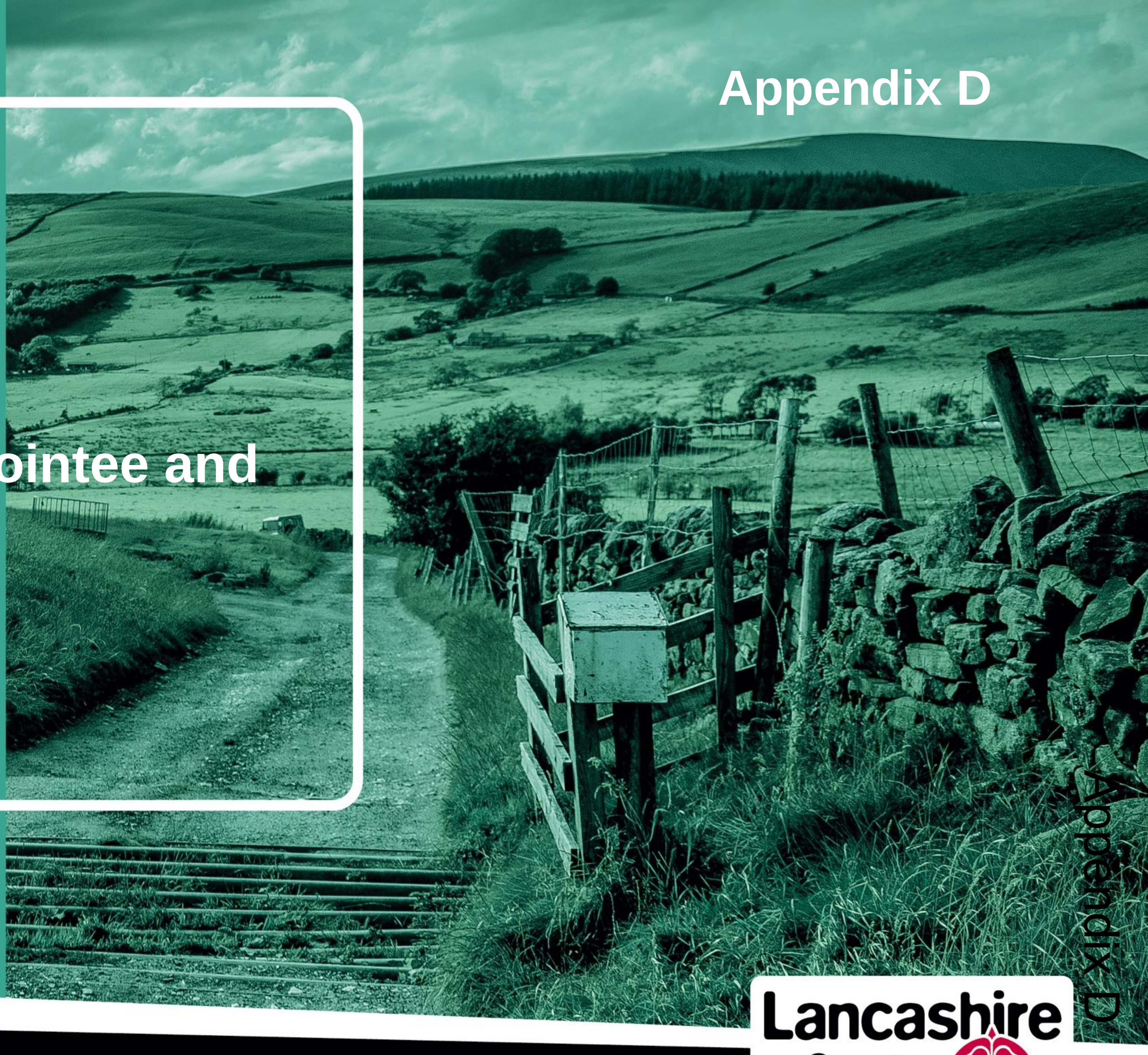
In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Policy, guidance and training
- Case administration
- Mitigation of risk
- Admission approval
- Scheme Induction

LCPF took over the role of managing admissions in April 2021 prior to this it was managed by LPPA. The scope of the audit only reviewed admissions from this point covering the period from April 2021 to January 2022.

Area of Coverage	Commentary	Assessment
Policy, guidance, and training	There is a detailed admission and termination policy easily accessible on the LCPF website that was reviewed and approved by the Pension Fund Committee. Prior to approval, scheme employers participating in the LCPF, and the scheme actuary were consulted with and given the opportunity to provide feedback. Detailed information is available on the LCPF website to support and inform prospective employers and academy conversions. This information is also shared again as part of the admission process and academy conversion.	
Case administration	LCPF have produced documented procedures of the admission process which includes a flowchart of the key steps. A comprehensive tracker is retained which reflects the current position of academy conversions, admissions and cessations. The admissions and academy conversions reviewed as part of this audit met the regulatory criteria for admission to the scheme. Where applicable they were supported by comprehensive application forms. The admissions process and academy conversions are often not completed on a timely basis. However, we do acknowledge that the delays are usually due to the time required to resolve technical queries.	
Admission approval	Prior to approval by the Head of Fund, draft admission agreements are confirmed as accurate with the contractor and the scheme employer (where Lancashire County Council is not the scheme employer). The Head of Fund approves admission to the scheme and receives a summary of the key information from the Senior Pensions Technical Officer to support this. Admission agreements are signed by the scheme employer and contractor and then sealed by Legal Services. Legal Services also ensure that the agreement is executed in line with the applicable statutory provisions.	

Scheme Induction	Both academy conversions and admissions to the scheme receive a welcome letter which includes details on their employer contribution rate and reiterates their obligations. The Senior Pensions Technical Officer ensures that Altair is correct, and the contributions are being paid correctly. Once the process is completed all key documentation is retained in the employer file.	
Mitigation of risk	As required in the LGPS regulations, risk assessments are completed for all admissions and the conclusions are supported by detailed information which helps determine whether a bond is required. For most admissions reviewed, the small contractor policy criteria had been met. This includes approval from the transferring employer to accept all risks (as detailed in the risk assessment) and for their future service contribution rate to be adopted. The level of risk for these cases tested determined that a bond was only required in one case. There is currently no annual review of admitted bodies and scheme employer's level of risk exposure to LCPF, which contravenes the admission agreement. Academy conversions adopt the future service contribution rate of the Local Education Authority that the academy previously came under. One of the cases tested had previously been given an incorrect contribution rate by LPPA but was identified and corrected by the LCPF.	



Internal Audit

Council's Appointee and Deputy Role

2021/22

Lancashire County Council

Appendix D

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	0	4

A strong control environment exists over the activities of the Financial Safeguarding Team (FST) when they act as an appointee or deputy for individuals who have been assessed in accordance with the Mental Capacity Act 2005 as not having an ability to manage their own finances. This audit has focussed on individuals who are supported by the council's Disability Service in a supported living tenancy, although the overarching processes and controls operated by the FST apply equally to all individuals they support.

Regular monitoring is undertaken to ensure income due to the individual is received and bills are paid on a timely basis, and monies are made available for the individual to cover day to day living costs; with high value expenditure receiving additional authorisation and approval. In those cases where the council acts as a Court Appointed Deputy, the FST further comply with Office of the Public Guardian's (OPG) requirements and provide an annual report detailing significant decisions made on behalf of the individual and a high-level summary of income and expenditure. A small number of areas for improvement have been identified below to further improve the control environment.

Agreed actions from the audit	Priority
FST guidance will be updated to ensure it fully reflects the current operational arrangements including accounting and financial systems in use. Similarly, the guidance documents will reflect the arrangements in place between the FST and the Disability Service regarding their separate roles and responsibilities in supporting individuals in order to avoid any conflicts. Additionally, the guidance documents for the adult community social care team will be reviewed.	
Adult Community Social Care staff will be reminded of the need to ensure that the most up to date referral documentation is used, and that all relevant forms are completed fully to evidence that all the required pre-referral checks have been undertaken and to avoid any unnecessary delays in the overall process.	
Anticipated income values will be entered into the Caspar system following the annual increase in benefit rates applicable from April 2022 to allow the system to reconcile these values automatically, which will improve the efficiency of the bank reconciliation process. Similarly, all Motability contracts will be entered into Caspar to improve the administration of these contracts. Additionally, FST staff will be asked to use the diary function within Caspar to ensure that significant tasks are not omitted in the unforeseen absence from work of the responsible officer.	
The authoriser will check for any unknown payments by checking the service user's CASPAR record for payment request.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period April 2021 to January 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

Where an individual has been assessed in accordance with the Mental Capacity Act 2005 to lack the ability to manage their own finances and they do not have a family member or solicitor to take on this role, they are referred to the FST to be processed through the Court of Protection. The role of Court Appointed Deputy is awarded to the holder of the office of Director of Adult Community Social Care and the day-to-day management of finances is then delegated to the FST which is supervised and regulated by the OPG, or as an Appointee, approved via the Department for Work and Pensions (DWP).

The council's Disability Service are currently reassessing all individuals in supported living tenancies and are transferring responsibility for overall financial management to the FST, where appropriate. The Disability Service will however retain responsibility for supporting the individuals with day-to-day financial activity, and for retaining records of these transactions.

Financial information

Currently referrals have been processed for 81 individuals supported by the Disability Service, whose assets are valued at approximately £1.2m, a further 130 referrals are still to be processed.

Previous audit

Whilst an internal audit of the council's role as an appointee or deputy has been carried out previously, this is a number of years ago and no significant weaknesses were identified at that time.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Guidance
- Referral to the FST and deputy or appointee application process
- Oversight of finances
- Office of the Public Guardian reporting and supervision

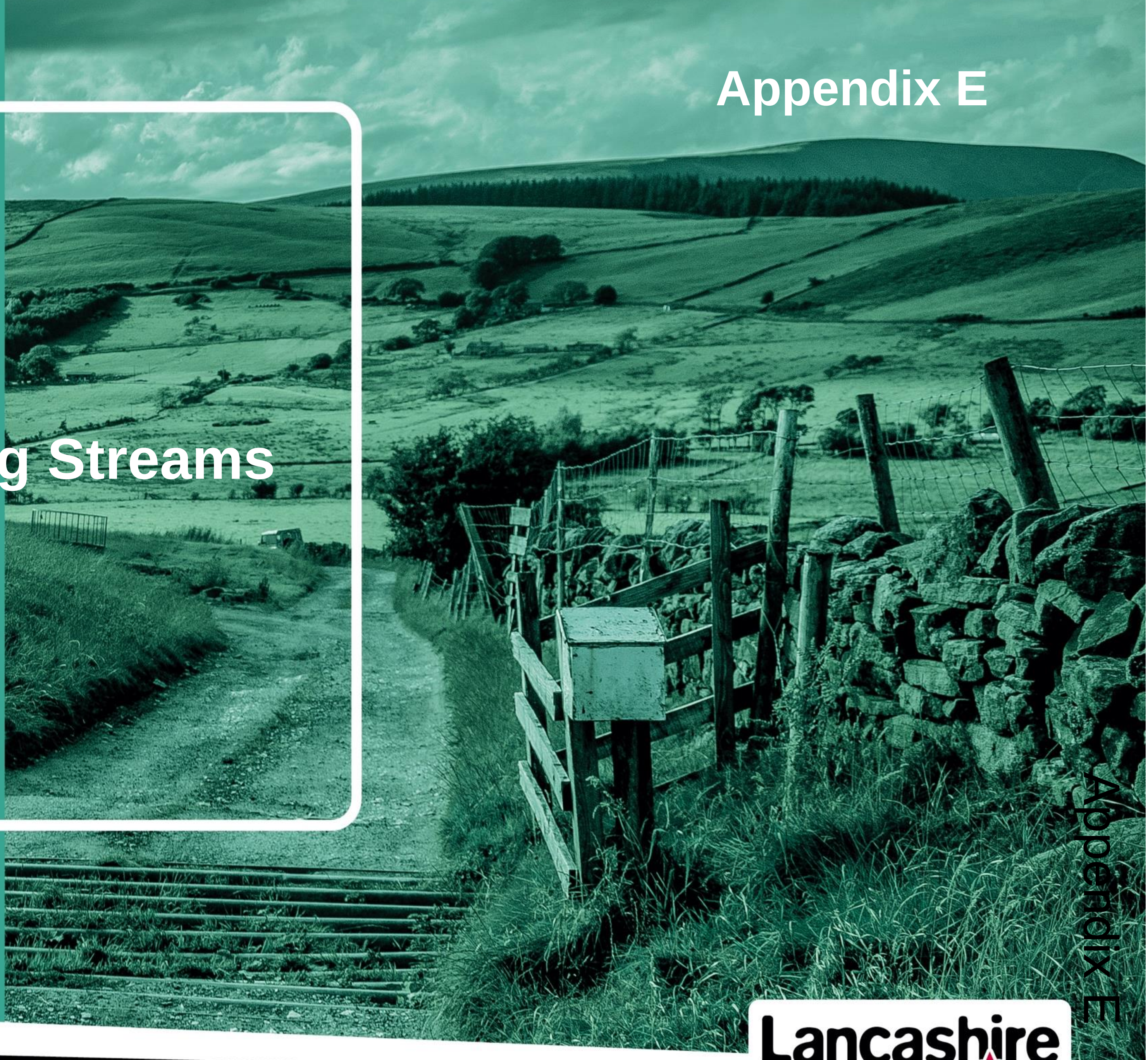
Area of Coverage	Commentary	Assessment
Referral to FST and deputy or appointee application process	**Referral** To comply with the requirements of both the OPG and the Mental Capacity Act 2005 a mental capacity assessment (MCA) is completed by an appropriate practitioner and includes confirmation that a referral to the FST is in the best interests of the individual as they lack the capacity to manage their own finances. Following the above, Adult Community Social Care staff complete a referral form, as part of the application to court for Deputyship. The referral form additionally provides a checklist as an aide memoire for adult community social care staff. There is provision for this to be completed to evidence that all required checks in making the referral have been undertaken, which includes the need to contact family/ next of kin to ensure that there is no-one available to undertake the role of Court Appointed Deputy or Appointee. This checklist had not been completed in half the cases in our sample and whilst there was no negative impact on FST activity, the omission of these checks may result in a greater issue for adult community social care staff and legal staff to resolve if a family member were to object.	

	In conducting this review, we considered the timeliness of the referral process from receipt of the referral by the FST to the filing of the application with the Court of Protection (COP). In one case, the referral process incurred delays of more than five months. The cause of this delay was identified as the COP and a complaint was filed by the FST. **Application for Deputyship** In order for the council to act as a Court Appointed Deputy there are a series of COP forms to be completed. These are held on the FST 'Caspar' system which allows them to be pre-populated with core data held about the individual. The application form supported by the assessment of capacity form is forwarded to the COP in the first instance. Following this the individual for whom the FST are applying for deputyship and any parties with an interest are issued with a notification form. **Application for Appointee** An Appointee role is applied for when the individual being supported is only in receipt of state benefits. We were satisfied that the appropriate arrangements had been followed for the relevant items in our sample.	
Oversight of finances	Caspar is the key system used by the FST to maintain and administer an individual's bank accounts, state benefits and property. It has several functions that allow anticipated income and expenditure to be monitored and bank reconciliations to be performed which enables FST to identify any missed transactions. For 70% of our sample, we noted that the anticipated income values for state benefits had not been updated following the last annual increase. Caspar also includes other functions used by FST such as a *'diary'* that allows staff to add reminders for upcoming tasks that require action, and '*notes'* may be added to an individual's record, which is used mainly to append communications between FST and Adult Community Social Care staff, DWP and the COP. Motability contracts should also be recorded on Caspar, although this information had been omitted in 60% of the cases we examined. Additionally, a pre-paid card system is used to enable individuals to manage their own personal allowances, whilst allowing the FST to monitor card transactions. A standing order is set up by the FST to pay a weekly amount onto this card from an individual's personal bank account, but daily management of card expenditure is undertaken by staff from the Disability Service. Amounts held on the cards are reviewed by the FST to ensure the value held does not exceed a reasonable level, with any excess funds being transferred back into the individual's bank account. Whilst expenditure greater than £500 should be approved by the Disability Service and the Managing Individual Adults Finance Panel, we identified one case, with a value exceeding this limit that was not supported by the appropriate approval form from the Disability Service, and no panel approval was noted. User permissions within the council's Bankline system are assigned to ensure there is separation of duties for the payments, although improvements to this have been identified.	
Office of the Public Guardian reporting and supervision	As part of the Court Appointed Deputy role, the FST are required to submit to the OPG an annual report produced on the anniversary of the COP order being made. There are OPG reporting templates to facilitate this requirement. The reports are held on Caspar and some of the details are pre-populated from within the system. The reports must include significant decisions and why they are in the best interests of the individual and the finances they have. The OPG sends FST a monthly spreadsheet reminder of when reports are due, and for our sample reports had been produced in accordance with the requirements of the OPG. Fees had additionally been charged appropriately and in accordance with OPG guidelines. **Supervision by the OPG**	

	The council has an allocated public authority case worker at the OPG who contacts the FST manager on a quarterly basis via telephone. This support was put in place during the pandemic to provide additional assistance as appropriate. Whilst formal notes are not made of these catch ups/ meetings any queries that were raised via email are retained in the manager's Outlook folder. The OPG's bi-annual site inspections have not been undertaken as these were halted due to the pandemic. The FST were subject to a spot check inspection in 2017 and a visit may be undertaken this year although at this time the FST have not received any confirmation of this. The OPG can request a visit from the Lord Chancellor's office for an assurance visit where the service user is visited and then the deputy, a report is then filed by the Lord Chancellor's visitor with the OPG, the findings and any recommendations would then be forwarded to the FST.	

Internal Audit

Covid Funding Streams



2021/22

Appendix E

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	0	0

The usual considerations of risks and control were inevitably affected in the midst of the pandemic, there was a need for services to administer grants and pass on funding quickly. Despite this, we can give substantial assurance that controls and processes appropriate to the circumstances were in place to ensure funds were administered and allocated effectively.

Grants to support the Councils response to Covid were received from central government across the Council in different departments, for various purposes and amounts. They were used to support a wide range of recipients, and all subject to discrete conditions and requirements. They were administered by Services across the council.

Funding received has been fully and accurately accounted for in the Oracle accounting system. Grants were administered effectively with appropriate oversight over decision making. Funds were used in accordance with conditions of grant usage including allocation of funds to eligible recipients, progress reporting to government departments and repayment of unspent funds. Compliance with grant conditions was achieved through the development of effective processes administered by cross-functional teams and is demonstrated through retained evidence.

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit & Governance Committee. The audit has been conducted in conformance with the Public Sector Internal Audit Standards

Context

In response to the Covid pandemic, the government provided the council with additional funding to support the Covid response across Lancashire, through direct funding of council activity or to allocate to other local authorities, organisations and businesses. This was either un-ringfenced emergency funding or for specific purposes such as council tax and business rate support, outbreak management, workforce capacity, free school meals and infection control.

Grants were allocated by different government departments according to the intended recipients and purpose of funding. Grant determination letters set out conditions for use of funds including requirements for reporting progress with funding allocation, compliance with grant conditions and the return of any unspent funding.

Financial information

In 2020/21 and 2021/22 approximately £253m of Covid grant funding was received by the council, £102m of un-ringfenced emergency funding and £151m to support specific action to reduce the impact of Covid. Grants covered by audit testing accounted for £78m of total funding received.

The following grants were selected for review:

- Local Council Tax Support for 2021/22 - £11.4m

- Adult Social Care support funding for care providers, including Infection Control Fund rounds 1 to 5, including testing and vaccination allocations - £57.4m;
- Local Authority Emergency Assistance Grant for Food and Essential Supplies 2020/21 £1.4m;
- Covid winter support grant scheme 2020/21 - £3.9m; and
- Additional home to school transport funding for 2020/21 and 2021/22 - £2.1m

Previous audit

An audit of Covid Funding Streams has not been completed previously

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following control areas:

- Financial accounting and reporting;
- Compliance with grant conditions; and
- Allocation of funds.

Area of Coverage	Commentary	Assessment
Financial accounting and reporting	Covid grant funding was received and accounted for in full in the Oracle system, and included in the Council's budget monitoring and reporting process. Funding was also included in financial reporting to Cabinet, including the Money Matters Revenue and Capital Financial Position 2020/21 Outturn.	
Compliance with grant conditions	There was sufficient evidence that Covid grants had been used for the purposes defined by government, including submission of regular reports on spending where required. <u>Council tax support grant</u> The council tax support grant for 2021/22 was not ring fenced, therefore there were no additional conditions for the Council to meet. <u>Infection Control Fund</u> Grants to provide financial support to adults care homes to ensure their sustainability during the pandemic were administered effectively through a working group established and led by the Director of Adult Services. This group met fortnightly and includes representatives of key services including • ASC financial intelligence and contracts management, • Finance (Exchequer Services), • Legal Services and • Internal Audit.	

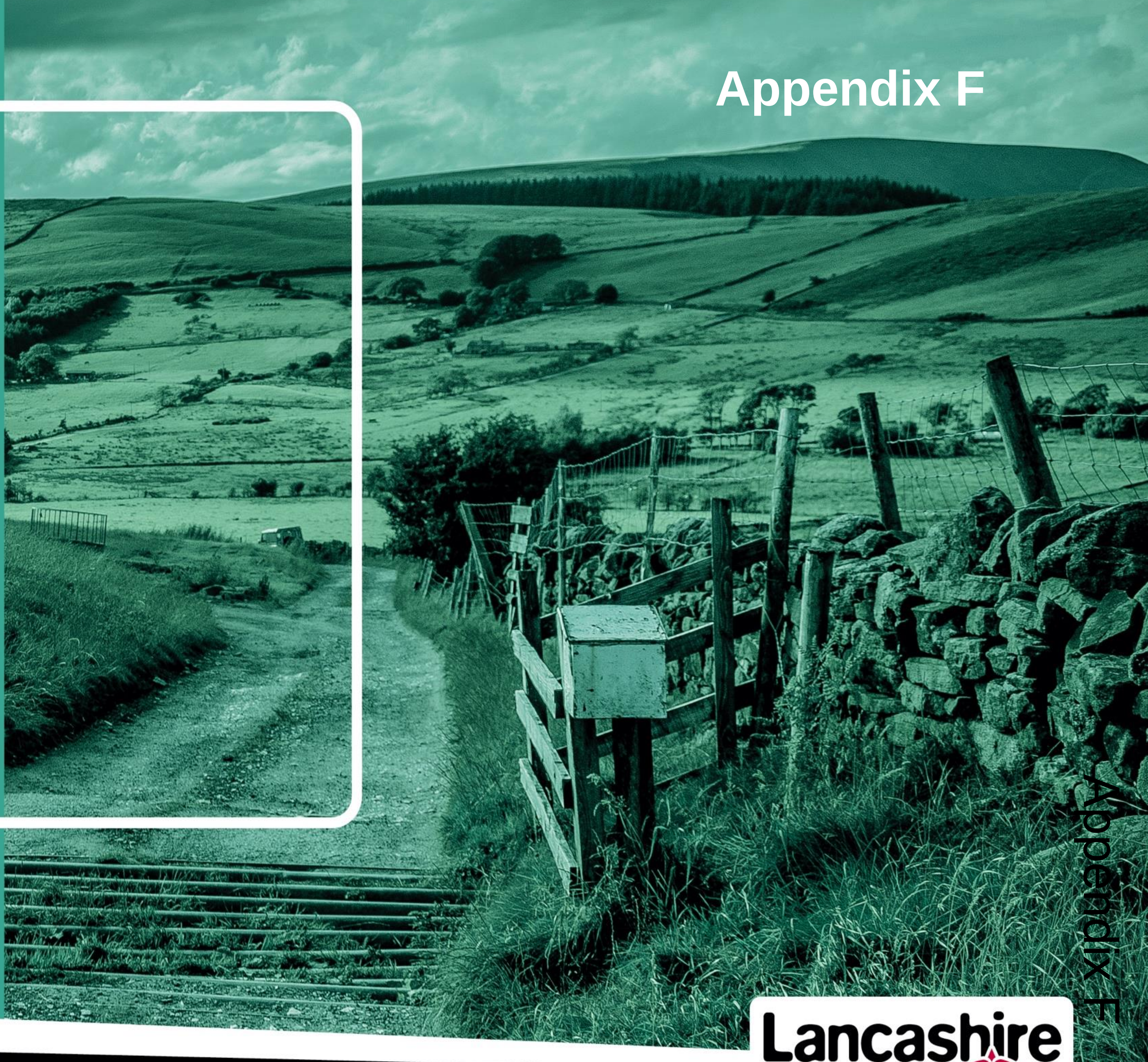
	Grant offers to providers complied with eligibility requirements and were vetted by Legal Services, including clawback requirements for unspent funds. Returns were submitted to government. <u>Local Authority Emergency Assistance Grant for Food and Essential Supplies</u> The amount of funding and allocations to districts was determined by the Department for Environment, Food and Rural Affairs (DEFRA). Public Health at Lancashire County Council used the DEFRA allocation model to calculate the amounts for each district, based on population and level of deprivation. Agreements were drafted with each district which detailed what the money was for and the amount, the outcomes information to be maintained by the district and the fact that unspent money would have to be returned. <u>Covid winter support grant scheme</u> The purpose of the COVID-19 Winter Grant was to support children, individuals and households who were experiencing or at risk of poverty, where they were impacted by the ongoing health emergency. The beneficiary groups eligible to receive support were agreed and approved by the Leader of the Council. Budget analysis, monitoring and reconciliation has been undertaken by Financial Management to ensure that the funding allocated to the council and distributed was sufficient to meet the needs of the beneficiary groups identified. <u>Additional home to school transport funding</u> This grant funded additional school and college transport capacity, and was added to the School Transport Operation budget to support local transport authorities whilst social distancing was required on public transport.	
Allocation of funds	Instances of inappropriate payments being made have not been identified. <u>Council tax support grant</u> The additional council tax support grant for 2021/22 was added to the overall funds available for the annual budget that is approved by members. <u>Infection Control Fund</u> Payments from the Infection Control Fund were ringfenced to social care/ care homes. Care providers were required to confirm that allocated funds were spent on eligible expenditure only, as set out in the allocation letter. <u>Local Authority Emergency Assistance Grant for Food and Essential Supplies</u> All of the grant was distributed to Lancashire's district councils in accordance with the allocation model and conditions set by DEFRA. <u>Covid winter support grant scheme</u> Over 92% of the 2020/21 winter support grant was used to support free meals in schools and colleges. The remainder of the grant was allocated in smaller amounts to district councils to supply essential items to families in need, and to foster carers and care leavers for food and fuel. <u>Additional home to school transport funding</u>	

	The additional funding received was added to the School Transport Operation budget to support the service whilst social distancing was required on public transport. Expenditure from that account was for that service.	

Internal Audit

General ledger

2021/22



Appendix F

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	1	0

Procedures and processes operate effectively to administer the general ledger. Control accounts for the council and Lancashire County Pension Fund (LCPF) are accurately maintained and larger value accounts are regularly reconciled. Accounts with minimal amounts are monitored periodically. Sufficient supporting evidence for submitted journals is held by individual officers, rather than centrally, However, in one case information to support a journal could not be found following the departure of an officer from the council.

Feeder file documentation is stored centrally in shared folders and effectively managed through the error correction system. The creation of cost centre and subjective codes are managed by Digital Services and are processed in a timely manner. At the time of auditing the council's and LPF's closure timetables for the 2021/22 accounts had been drafted and submitted to managers for approval before being finalised.

Agreed actions from the audit	Priority
The council will consider maintaining a central record within each team to ensure the supporting documentation and rationale for journal uploads is always accessible, to support reconciliations and external audit review.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit & Governance Committee. The audit has been conducted in conformance with the Public Sector Internal Audit Standards. The Audit covers the period between April 2021 and December 2021.

Context

Oracle Financials is the council's corporate accounting system. The general ledger is the main ledger and contains all the accounts the council uses in its financial system. Its purpose is to provide a permanent record of all financial transactions and balances classified by account. It supports the production of the financial accounts.

The LCPF is part of the Local Government Pensions Scheme and, as the administering body, the council manages its financial accounting arrangements. The Fund provides pensions for many public sector employers as well as other eligible employers admitted into it.

Financial information

As of the 31 March 2021, the council's cash and cash equivalents were reported at £184.5m, and the net financial position was £1,005.5m. The total comprehensive income and expenditure for 2020/21 was £294.6m debit.

Previous audit

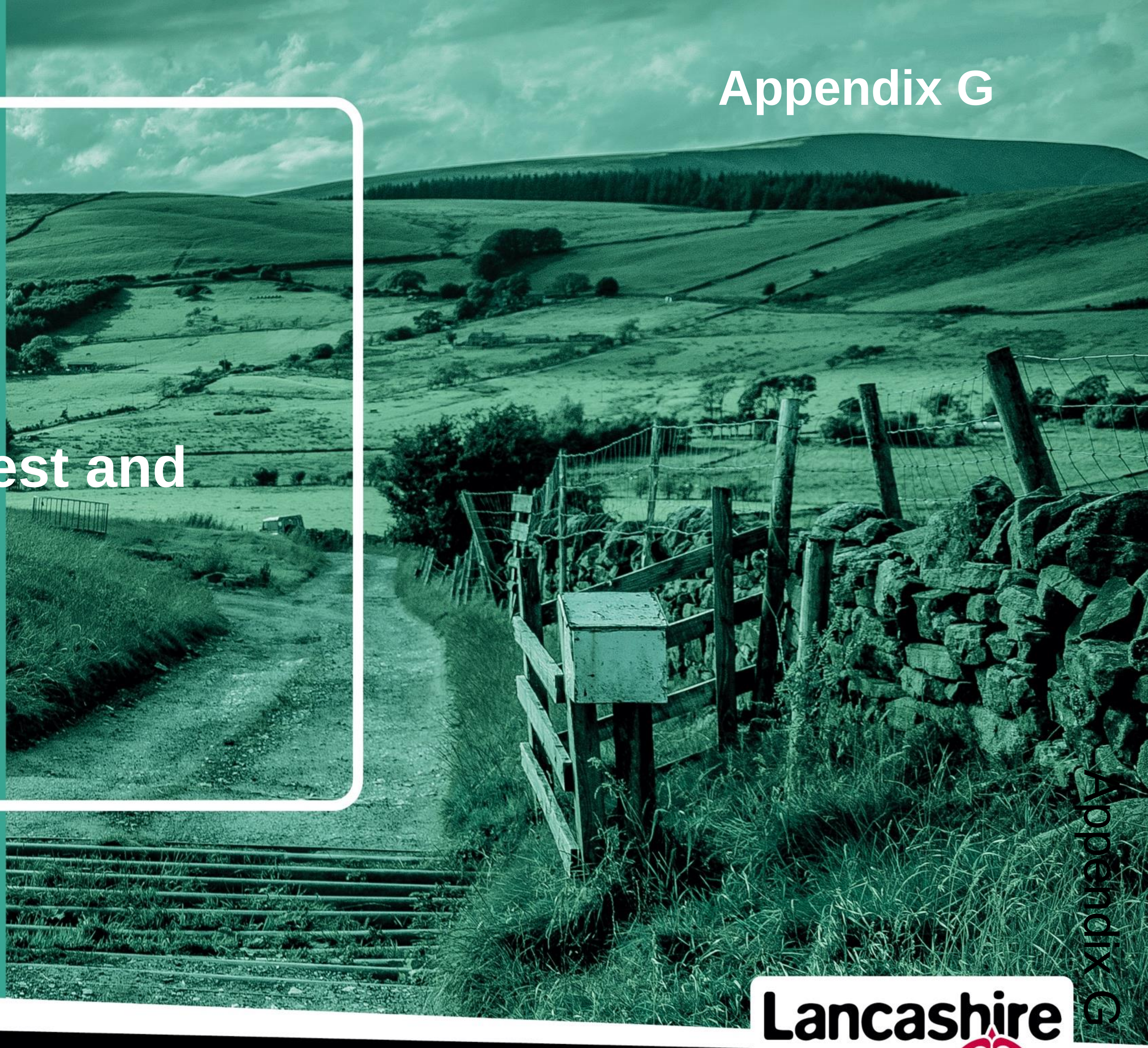
The last audit of the General Ledger system was issued in May 2021, in which substantial assurance was provided with no improvement action required.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Account reconciliations
- Journal processing
- Closure Planning

Area of Coverage	Commentary	Assessment
Account Reconciliation	A list of control accounts is kept for both the council and the LCPF, and transactions are reconciled by accountants for all county and LCPF high value accounts. Significant changes in the account balances are investigated and actioned where appropriate. Accounts with low values are no longer reconciled monthly but are monitored on the General Ledger and any significant changes are investigated and corrections or clearances made where necessary. Reconciliations matched to balances held on the general ledger, however capacity issues within the team due to staff supporting the Oracle Fusion programme meant that a small number of reconciliations were carried out late.	●
Journal Processing	Journals can only be submitted into the General ledger by officers with the correct Oracle permissions, restricted to officers in appropriate roles. Supporting documentation for journals are held individually rather than centrally, and in one case we were unable to obtain documentation as the uploading officer had left the organisation. Interface files are posted to the error correction system which only accepts files it is able to validate. Authorisation is received by Corporate Finance before feeder files are released into the ledger. This is retained centrally and must match file reference and debit totals before being verified for release. Journals released are reconciled against daily reports which identify them as successfully posted or deleted. Corporate Finance send fortnightly reminders to officers whose journals are held in the Error Correction System and actioned promptly. New cost centre and subjective codes are submitted to the Digital Services Team for processing using a request form through the Redmine system, and receive management approval before being processed. Codes are set up accurately and in a timely manner.	●
Closure Planning	The Accounts and Companies manager confirmed that a draft timetable had been issued to staff and management for review before being finalised. The timetable allocates detailed responsibility for council and LPF officers, and deadlines for responsible actions.	●



Internal Audit

Community test and trace

2021/22

Lancashire County Council

Appendix G

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	0	0

In introducing the mass community testing programme, Lancashire County Council and in particular the Sustained Meaningful Asymptomatic Repeat Targeted (SMART) testing team worked dynamically and pragmatically in response to various legislative changes introduced over the course of the pandemic, working collaboratively with partners and networking with other external organisations. We can therefore provide substantial assurance, which means that the arrangements put in place, often at very short notice were adequately designed to support achievement of objectives and mitigation of risks.

In particular, the SMART team, effectively sourced resources from Lancashire Temporary Staffing Agency (LTSA) and provided training in a timely manner so they could contribute effectively, additionally they provided support and advice to various internal and external front line and key services, including the council's Disability Service, Lancashire Fire and Rescue Service (LFRS) and later on educational establishments and organisations including Sport England. The SMART team was flexible in providing support and encouragement to communities across Lancashire, to participate in taking Polymerase Chain Reaction test (PCR) or Lateral Flow Devices (LFDs).

The Head of Service Mass Testing and Project Managers from the Public Health team attended a weekly Senior Point of Contact meeting and reported fortnightly to the Health Protection Board. It is through these two groups that actions were discussed and agreed, based on local, regional and national information, and it is through these meetings that the district councils have been kept informed and involved

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period November 2020 to January 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

The Sustained Meaningful Asymptomatic Repeat Targeted (SMART) testing team was set up in response to the Community Testing Programme (CTP), launched in December 2020 to enable local authorities with high prevalence of COVID-19 to work in partnership with the UK government to accelerate a reduction in prevalence by identifying asymptomatic cases through local testing and supporting them to isolate. It worked alongside other forms of symptomatic and asymptomatic testing led by national government and had a role to play in protecting the public's safety and wellbeing, particularly by providing testing to critical local services and hard to reach communities based on local knowledge and prioritisation.

Previous audit

An internal audit of the VTN (Virtual Testing Network) Community Testing arrangements, with a particular focus on governance arrangements was carried out in December 2020. This resulted in a moderate assurance opinion being issued.

Scope of Audit

The scope of our work has been limited to a light touch review of the adequacy of the control framework and has involved liaison with the SMART testing team and review of documentary evidence supporting the activities undertaken or facilitated by them to ensure communities were kept safe whilst complying with government legislation. The activities conducted or supported by them and considered as part of this review include:

- Governance, reporting, and decision making
- Recruitment and training of staff to support the mass testing arrangements
- Provision of direct testing through a range of delivery models
- Provision of support to local authority partners and external organisations with development of their own testing arrangements

Area of Coverage	Commentary	Assessment
Governance, reporting and decision making	The Directors of Public Health signed a Collaborative Testing Agreement with the Department of Health and Social Care (DHSC) for the provision of support to the Community Testing Programme, and in December 2020, the Lancashire Resilience Forum (LRF) mass testing prospectus was signed off by the Chief Executive and Director of Resources. The document identified the cost of delivery, the testing models to be applied and the number of direct testing staff required during the different phases of the programme. The Infection Prevention Control (IPC) team assessed the layout of the LFD testing sites and arrangements for the storage of kits and other health and safety matters, providing verbal assurances of compliance with clinical governance and the terms of the prospectus. A report was developed by the SMART team detailing PCR usage across the county to the DHSC, which was praised by them for the quality of information it provided, and the SMART team were to continue with their current recording process. The Head of Service Mass Testing and Project Managers from the Public Health team attended weekly Senior Point of Contact meetings and fortnightly Health Protection Board (HPB) meetings at which actions were discussed and agreed based on local, regional and national information available at the time. Despite deviating from the collaborative agreement, the HPB agreed that use of DHSC, Asymptomatic Testing Site (ATS), lateral flow device testing test kits could be used to support Adult Social Care in the absence of any other national support being available. SMART team representatives attended Further Education Covid Update meetings in relation to the Loop-Mediated Isothermal Amplification (LAMP) testing technique to support college students to remain in education. Additionally, the Head of Service Mass Testing or a representative attended all District taskforce meetings to provide directional and preventative testing advice.	
Recruitment and training of staff to support the mass testing arrangements	In December 2020, an LTSA recruitment process commenced, and 67 candidates were initially identified by the Human Resources service and contacted by the SMART team to undertake the DHSC approved online training ahead of practical training with the Ministry of Defence (MOD) teams. This was to ensure that the capacity for onsite testing within the county would be sufficient as the MOD began planning to scale down and finally complete their operations. By April 2021, there were 94 LTSA fully trained staff, therefore the SMART team was able to react and proactively plan for any areas of need across districts and organisations and was able to take over the coordination of testing and training visits from the MOD. The SMART team were in contact with all organisations trained by MOD to ensure that copies of online and practical training certifications had been correctly completed and recorded. In April 2021 they transferred this responsibility to the organisations themselves due to staffing pressures.	

Provision of direct testing through a range of delivery models	Two regional testing sites were established with military support between December 2020 and the end of February 2021, with the SMART testing team taking delivery of the first batch of Innova LFDs ahead of local led mass testing operations. Testing was then conducted in tandem with the DHSC under a Community Testing Agreement and with the assistance of MOD. Testing was prioritised so as to protect the most vulnerable and enable vital health and social care services to operate safely. In June 2021, the SMART team provided enhanced and increased testing support in relation to PCR and LFT testing which included two marquees being set up on the Flag Market in Preston to offer testing for the 500+ visitors and event staff at all England football matches during Euro2020. They supported districts with out of hours contact tracing and by mid-January 2022 LTSA staff had contacted over 7,400 residents and completed 2,300 questionnaires. Additional support was provided to West Lancs Council and the communities of Burnley, Rossendale, Chorley and Ribble Valley which included the introduction of door knocking, a step-up procedure in case of wider gene sequencing, and the drafting of surge testing The SMART team were also heavily involved in supporting education establishments, by working closely with LRF Planners in deploying Mobile Testing Units (MTU) for outbreak response and through being the first council in the UK to pilot the LAMP testing technique to support college students to remain in education. Testing was then widened to chosen businesses that were priority sites and prison testing, working alongside justice colleagues, which included attending prison outbreak management meetings.	
Provision of support to local authority partners and external organisations with development of their own testing arrangements	LFRS sought support from the SMART team to provide training with test kits to officers across the county. This was delivered through the military, who supported the LFRS on site, to train staff. Discussions took place with large infrastructure employers such as British Aerospace who subsequently signed up to regular staff testing, supported by test kits from the SMART Team and assurance of workforce training. The SMART team supported the development of home testing for ASC operational and transport staff, and the public health commissioned services i.e., substance misuse, homeless, mental health. This was also widened to include early years settings, as no national provision was available. It was deemed critical to support these services as they allowed key staff and frontline employees to get back into work. In January 2021, the SMART team liaised with Sport England to support testing aligned to key sporting activities to ensure Lancashire's communities could continue to access physical activity. The Library Service were supplied with LFD test kits to support accessibility to test kits to the wider population. The SMART team engaged with Christian and Muslim faith partners, working with mosques in Preston to setup onsite testing to encourage the communities, which data showed were higher risk, to get tested. Communication channels were also established with disproportionately impacted groups to educate them on the risks and the importance of testing. The team also increased activity in response to the new Covid Omicron variant by supporting the DHSC in issuing LFD test kits to support the lack of kits at pharmacies and by supplying Orient Gene 20s Home test kits.	

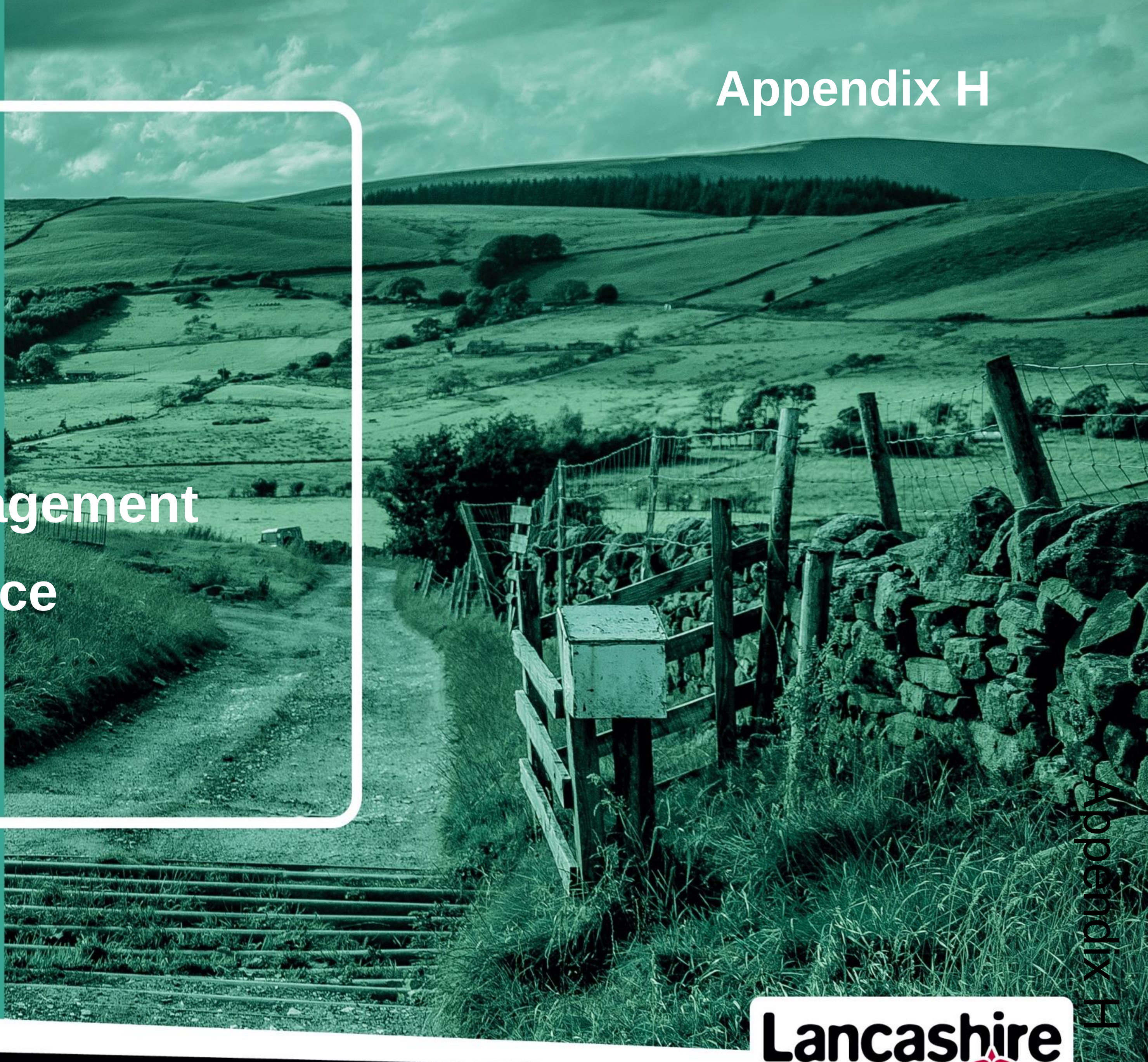
Appendix H

Internal Audit

Facilities Management

Cleaning Service

2021/22



Appendix H

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	0	1

An adequate and effective control environment surrounds the Facilities Management (FM) Cleaning Service, for the council's Older People Care Service (OPCS) residential establishments, ensuring that users are provided with services that consistently meet customer needs and statutory and regulatory requirements. Building specifications have been produced using the British Institute of Cleaning Science (BICS) calculation to identify the cleaning resource required, and ongoing analysis of the use of buildings is undertaken to ensure that the staffing position and the hours required to clean individual buildings remains appropriate.

A performance monitoring and building inspection regime is established to ensure that cleaning is undertaken to the agreed standard/ specification, and to determine whether the cleaning service is successful in achieving its objectives. FM is committed to complying fully with the requirements of the ISO 9001:2015 Quality Standard, for Building Cleaning Services, and achieving continuous improvement of the service through effective monitoring, measuring, and analysis of process outcomes and implementation of appropriate actions to achieve improvements. The NHS national standards of healthcare cleanliness are due to be implemented in November 2022, facilitating further independent auditing of cleanliness within Older People care establishments.

The service proactively strives to improve operations and is currently reviewing digital solutions to create efficiencies.

Agreed actions from the audit	Priority
Facilities Management will review the current system for capturing customer feedback and consider alternative approaches, such as the provision of online feedback. It would be beneficial for feedback to be received directly into the Facilities Management Cleaning Service to ensure the integrity of the responses.	Low

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit was undertaken during the period October 2021 to March 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

We have undertaken a review of the Facilities Management Cleaning Service, to review the process by which the cleaning resource is determined and provided for the council's Older People Care Service (OPCS) residential establishments

The FM Team is multi-disciplinary with building cleaning contracts, and a mobile workforce based across a portfolio of approximately 400 sites. In 2015, FM took over the responsibility for the cleaning service (including laundry provision) to all OPCS residential establishments and day centres from Lancashire County Commercial Group.

FM recharge OPCS for the service provision costs, however there has been for some time an ongoing budget deficit for cleaning provision within the OPCS budget, related to a combination of foundation living wage salary increases and additional/unplanned specialist cleaning requirements, for example, sanitisation following an outbreak. This budget pressure has been remedied as part of the 2022/23 medium-term financial strategy budget decision making.

Both OPCS and the Facilities Management recognise that action is necessary to determine the cleaning service level required, ensuring there is appropriate resource to meet industry standard, which is measured according to BICS best practice. A detailed joint review has been undertaken resulting in a report documenting the objectives, medium to long-term strategy and resource requirements. The review clarifies the service the OPCS need to commission from FM to meet the required level of cleaning in line with the standards as identified using the BICS methodology. In addition, there is a new NHS cleaning standard that must be implemented in older people care settings from 1st November 2022. This may require further resource needs, and FM, OPCS and IPC colleagues are currently actively assessing this.

Previous audit

No previous audit of the FM Cleaning Service has been undertaken

Scope of Audit

At the request of the Head of Facilities Management, this audit has specifically focused on the cleaning service surrounding the Older People care home portfolio, for which we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Building cleaning strategy
- Budget monitoring
- Cleaning specifications and resource planning
- Performance standards and monitoring

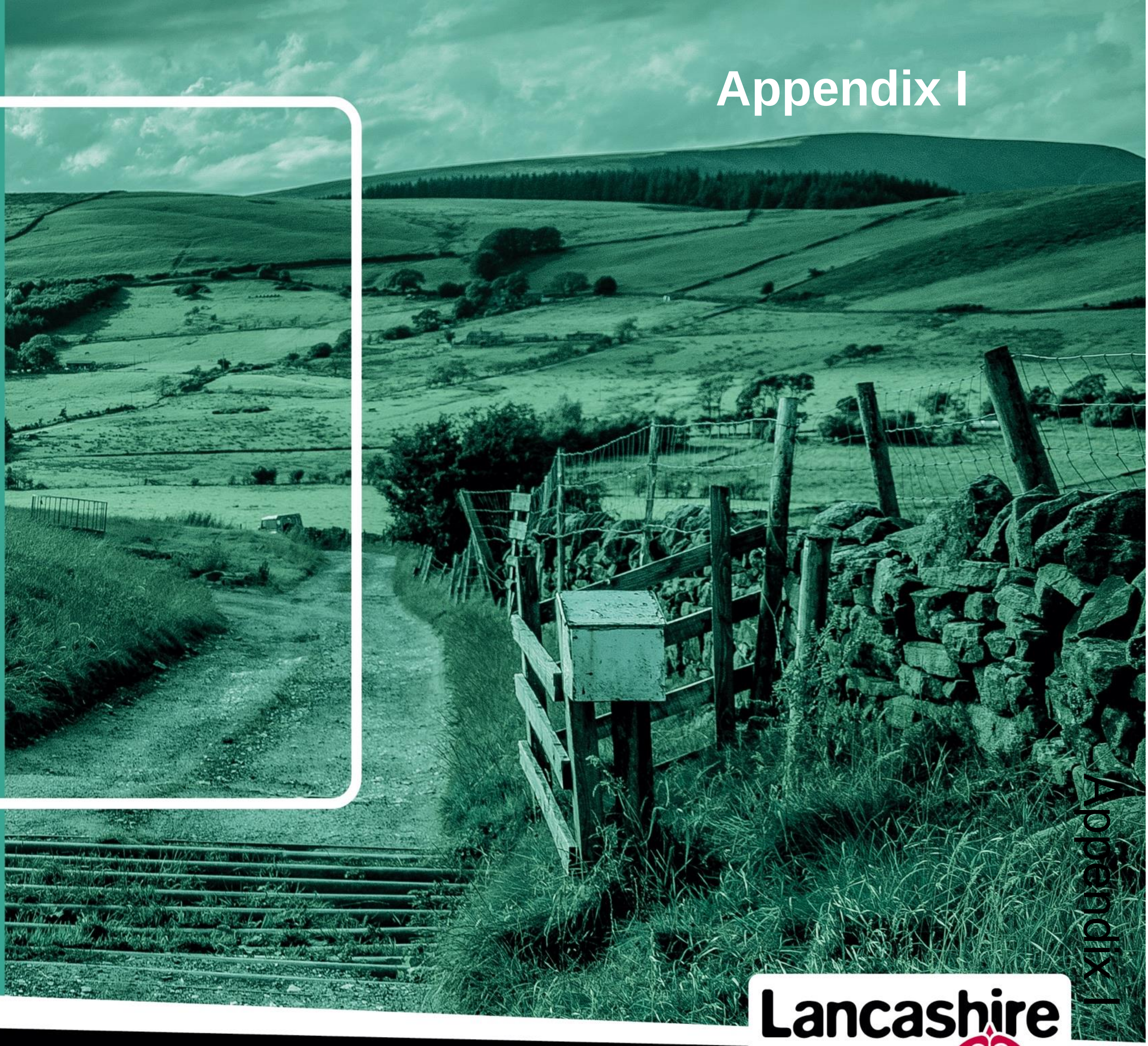
Area of Coverage	Commentary	Assessment
Building cleaning strategy	The Facilities Management (FM) Service has implemented a quality management system (QMS) designed to comply with the requirements of BSEN ISO 9009:2015, demonstrating the ability to consistently provide services that meet customer and applicable statutory and regulatory requirements. The FM strategy is integral to the QMS, and a quality policy statement has been produced in this respect setting out the strategy, responsibilities and commitment to quality service provision. We confirmed via analysis of the latest annual review of the QMS that the FM quality objectives and strategy remain valid.	●

	As above, the current review of the level of cleaning provision required for OP residential homes using the BICS methodology, together with the work being undertaken to determine the resources required to meet the new NHS cleaning standard, is designed to re-establish the objectives and medium to long- term strategy for the FM Cleaning Service.	
Budget monitoring	There is an adequate budget monitoring process in place for the FM cleaning Service. The Finance Business Partner meets quarterly with the FM management team to discuss the budget and any issues arising, and the FM Service Support officer also undertakes budget monitoring on an ongoing basis, reporting monthly to the FM management team. Review of budget monitoring data and discussion with the Finance Business Partner and FM Head of Service, confirmed that the 2022/23 OPCS budget had been increased to address the previous ongoing budget deficit. A further increase in budget was confirmed as part of the 2022/23 budget setting process, which recognised in part the extent to which the cleaning service provision would need to increase to meet the BICS cleaning standards, following the FM review. OPCS are working with FM to understand any further budget implications that may arise following the NHS cleaning standards review.	
Cleaning specifications and resource planning	The current FM exercise aimed at ensuring that the cleaning resource is suitable and sufficient, has involved the production of building cleaning specifications, detailing the resource required to clean each OPCS residential establishment. FM service have also worked with the Infection Prevention and Control team to determine which elements of building cleaning is to be classified as the remit of the FM cleaning service (as opposed to OPCS responsibility), and the outturn has been used to develop FM cleaning specifications for individual buildings. The specifications have been produced using the BICS methodology/ industry standard. We reviewed and reperformed the process undertaken by FM to generate the building specifications, concluding that an adequate control framework exists.	
Performance standards and monitoring	There is an established performance and service level monitoring regime within the FM Cleaning Service. The service is ISO9001:2015 accredited, and as such is subject to regular extensive external ISO assessment and inspection.	

Appendix I

Internal Audit

Procurement During Covid



2021/22

Appendix I

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	0	0

We acknowledge that the usual considerations of risks and controls were inevitably affected by the need for services to respond to supply needs quickly during a pandemic, which also affected the council's ability to function normally. Despite this we can give moderate assurance that controls and processes overall were appropriate to ensure the council complied with the government procurement emergency guidelines.

Direct orders used due to urgency and the absence of competition and due diligence was carried out on most companies used, although there was often no evidence retained to verify that health and safety requirements and specifications of the products have been considered. Routine procurement was limited as the priority was to respond to the needs of the pandemic. However, for the procurement exercises carried out, the council's procurement rules had been applied. All contract extensions were initially agreed by Cabinet and were managed in different ways depending on the requirements of the contract.

Where the contracts have been re-tendered, there was key documentation to support these and satisfactory reasons to support contracts with long extension dates. A comprehensive accurate contract register is retained, although, the copy retained on the Intranet was out of date.

We would like to note that the Procurements Service role during the pandemic resulted in recognition by the Corporate Management Team as well as through the wider Lancashire and Resilience Forum with a High Sheriff of Lancashire recognition certificate.

Background

This report summarises the findings from the internal audit of procedures for procurement within Covid. The audit has been undertaken in accordance with the 2021/22 Internal Audit Plan.

Context

Where the council has a need to maintain continuity for the delivery of goods, works and services, the council must generally procure contracts in accordance with the Public Contract Regulations 2015 (PCRs). However, emergency guidance was introduced by the government in response to the pandemic and was detailed in 'Procurement Policy 01/20: Responding to Covid-19'. This guidance reiterated that it was important to achieve best value and contracting authorities should consider whether it is possible to publish some form of advertisement, run an informal competition and/ or undertake due diligence on the supplier before making a direct award.

Financial information

We determined that expenditure on the Covid specific cost code within the 2020/21 financial year was £24.07 million and nearly 50 % (£11.91 million) of this related to emergency supplier payments. Other areas of significant spend was expenditure of £2.61 million (10.87%) on protective clothing and £2.07 million (8.61%) on computer hardware. In total, 43 contracts with a value of £64 million were extended.

Previous audit

An audit of purchase cards was finalised in September 2021 and prior to this an overarching audit on Procurement was finalised in March 2020. Both audits gave substantial assurance.

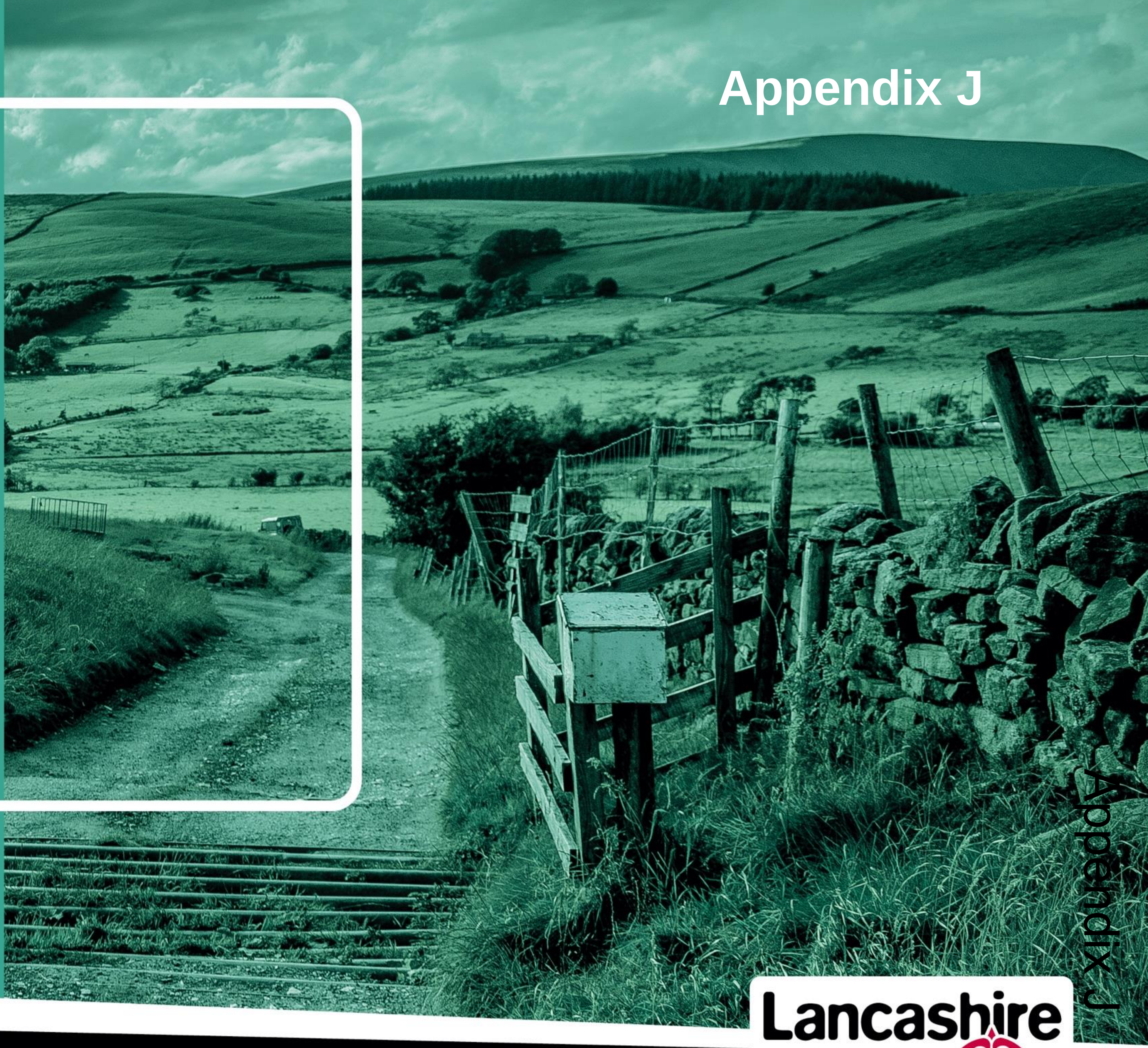
Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Guidelines, Policy and Decision Making
- Contract Extension
- Due Diligence
- Contract Register

Area of Coverage	Commentary	Assessment
Guidelines, Policy and Decision Making	Detailed emergency guidance introduced by government was embedded operationally within the Procurement Service. On the whole Procurement Service was complying with the guidance. Key aspects of the guidance were also outlined to Cabinet as part of the approval to extend contracts. The Procurement Service have not carried out a formal review of lessons learnt from the pandemic as they are satisfied, they would not have done anything differently. Their response to the pandemic was highly reactive and they met their two main objectives of sourcing personal protection equipment and the management of the council's legal obligations in relation to its existing contracts.	
Contract Extension	A list of contracts was presented and approved for extension in the May and November 2020 Cabinet meetings. These contracts were due to expire in the next 6 to 12 months and met the criteria detailed in the emergency guidance. The extensions were managed and documented in different ways, depending on the requirements of the contracts, which included extension letters and variation agreements. Retention of the supporting documentation was inconsistent, not all the agreements had been signed by both the council and the supplier. Also, not all applicable contract awards have been notified to the OJEU. It acknowledged that both the supplier and the Procurement Service had other priorities at this time. Contracts that have since been re-tendered have been awarded in line with procurement guidelines. Some contracts within the public health and construction and asset categories have yet to be re-tendered as they were given longer extensions or further informal extensions were agreed. There were satisfactory reasons to support these, which includes the provider market not having the capacity to respond to any consultation process and lack of resources within the Procurement Service and the service directorates.	
Contract Register	A comprehensive contract register is retained and accurately reflects key contract details including value, start and completion dates of contracts. Although, the contract register retained on the intranet was dated August 2021. The Procurement Manager agreed that they would update this.	
Due Diligence	Direct orders were placed due to urgency and the absence of competition, which is compliant with the emergency procurement guidelines. Because of this, best value was not always able to be demonstrated. Overall, the due diligence of companies was satisfactory, and was demonstrated either by completion of a company proforma checklist or the supplier had previously been used by the council or a Lancashire Resilience Forum partner.	

	The company proforma checklist was based on the council's standard pre-qualification questionnaire which has been developed by Crown Commercial Service. For some orders evidence was not available at the time of the audit to verify that the specification and the health and safety requirements of the product had been reviewed. We were unable to determine whether the information was missing at the time of the audit, or it had not been obtained. Apart from the constructions and assets category, during the Pandemic the majority of 'business as usual' tendering activity was regarded as non-essential and the focus was on providing the essential services. The correct procurement process had been applied for these procurement exercises. This included the approval of the procurement exercise and final award, as well as comprehensive records maintained to support the procurement exercise.	



Internal Audit

Recruitment

2021/22

Appendix J

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	0	2

We are able to provide moderate assurance as to the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the recruitment process. The procedures for recruitment and selection are clearly documented in the guidance, which is available on the Intranet. This includes the recruitment and selection policy as well as guidance on how to use the recruitment portal. Although the policy regarding redeployment currently differs from actual practice in respect of the stage at which those on the list are considered for a post.

The recruitment portal provides a system that allows job vacancies to be created and advertised, the selection process to be recorded in full, communication between the council and applicants to be retained and all relevant documentation to be scanned in support of the recruitment process and final decisions. The system is being used effectively in the main although in some cases there were instances where services had not recorded the full process.

Human Resources have commenced a change programme that will result in the full centralisation of the administrative aspects of the recruitment process. This change programme commenced in April 2022, starting with the Education & Children Services. Having officers with greater experience in Human Resources should address inconsistencies in the use of the recruitment portal. It will also allow service managers to better focus their time on recruitment decision making. The timing of further change will be aligned to the introduction of the new recruitment system that is part of the Oracle Fusion project to be completed this year.

Agreed actions from the audit	Priority
As part of the ongoing review of council recruitment policies, the process for prioritising staff on the redeployment list will be updated to reflect actual current practice.	
HR will update its recruitment review process to include a check to confirm that a service has viewed the qualifications stated in an application that are deemed to meet the essential criteria stated in the person specification.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit & Governance Committee. The audit has been conducted in conformance with the Public Sector Internal Audit Standards. The audit covered the period September 21 to November 2021.

Context

The Council has a documented recruitment and selection process that specifies the mandatory elements that must be followed to ensure that vacant posts are filled by the most suitable applicants, employees on the redeployment list are considered, vetting and pre-employment checks take place, and there is compliance with legal and procedural requirements.

An online recruitment portal supports the recruitment process by allowing users to create and advertise all job vacancies, record the shortlisting, interview and selection process and retain all relevant documentation. The portal is due to be replaced by a similar version that is included in the Oracle Fusion project to be completed this year. The Corporate Human Resources (HR) team provide oversight and support to managers and staff involved in recruitment.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following control areas:

- Procedures and guidance.
- Use of the recruitment portal.
- Approving a vacancy and advertising a post.
- Shortlisting and interview panels.
- Scoring; and
- Appointments

Area of Coverage	Commentary	Assessment
Procedures and guidance	Procedures for recruitment and selection are documented in the guidance available to managers and staff on the Intranet. These include the policy on recruitment and selection and guidance on how to use the recruitment portal. HR have confirmed that there is an ongoing review of council recruitment policies that should be completed in 2022. The redeployments policy differs from actual practice as the policy states that 'Where all redeployment options have been exhausted and no suitable candidates can be identified, posts will be advertised'. In practice, posts are advertised then staff on the redeployment list are able to apply with their application flagged by the recruitment portal for priority consideration.	
Use of the recruitment portal	The recruitment portal is not being used across the council consistently. Inconsistency in the use of the portal reduces the council's ability to maximise its advantages, such as the ability to ensure compliance with policy, maintenance of records, transparency, and oversight by HR officers. HR have recognised the difficulties service managers have had in using the recruitment portal correctly. As a consequence, they are taking steps to bring administration of the portal into the Recruitment Team to reduce the burden on service managers time and to provide greater expertise. They commenced this change with the Education & Children's Service and will roll this out further across all directorates. The timing of this change will be aligned to the introduction of the new recruitment system that is part of the Oracle Fusion project to be completed this year. Service managers will continue to manage the recruitment event, including review of applications, shortlisting, interview and selection decisions.	

Approving a vacancy and advertising a post	The right to recruit to a vacant post is subject to approval by the Head of Service or a member of staff given that authority. Approvals were all as expected in one instance. The approver had also given themselves the hiring manager role thereby meaning no separation of duties between the two key roles. Each vacancy has been advertised internally and externally with job description and person specification documents that provide the expected detail on duties, responsibilities, and essential and desirable criteria.	●
Shortlisting and interview panels	Council policy states that for each vacancy, a panel be appointed to undertake shortlisting and interviews. The panel must have at least three members, remain constant throughout the selection process, and ensure the chair of the panel has attended the recruitment and selection training and is not the line manager. A panel was evident in the recruitment portal as appointed to undertake shortlisting and interview for half of the recruitment exercises reviewed. Of these, it was clear that there were at least three members as required by council policy. The portal did not indicate who the chair of the panel was, nor whether they had completed training or not. Council policy also states that a panel include both sexes and BME officers where appropriate. There is no definition of when this should be applied. The recruitment portal does not record the ethnicity and sex of a panel member. HR had already recognised the difficulties faced by some services in meeting these requirements, particularly with the volume of recruitment exercises being undertaken in some services and the lack of available staff to take panel positions. As a result, the 2022 review of council recruitment policies will consider making them desirable where possible rather than a mandatory requirement.	●
Shortlisting and interview scoring	The interviews that took place, rejections and appointment results are recorded in the recruitment portal along with a brief line as to why a candidate had failed or succeeded. In all cases, the successful candidate was recorded as being the best qualified of those that applied. Shortlist and interview scoring results, and interview questions were not entered into the recruitment portal for the sample of exercises we reviewed. HR's expectation is that these are retained either in the system or locally by hiring managers.	●
Appointments	All new recruits are sent an email confirming their unconditional offer of employment and the agreed start date. The email indicates that it, along with the previous offer letter and Statement of Particulars (contract) forms their contract of employment. In all cases, a conditional offer of employment letter had been issued to the successful applicant subject to the receipt of evidence including references, qualifications and right to work in the UK. All appointees tested had provided the evidence requested and these were scanned to the recruitment portal with the exception of qualification documentation for four posts that were essential criteria in the person specification. Two of those employees have since left the Council so no further action was taken. The hiring managers for the two remaining appointments were able to confirm that the required qualification documentation had been checked at appointment but not retained by the service. Medical clearances from Optima (the Council's occupational health provider) were evident in the recruitment portal for all but one appointee. The hiring manager was able to provide the medical clearance.	●

Internal Audit

Disclosure and Barring Service (DBS) Policy and Process

2021/22

Appendix K

Lancashire County Council

Overall assurance rating

Moderate

Audit findings requiring action

Extreme	High	Medium	Low
0	1	0	0

The framework of control in place to process DBS applications for new starters is adequately designed and effectively operated. Since mid-2019 an online DBS system has been used effectively by services to input and retain the information required for an application, and for the Human Resources Disclosure Team to review and countersign prior to submitting to the government DBS service. All checks of new employees are of the required level for their post and the DBS clearance is received prior to their start date.

The council does not have a policy for rechecking existing employees in posts that require a DBS clearance at appointment. Some of these employees have not been DBS checked since 2014. Rechecking employees is no longer a mandatory government requirement but given the nature of the roles undertaken by such staff, it is important that consideration is given to introducing periodic rechecks to reduce the risks to children, vulnerable adults, staff, and to the council.

There are employees for which there is no record in the online system or the Oracle system that DBS checks have been made. These were employees that had started with the council between 2016 and early 2019. The Managers of these employees have stated that a DBS clearance was in place at the time of appointment.

Agreed actions from the audit	Priority
Consideration will be given to identifying and implementing a method of reducing the risks arising from the removal of the requirement to renew a DBS every three years to ensure that the council is aware of offences which occur after the initial check is made. Options should include reinstatement of the three-year requirement.	
The authoriser will check for any unknown payments by checking the service user's CASPAR record for payment request.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit & Governance Committee. The audit has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

The Council has a documented DBS process that specifies the steps to be followed to ensure the adequate vetting of new employees who will be working with children and vulnerable adults. Failure to have these employees cleared by the DBS service reduces the Council's ability to identify people who may not be suitable for the role as they may pose a risk to residents, service users and staff.

An employee can submit an application for a DBS check via the council's DBS system which went online in 2019. Once submitted, a manager is able to log in and verify ID documentation and enter the key details prior to forwarding to the HR Disclosure Team for countersigning. A DBS application is then sent to the DBS service with a response expected within a few days.

Every DBS check undertaken by the Council is an enhanced check. This identifies all spent and unspent convictions, cautions, reprimands and final warnings from the Police National Computer which has been filtered in line with legislation. It also checks if any information is held locally by Police forces.

The council policy follows mandatory government guidance in respect of rechecking DBS statuses where there is a need to for a change of employee role or where a complaint is made. There is no requirement to recheck on a regular basis although guidance from the Care Quality Commission advises a three-year rechecking cycle.

Prior to the online DBS system going live in 2019, the HR Disclosure Team undertook an exercise to upload existing DBS data to the Oracle system. This included contacting services to confirm the information they held as correct. All DBS checks recorded by the Disclosure Team as taking place to date were uploaded, including the level and type of check the employee had received clearance for.

Financial information

The government DBS service applies a £38 charge per DBS application, this fee was reduced in April 2022 from £40. The supplier of the online DBS system also charge £2 per application. In 2021/22, the council submitted 10,570 DBS applications at an estimated cost of around £423k.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following control areas:

- Identifying posts requiring DBS checks;
- Procedures and guidance;
- Processing DBS checks; and
- DBS record keeping.

Area of Coverage	Commentary	Assessment
Identifying posts requiring DBS checks	Services are responsible for identifying whether a post requires a DBS check, supported by guidance on the Intranet and the HR Disclosure Team. For recent new employees there is an appropriate level of DBS clearance obtained, with the enhanced check being completed including the children and/ or vulnerable adult barred list check. For existing employees in most cases the correct enhanced check had been applied although some checks are old and date back to 2014. There was also a small number of cases in which there was no record on the system of a DBS check taking place. Although, their managers have stated that a DBS clearance was in place at the time of appointment. These appointments were made between 2016 and early 2019.	●

Procedures and guidance	Procedures for completing DBS checks are documented in the guidance available to managers and staff on the Intranet. This includes guidance on how to submit a DBS request, use of the online system, the type of work for which a DBS clearance would be required and whether the application should request a review of the child or vulnerable adult barred list. As stated in the guidance there is no mandatory requirement to recheck the DBS status of employees, the decision to recheck or not is left to employers to determine. The council currently does not recheck DBS anymore. The HR Service Manager believes this stopped possibly due to the additional costs and the removal of the mandatory requirement. Guidance state that a new application may be required where there is: • A gap in service of three months or more; • A legal requirement to carry out a fresh check of the DBS children’s and/or adults’ barring lists in accordance with sector-specific guidance; • A complaint received or concern raised including potential police investigation that may affect the person's ability to work with vulnerable groups; • An employee moves between teams or services and cannot produce the original certificate; and • An employee changes role and will be working with a different group of service users e.g. moving from a Children's' service to an Adults' service. Or will move from one service to working with both.	
Processing DBS checks	Since mid-2019, all DBS applications are processed via the council's online DBS system. We confirmed that when the DBS system had been used, an appropriate level of DBS clearance had been obtained, and the service had applied for the correct enhanced with children and/ or vulnerable adult barred list check. The DBS system will not allow an application to be forwarded to the government's DBS service without a service manager verifying and entering ID documentation detail, and the Disclosure Team countersigning the application as reviewed. This ensures that applications to the DBS service are only made if all the relevant information has been provided and verified as correct and valid, this enabling a speedier process. DBS clearance is received by the council prior to an employee start date. There were no significant delays within the DBS checks processed.	
DBS records	In line with government guidance, the Oracle, recruitment and DBS systems do not retain copies of the certificate issued to an employee. Our testing confirmed that the Oracle and DBS system record only the outcome, level of the check and the DBS reference number. Services scan in a letter from the Disclosure Team confirming DBS clearance to the recruitment system when appointing to a relevant post.	

Appendix L

Internal Audit

Contract Monitoring – Residential care providers

2021/22

Appendix L

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
Moderate	Extreme	High	Medium	Low
	0	0	1	3

We are satisfied that overall, there is an adequate residential contract monitoring framework in place, which over the course of the pandemic was operated appropriately considering the issues impacting providers. On-site contract monitoring arrangements were halted and replaced with remote compliance monitoring and alternative arrangements to support providers in maintaining services, consistent to those reported in the 2021-15 HCF contract monitoring report. As can be expected however, in some instances, planned visits were cancelled due to covid outbreaks or a lack of provider resource. The residential Contract Monitoring Team (CMT) have for some time additionally been aware that the residential provider contract was not fit for purpose, and although hindered by the pandemic, a new contract is now ready for implementation in the Autumn of 2022 which will address the deficiencies in the current contract, including containing a clearly defined service specification. The actions below identify other areas where we consider that the current control framework can be further strengthened, including proposals to ensure that where providers are subject to RADAR, that these are independently reviewed to ensure appropriate and timely action is being taken to address issues identified.

Agreed actions from the audit	Priority
As part of the RADAR process, consideration will be given to determining appropriate timescales that would initiate a review or peer review, to verify that processes have been put in place that are demonstrating that improvements are being made by the provider in collaboration with all parties. Once agreed the arrangements will be reflected in the RADAR Terms of Reference which is currently undergoing revision.	
Where the population reviewed as part of the compliance review visit does not represent the full population of the section under review, this will be recorded on the report template to avoid the implication that the whole section was reviewed.	
Staff will be reminded of the need to save all information pertaining to providers on their folder in a timely manner ensuring the data is available in the event that the member of staff is off work for any reason.	
Staff will be reminded to update the provider event log with all activity reported through to CMT to provide a comprehensive record of all interactions with the provider, which will highlight any recurring themes.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period April 2019 to March 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards. The audit commenced in June 2021 and was halted at the start of November 2021 at the request of the Head of Service due to the impact of the pandemic on both the care provider market and the Contract Management Team. The review resumed in March 2022.

Context

Residential care providers have in some cases been under contract with the council in excess of 18 years, and as the contract has been updated over time there are now a few variations in use, such that the current format has been recognised by the council as no longer fit for purpose. Pre-pandemic the residential contracts management team were involved with other colleagues in the council in developing a new contract in consultation with providers although progress was halted during the pandemic. There are currently 403 residential care and nursing homes in Lancashire providing care to individuals who are no longer able to remain in their own homes.

There is a defined contract management framework in place although this is not wholly aligned to the current contract, which does not include a service specification. In terms of provider monitoring, on-site visits were replaced as appropriate with remote compliance monitoring during the pandemic and alternative support arrangements were also put in place to assist providers.

Previous audit

Internal audit has not previously completed contract management reviews undertaken by this team.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

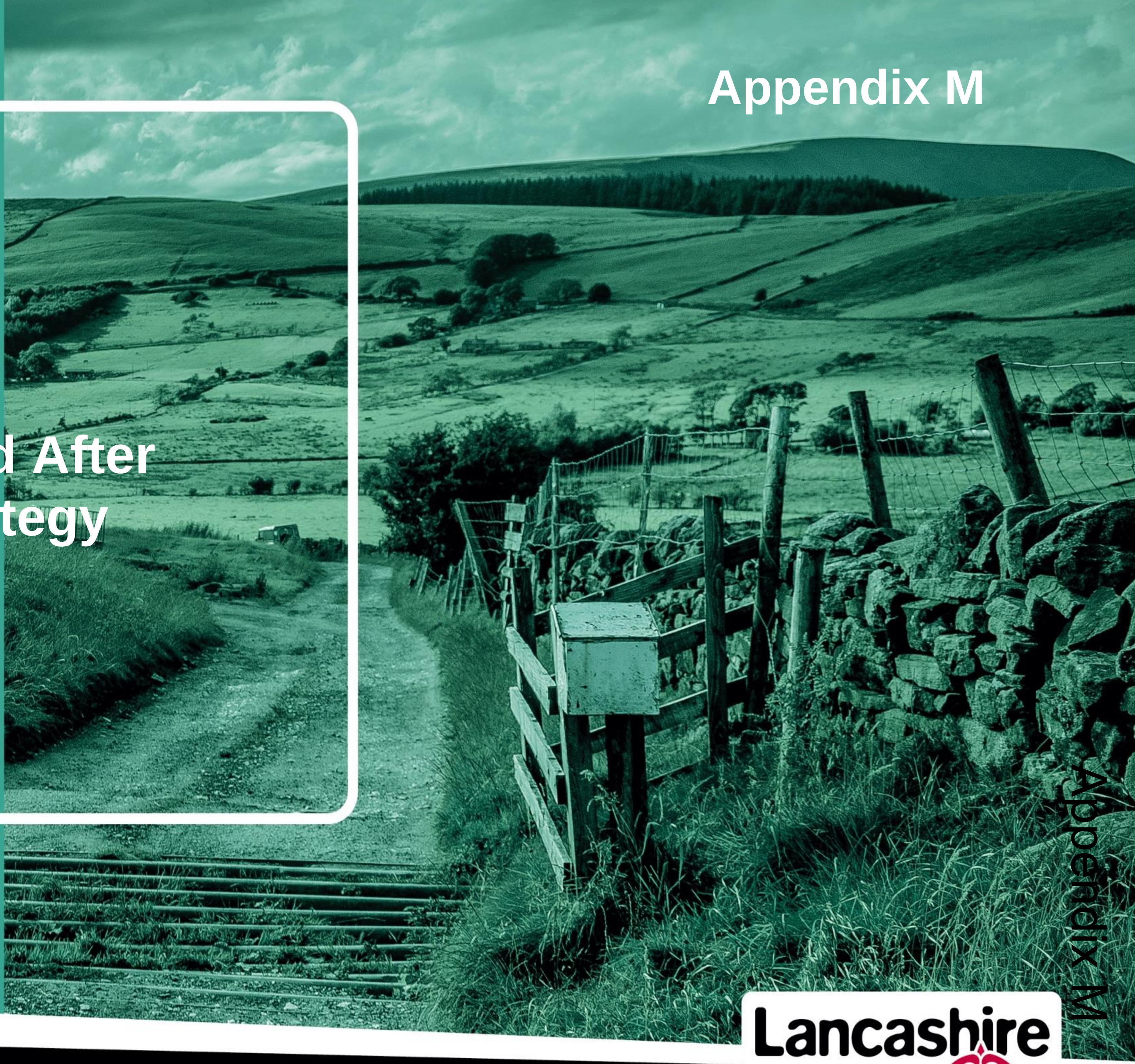
- Contract Management Strategy
- Breaches of contract
- Contract monitoring activity
- Complaints and compliments

Area of Coverage	Commentary	Assessment
Contract Management Strategy	The current contract for the Provision of Residential Home Care for Older People is no longer fit for purpose. A new contract has been developed which will clearly define the roles and responsibilities of the council and the provider. A service specification has been added, new legislation is now referenced, and the contractual breach process is defined, giving providers a clearer indication of what would trigger a breach. CMT worked with providers to share the reasons for the new contract and to allow them to feedback to be received. The planned go live for the new contracts is Autumn 2022. Monthly CMT team meetings are held at which discussions include progress being made against the workplans, any issues being encountered in undertaking on-site visits, themes arising from visits, evidencing that CMT are reviewing and continuing to improve and develop their contract monitoring processes. Additionally, CMT chair a monthly RADAR meeting which provides a forum for social care and health partners to share information relating to concerns around the quality and safety of commissioned adult social care. Feedback from the RADAR meetings is shared with staff at the contract team meetings and at the individual work planning meetings. We note that some providers have been on RADAR in excess of fifteen months and in a couple of instances over two years. There are no defined timescales in place for how long a provider remains on RADAR and they may be subject to processes imposed from outside of the council, for example by the CQC. However, it may be prudent to arrange a case/ peer review in instances where providers are on RADAR for any prolonged period of time to ensure appropriate action is being taken and the provider is able to demonstrate continuing engagement/ improvement with all parties as appropriate, with the aim of being removed from RADAR. Additionally, as the terms of reference for RADAR are currently being reviewed it would be appropriate to consider incorporating in them a flexible timescale for calling an independent case/ peer review.	

	ADAM is an automated data capture and evaluation system and via a series of questions answered on-line by the provider highlights any areas of potential concern and acts as an early warning mechanism.	
Breaches of contract	There are specific provisions in the contract to address breaches. If a provider is not meeting their obligations the provider may be suspended from receiving new placements. We reviewed five providers who had each been placed on suspension and confirmed that CMT had taken appropriate action in each case in accordance with the contract terms and suspension policy. Providers subject to suspension are also reported at the monthly RADAR meetings. Additionally, as appropriate the providers were also subject to the council's Quality Performance Improvement Planning (QPIP) process,	
Contract monitoring activity	Contract monitoring meetings should be held annually with each provider although there may be some exceptions if the home does not look after any individuals who are funded by the council. In 2019/20 prior to the pandemic, compliance meetings had been held with 80% of providers, and additionally 203 quality and support visits were also undertaken using the compliance visit framework as appropriate. These visits are undertaken either in response to issues raised at RADAR or to follow up previous actions raised at compliance visits. On-site visits were halted at the start of the pandemic and a remote compliance process was introduced although we did note that these were not scheduled at the start of the pandemic or over the winter months when providers were dealing with the impact of Covid. A mixture of on- site and remote monitoring visits were completed, along with joint visits with the NHS. Additionally, as reported in the Contract Monitoring – Homecare framework providers audit the residential team were involved in supporting care home providers and responding to issues raised from the care capacity tracker. Peer reviews had been completed sporadically by CMT, but these had lapsed and ceased during the pandemic although these are now being re-introduced again for 2022/23 to monitor and ensure that visits and reports are continually reviewed, and improvements made as appropriate to maintain the quality of the contract monitoring process.	
Complaints and compliments	There is specific provision in the contract to deal with complaints, whereby each provider is required to have their own complaint and compliments procedure that allows individuals and their representatives to raise concerns or complaints directly with them. The contract compliance meetings assess how complaints have been dealt with by the provider. An 'event log' for each provider is maintained with any issues, concerns, complaints, and compliments being logged. Additionally, the council has a corporate complaints procedure which allows service users or their representatives to submit complaints via the customer access service. These are raised with CMT as appropriate and logged on the Contracts team complaints log.	

Internal Audit

Children Looked After Sufficiency Strategy



2021/22

Appendix M

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	1	2

The Lancashire Children Looked After Sufficiency Strategy 2021-2024 (the Strategy) provides an effective framework to support delivery of the council's statutory sufficiency duty under the Children Act 1989, and compliance with supporting guidance and regulation. It is approved by Cabinet, and the council's Children, Young People and Families Board provide scrutiny and oversight over Strategy delivery.

Children's Services effectively broker placements and manage contract delivery based on children's needs assessments, supported by established policy, procedures and guidance. The team have been operating below complement for some time, which has impacted on their ability to carry out all functions, such as maintenance of the value for money framework and Care Cube analysis. A business case for additional resources has now been approved, and we agreed that team training planned for delivery by the year end would be timed for the arrival of new staff. However, we consider that a Moderate assurance opinion is appropriate until new resources have been recruited and are operating effectively.

Children's Services act promptly to identify placements, prioritising internal or local regulated provision, but using unregulated or out of area placements where this is unavailable, subject to due diligence checks. We proposed that the Team should consider introducing a due diligence checklist when determining which off contract providers will receive Lancashire referrals and placements. Children's Services work with Children's Social Care to understand requirements and obtain placement approval, including sub-optimal placements. They retain approval records and conduct end-to-end monitoring of placements, although monitoring spreadsheets are not always fully completed. Children's Services take effective action to ensure placement quality, reviewing delivery against contract through Ofsted Regulation 44 reports, feedback from social workers and provider inspections.

Progress to deliver Strategy KPIs is reported to quarterly Data Quality and Performance meetings attended by Children's Services directors and senior managers, and any actions are allocated to named officers and updated at subsequent meetings. Children's Services prepare detailed quarterly contract monitoring reports including monitoring activity, completion of individual placement agreements and financial data. Sufficiency risk is managed through the corporate and directorate risk registers.

Agreed actions from the audit	Priority
Delivery of the proposed training plan will be brought forward to align with and support the induction of new officers into the team.	
To avoid uncertainty over the status of blank cells on the placement searches and provider monitoring spreadsheets, all cells will be completed. A drop-down menu could be added to cells to facilitate this with completion options of "yes, no, not applicable".	
Consideration will be given to develop a due diligence checklist when determining which off contract providers will receive Lancashire referrals and placements.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee and has been conducted in conformance with the Public Sector Internal Audit Standards. The audit covers the period October 2021 to December 2021.

Context

The council has a statutory duty under the Children's Act 1989 and supporting by guidance and regulations to secure, as far as reasonably practical, sufficient accommodation within its area to meet the needs of its looked after children. The Lancashire Children Looked After Sufficiency Strategy 2021 is the council's response to this duty.

Strategy delivery is supported by a range of guidance on assessment and care planning, commissioning, strategic needs assessments, market management, collaboration and securing services. Delivery of strategic priorities and targets is supported by Children's Services, who work with Children's Social Care to source placements based on care needs assessment and manage contracts with care providers. The table below details the number of children looked after in Lancashire.

Period	Number of children looked after
March 2017	1,848
March 2020	2,128
September 2020	2,131
March 2021	2,002

Strategy report attributes the reduction seen In March 2021 to the Children's Social Care reorganisation and the introduction of the Family Safeguarding Model.

Financial information

The current Children's Services Access to Resource team annual forecasted budget for 2021/2022 is £483k. The annual budget for fostering and residential agency placements for 2021/22 is £71.4m.

Previous audit

We carried out an initial audit of the Sufficiency Strategy in April 2020, when we gave substantial assurance that the control framework was adequately designed. We did not test compliance with the controls.

Scope of Audit

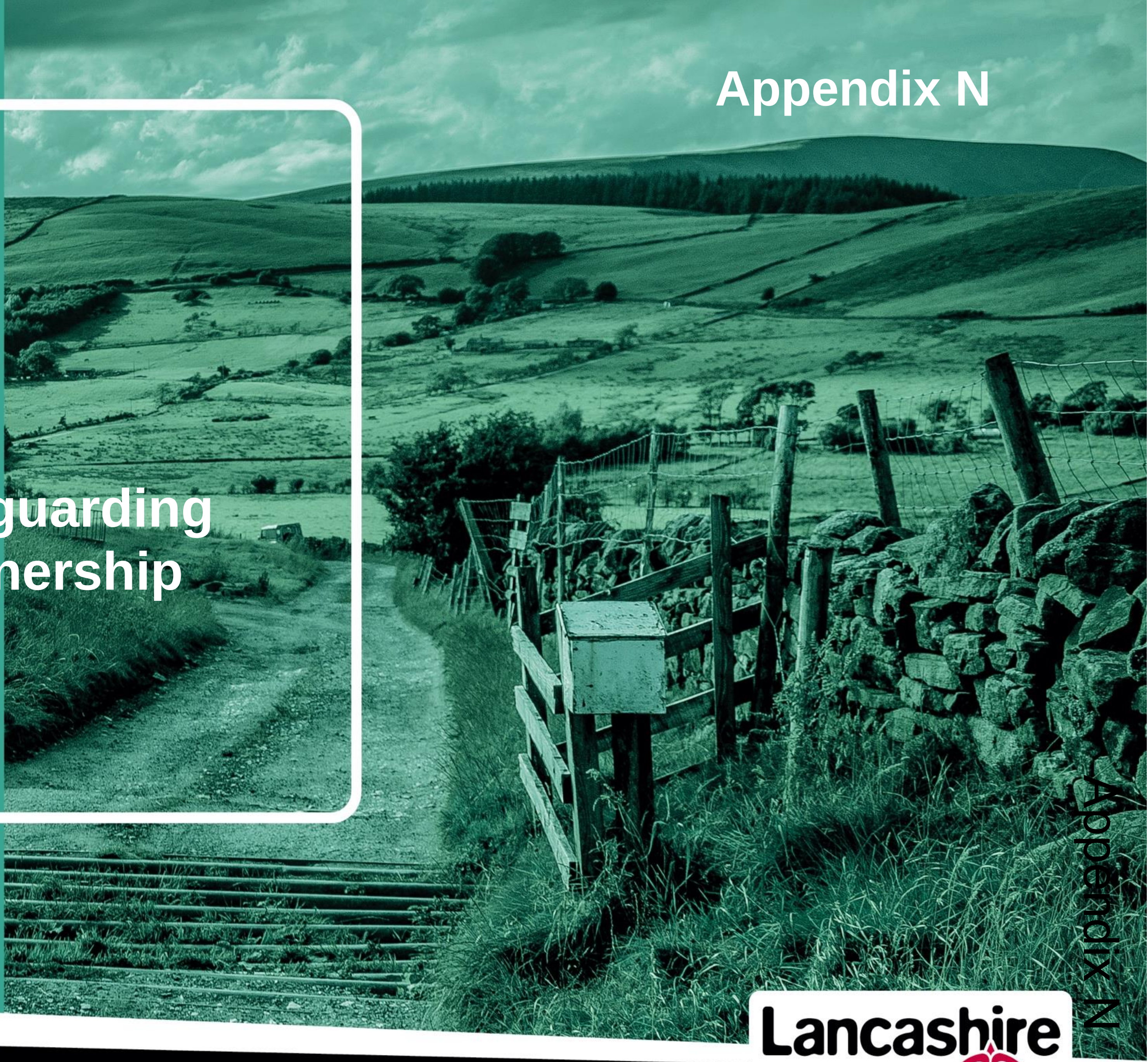
In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks in the following areas:

- Resourcing
- Strategy and governance
- Placement finding and brokerage
- Contract management

- Performance and risk management

Area of Coverage	Commentary	Assessment
Resourcing	Children's Services work effectively to broker and obtain placements, and commission and monitor contracts. Processes are recorded in local policies and procedural guidance, the staff handbook and Contract Monitoring reports. Key documents, including contract monitoring reports, explain how to perform team duties and are accessible in shared folders. The team is currently inadequately resourced. Vacant posts have not been filled, placement requests are increasing while provider capacity is reducing and there has been a long-term sickness absence. While the team are working hard to ensure placement needs are met there is not the capacity to carry out some key tasks to support placement decisions, including maintenance of the value for money framework and Care Cube analysis. The Director of Policy, Commissioning and Children's Health is in the process of addressing this through the recruitment of two permanent staff, for which a business case has been approved, and use of a call-off agency contract.	
Strategy and governance	The Strategy content, scope and coverage defines the council's approach to meeting its statutory duty under the Children's Act. Commissioning priorities are supported by relevant data and are clearly described, and delivery is managed through a set of key performance indicators (KPIs). It also includes a statement of conformance with statutory responsibilities. The Strategy is reviewed and updated annually by the Start Well Team and the current version was approved by Cabinet in January 2021 and is available on the intranet. Oversight of Strategy delivery is provided by the Children, Young Peoples and Families Board which is attended by council directors, senior managers, and external partners.	
Placement finding and brokerage	Children's Services act promptly to identify placements which meet assessed needs set out in Children's Social Care referrals. Local providers are prioritised but if local regulated provision is unavailable, unregulated or out of area placements are used. Some due diligence work is carried out on these providers, including requesting information from equivalent teams in other local authorities. Children's Services liaise closely with social work teams, who are responsible for approving placements, including consideration of sub-optimal placements. Children's Services retain approval documentation in local network case files, and monitor placements on an Excel spreadsheet, from referral to placement. However, cells in monitoring spreadsheets can be left blank creating uncertainty over whether or not they should have been completed.	
Contract management	Children's Services take effective action to ensure that the quality of placement provision meets children's assessed needs. The team continually review provision against contract specifications, record action and issues and follow up with providers. They also consider outcomes from Ofsted's Regulation 44 independent visits to assess children's home quality. Prior to the pandemic the team made inspection visits to providers to review the quality of provision and address any issues. This was suspended under Covid restrictions and inspection has been conducted virtually using video calling. With the lifting of restrictions Children's Services plan to recommence site visits from spring 2022. The team do not currently use a due diligence selection framework or a scoring matrix to determine which off contract providers will receive Lancashire referrals and placements.	
Performance and risk management	The five Strategy KPIs cover placements, fostering, step down into fostering, children looked after and block contract provision. KPI progress is reported to quarterly Data Quality and Performance meetings attended by Children's Services directors and senior managers and includes trend/ direction of travel and a narrative explaining reasons for reported performance and action being taken. Business Intelligence maintain a log of actions arising from the meetings, which are	

	allocated to named officers who provide updates at subsequent meetings. In the last 12 months one Strategy action was raised regarding block contracts which was addressed and closed at the following meeting. Children's Services prepare detailed contract monitoring reports, usually quarterly, including monitoring activity, progress with priorities and completion of individual placement agreements and the financial impact of weekly reviews. Sufficiency risk is managed through the corporate and directorate risk registers.	



Appendix N

Internal Audit

Children's Safeguarding Assurance Partnership

2021/22

Appendix N

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	2	4

We can provide moderate assurance over the adequacy and effectiveness of the controls in place for the operation of new local safeguarding arrangements. This opinion is based on our evaluation of the framework, structures and processes in place.

A revised governance structure addressing new statutory guidance has been approved. There are terms of references for the Board and tactical groups, although they are not always fully complied with, and we were unable to confirm they were approved. A Partnership annual report is approved by the Board.

The Partnership is establishing an operational risk management framework to support the strategic risk framework. An Independent Scrutineer has been appointed to oversee and report the effectiveness of the Partnership and is effectively supported by the Business Unit. The council's Chief Executive reviews the Scrutineer's performance against their contract, but this needs formally recording. A funding arrangement has been agreed with partners and is currently being formalised. A communication strategy and learning and development plan is yet to be agreed.

Agreed actions from the audit	Priority
The Partnership Board Manager will provide updates on the progress of the Children's Safeguarding Assurance Partnership (CSAP) to Scrutiny or another relevant council committee and will advise partners that they should similarly report CSAP progress to their own boards or member committees.	
The outcome of performance reviews against contract delivery between the Chief Executive and Independent Scrutineer will be formally recorded and agreed. This will include any improvement actions, progress to implement which will be reviewed at subsequent meetings.	
Consideration will be given to introducing an accessible folder containing all key documentation. As part of this, they should list when key documentation is due for review.	
All key documentation including terms of reference and action plans will be reviewed by the Board. Approval will be clearly recorded in the Board minutes.	
Terms of references will be updated to reflect agreed processes. This will be agreed by the applicable Board or Group.	
The risk and control framework will be updated to reflect the actual process for reviewing risks.	

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee and has been conducted in conformance with the Public Sector Internal Audit Standards. The audit covers the period October 2021 to December 2021.

Context

In 2018 the Children and Social Work Act 2017 was revised to address the outcome of the 2016 Alan Wood review of local safeguarding children's boards. To support the transition to new arrangements, statutory guidance 'Working Together to Safeguard Children 2018' was produced by the Department of Education.

In response, in Lancashire a new multi-agency Children's Safeguarding Assurance Partnership (the Partnership) was established In September 2019 to work collaboratively to strengthen child protection and safeguarding. The three local safeguarding partners jointly leading the Partnership are:

- Lancashire County Council (host authority), Blackpool Council and Blackburn with Darwen Borough Council;
- Lancashire Constabulary; and
- The eight local clinical commissioning groups (CCGS) of Blackburn with Darwen, Blackpool, Chorley and South Ribble, East Lancashire, Fylde and Wyre, Greater Preston, Morecambe Bay and West Lancashire, who are represented through the Safeguarding Health Executive.

The Partnership is led by an Executive Board (the Board), which includes all safeguarding partners. Supporting the Board are the North, Central and East Tactical Groups on which the safeguarding partners are joined by the designated relevant agencies to oversee delivery of work.

Previous audit

We carried out an initial audit of the Sufficiency Strategy in April 2020, when we gave substantial assurance that the control framework was adequately designed. We did not test compliance with the controls.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks in the following areas:

- Governance Arrangements
- Independent Scrutineer
- Communication

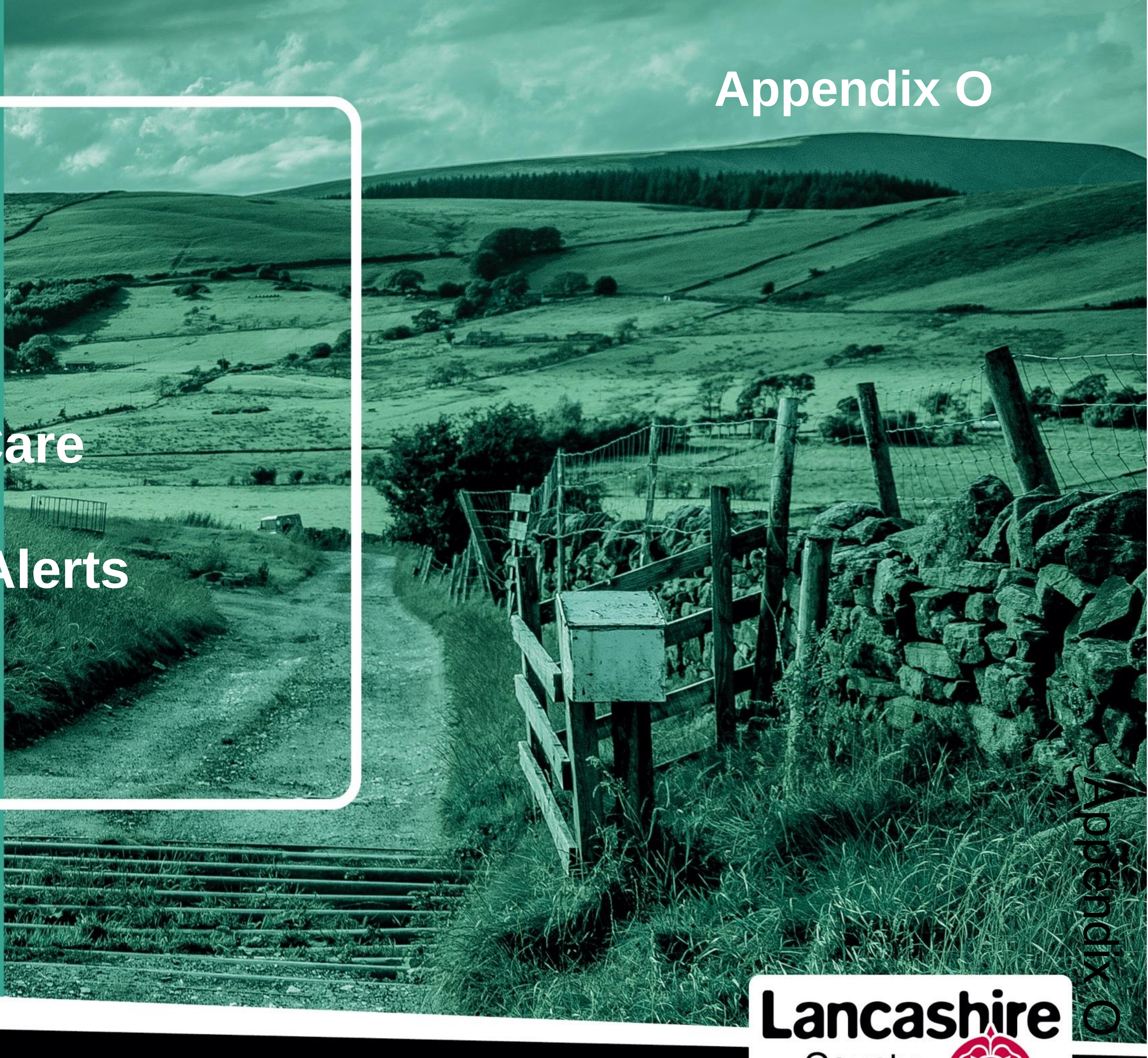
Area of Coverage	Commentary	Assessment
Governance Arrangements	A revised governance structure reflecting the three priorities was introduced and ratified as part of the annual report for the year ending September 2020. The annual report has been reviewed and approved by the Partnership and was submitted to the Council Leader's safeguarding meeting but not more widely to an appropriate member committee, which we consider would be good practice. The effectiveness of the structure is reviewed on an ongoing basis. There are terms of reference for all boards and groups, although the minutes did not record when they were approved. The Executive Board meetings are not always held monthly and there are occasions when there is no representative from a safeguarding partner, which is contrary to the terms of reference. The flow of information between all boards and groups is in the main effective, although improvements were identified with the Executive Board, there are action trackers being monitored by the Business Unit.	

	Although the strategic risk and control framework has not been reviewed by the Executive Board since December 2020, it is reviewed by the Senior Business Manager on an ongoing basis. An operational risk log is also in the process of being developed. The Business Unit plays a key part in supporting and driving the partnership forward. There has been no change to the statutory guidance. It was pleasing to note that the May 2021 report produced by Sir Alan Woods commented on the Partnership's strong structure and assurance process.	
Independent Scrutineer	The Independent Scrutineers responsibilities are clearly documented in their contract and strategy. The Scrutineer's reported findings on the effectiveness of the Partnership and lessons learnt from their initial review have been addressed. Performance of the Independent Scrutineer is reviewed by the Chief Executive, although a formal note of matters discussed, outcomes and agreed action should be kept. There is a comprehensive system for the approving and paying of invoices.	
Communication	A new Partnership website was launched in January 2022. A communication strategy is in the process of being developed and will be agreed by the April 2022 Executive Board. Memorandum of understandings between the Partnership and supporting Boards are also in the process of being developed.	

Appendix O

Internal Audit

Older People Care Services Safeguarding Alerts



2021/22

Lancashire County Council

Appendix O

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	3	1

Overall, we can provide moderate assurance that the control framework to support achievement of the Councils objectives in relation to Older People Care Services Safeguarding Alerts is adequately designed and effectively operated.

There are processes in place for raising, recording and monitoring safeguarding alerts. This is supported by an extensive range of policy, procedural and guidance documentation available and accessible to staff, and also a thorough training programme including mandatory safeguarding modules for all staff. Alerts are recorded and managed electronically using a specific spreadsheet which also includes details of outcomes and lessons learnt. Managers are required to undertake quality assurance audits of safeguarding alerts raised, with an update fed into the monthly Managers Improvement Tool report for each establishment. A number of actions have been identified that will enhance aspects of the control framework to ensure that it is effectively operated throughout.

Agreed actions from the audit	Priority
The exercise to review the 'Management Alerts Register' and incorporate and update all missing information will be completed as a matter of urgency to ensure that all safeguarding alerts are consistently recorded; to enable effective monitoring and reporting to be undertaken; to recognise actions, learning or training that may be required; and where any improvements to operational practices could be implemented to prevent similar events from occurring. Local methods, including hard copy files and local network folders, used to record and store safeguarding alerts and information will be reviewed and organised with naming conventions adopted for files and folders to ensure a consistent approach is applied across the service and to support effective retrieval of information when required. Via Team Brief or Care Bulletins, staff will be reminded of the process and procedures to be completed for Management Alerts to ensure that safeguarding responsibilities are adhered to, and safeguarding concerns are raised appropriately.	
Processes for management review and quality assurance of safeguarding alerts will be formalised to ensure an effective system of quality assurance and monitoring is in place which is consistent across the service. A template will be developed and used to record details of QA safeguarding audits completed by Managers for monthly MIT reports to enable formal recording and allow for any issues or patterns to be clearly identified and shared with the wider service.	
Learning logs will be maintained to enable formal recording and to allow for any themes to be clearly identified and shared with the wider service. Specific actions will be assigned to responsible officers with implementation dates, allowing for monitoring, and to ensure that learning is embedded.	

Agreed actions from the audit	Priority
The draft documents 'Safeguarding Adults Policy Older People Care Services and the 'Training Quality Improvement Plan 2022/24' will be finalised and made available and accessible to all users.	●

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit was conducted in the period February 2022 to April 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards. The review considered safeguarding alerts raised between April 2019 and March 2022.

Context

Older People Care Services is the county council's in-house provider of social care services to older people living in the community. Establishment managers (RCMs) are registered with the Care Quality Commission (CQC) and all staff are subject to regular supervision and continual training requirements including maintaining mandatory Safeguarding Training.
Safeguarding adults means protecting a person's right to live in safety, free from abuse and neglect. The Care Act 2014 requires that each local authority must make enquiries or ensure others do so, if it believes an adult is experiencing, or is at risk of, abuse or neglect

Previous audit

An internal audit of Older People Care Services: Safeguarding Alerts has not been carried out previously.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Recording alerts
- Monitoring and Reporting
- Learning and Outcomes
- Information and Advice
- Policies, Procedures and Guidance
- Training

Area of Coverage	Commentary	Assessment
Recording alerts	The Older People Care Service use a 'Management Alerts Register' to record and monitor safeguarding alerts. The spreadsheet and associated templates are in place to formalise procedures for reporting and provide a consistent approach across the Service. OPCS Business Development Managers must be informed of all safeguarding alerts and details should be recorded on the Alert Form e-template, which utilises drop down lists and requires mandatory population of fields. On completion of the alert	●

	form, there is an embedded link to enable processing of the form and generation of an email to be submitted to OPCS Business Development for the register to be updated. Once processed, alerts are held in the Alerts Register, and whilst the original details cannot be edited, users can populate additional fields to add follow up notes, safeguarding closure dates, and any learning points. The e-template and Management Alerts Register are not currently working properly (and had not been for a number of months previously). Therefore, some alerts have been saved as hard copy documents at the establishments or in local network folders. However, we established that the alerts register was being reviewed by the OPCS Development Manager and was being updated to retrospectively capture all safeguarding alerts from 2021and 2022. Due to the issues with the 'Management Alert Tool' e-form and the auto population of the 'Management Alerts Register', our testing established that not all alerts were recorded on the spreadsheet although in all cases alerts were recorded locally at individual establishments. However, different recording methods were used which included hard copy documents in folders at establishments and electronic forms saved in local network drives, which meant it was not easy to locate some supporting documentation or to confirm if it was available. We were able however to confirm that all cases were notified to the CQC on a timely basis.	
Monitoring and Reporting	Senior Managers are required to undertake Quality Assurance (QA) audits of Support Plan Files including a review of Safeguarding Alerts which is fed into the monthly Managers Improvement Tool (MIT) report for each establishment. The report field suggests responses are to be recorded for the number of safeguarding alerts raised and prompts for consideration of completion of the Safeguarding checklist for all incidents; that Referrals have been made as required; and identification of any themes or trends. Review of information including the Management Alerts Register, MIT reports, and documentation held locally at establishments found that whilst details were recorded and there was evidence of safeguarding quality assurance reviews being completed by management, the quality and consistency of recording varied across the service. For example, we identified a number of instances where information appeared to be incomplete, and it was unclear if alerts had been monitored and assessed. Whilst the audit did not identify any establishments with no recorded safeguarding alerts, due to variations in the way information was recorded, it was not always clear what the current status of an alert was or indeed if an alert had been recorded as required.	
Learning and Outcomes	The Management Alerts Register spreadsheet includes a column to record Outcomes/Learning but our sample testing confirmed that this facility was not used consistently with information recorded via a range of methods and held in various places. Through site visits and discussions with RCM's we established that learning is shared via team meetings, staff bulletins, management updates, or can be provided directly to staff through Supervision or 1:1.	
Information and Advice	Safeguarding information was on display at establishments and was easily accessible to staff, residents and visitors.	
Policies, Procedures and Guidance	There is specific guidance available on the LCC website for Safeguarding Adults and the safeguarding process via the Adult Social Care pages. The Safeguarding Toolkit provides advice on risk assessment and when to raise a safeguarding concern in line with the LCC adult safeguarding protocol and Lancashire Safeguarding Adults Board guidance and procedures. The Council has internal safeguarding policies and procedures that are accessible to all staff. The Safeguarding Adults Policy for Older People Care Services (which is currently being updated) is the key reference document available and provides procedures for staff and management teams to follow when safeguarding adults. The policy outlines the scope, principles, and key definitions; safeguarding responsibilities and the requirements of all roles; recognition of the abuse and neglect of adults	

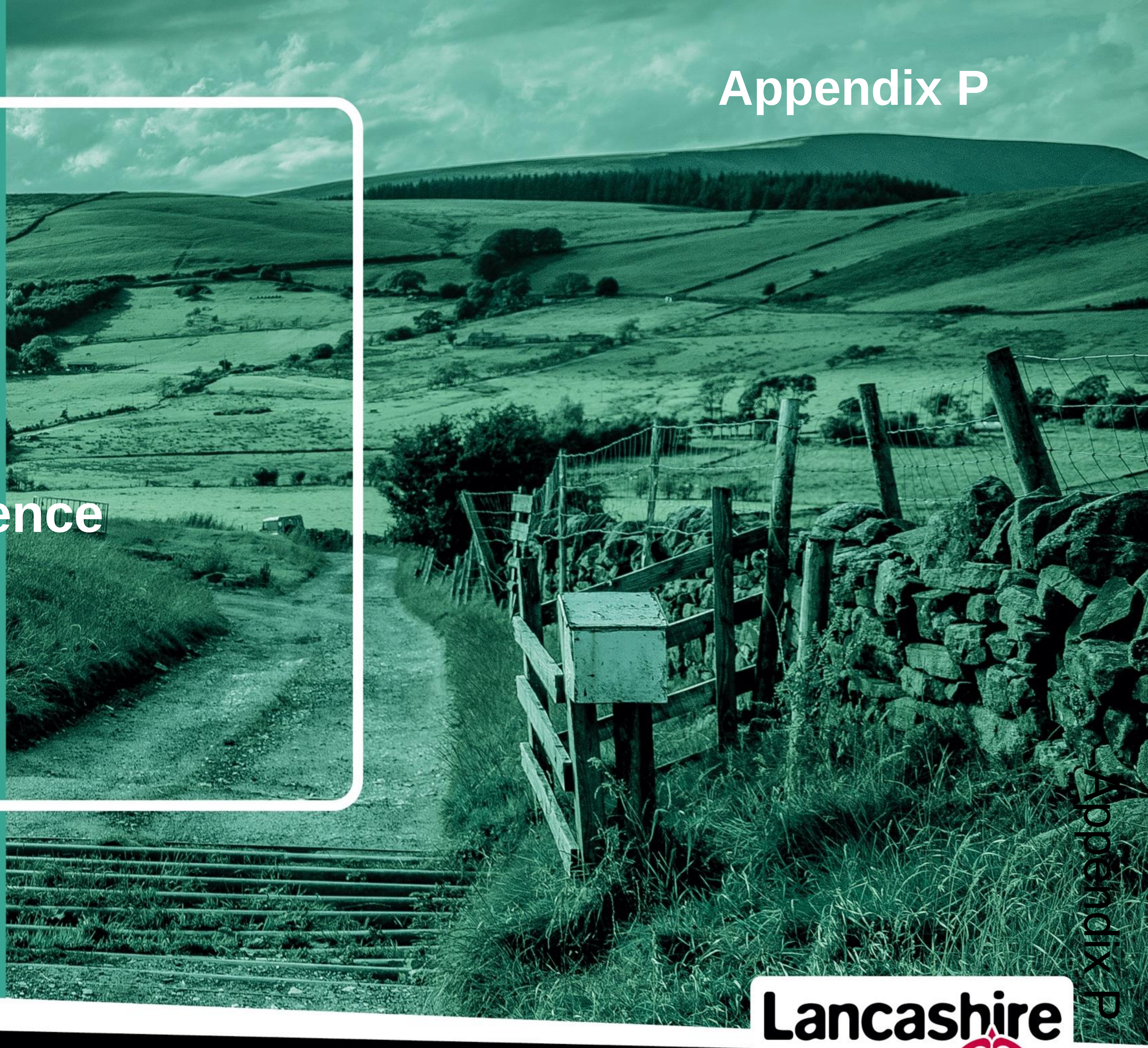
	at risk; and how to raise a concern. Also included is guidance on information sharing; service contribution to multiagency safeguarding meetings; recording information; managing allegations, including whistleblowing and complaints; and the learning, development and supervision of staff. Additional documentation available to and used by staff include the Lancashire Adult Safeguarding Protocol to assess risk and identify whether to raise a concern, and the LSAB Safeguarding Concerns Checklist to aide judgement, ensure that the service is taking appropriate action, that the correct level of information is recorded with a standardised approach and where appropriate to notify the CQC.	
Training	The Older People Care Services Training Plan includes mandatory Safeguarding Adults e-learning for all staff and training essential for the service which requires completion of workbooks and for staff to obtain e-certificates. Training for each establishment is managed locally using the 'Training Matrix 'spreadsheet which records all training courses required, shows where mandatory or essential to the service, and incorporates analysis worksheets which are used to generate statistics in graph format for management reporting. The matrix is RAG rated to determine completion status or training requirements. Safeguarding is subject to an annual refresher training update, which is monitored by Managers using the matrix spreadsheet. Across the Service, establishments hold regular team meetings where safeguarding is discussed to ensure that all members of staff are fully aware of the policy and know what to do if they are worried an adult is being abused or neglected; and to cascade and discuss learning and key lessons from safeguarding concerns and incidents. New starters are subject to corporate / service induction, overseen by management and must complete and sign the induction checklist and workbooks prior to starting work in the establishment. The Training Quality Improvement Plan 2022/24 has been developed and the policy sets out the procedures that Older People Care Services has in place to support and improve staff training, development, and progression. Course completion and status percentages are obtained from the Training Matrix spreadsheet and reported to management through the monthly MIT process to SMT. This includes if the Training Plan has been checked and the matrix is up to date and providing details of any training areas under 75% completion. Also updates on training which occurred during the month, numbers for staff attendance/ non-attendance and how this was dealt with; and arrangements made for areas under 75% completion. For four establishments visited, we obtained percentage completion rates for the Safeguarding Training modules as at the end of February 2022 and found that in each case, completion was over 91% with full completion of 100% at two of the establishments. Safeguarding is subject to annual refresher training and any outstanding training is reviewed by managers and notified to staff in Supervision / 1:1s. For employees, failure to adhere to the Safeguarding Adults Policy could lead to possible disciplinary action being taken. We confirmed that the OP Safeguarding Policy provides staff with guidance on Information Sharing, Consent and implications for Breaches of Policy, and staff are required to undertake annual training for GDPR and Information Governance which is monitored by Managers via the Training Matrix spreadsheet.	

Appendix P

Internal Audit

Sickness Absence Management - Older People Service

2021/22



Appendix P

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	3	0

There is an adequate control environment within the Older People Service relating to the sickness absence processes. The service in line with policy ensures there is a reasonable balance between the pursuit of business needs and the genuine needs of employees to be absent from work when they are unwell. Sickness absence is in the main well managed and monitored by managers across the service, who strive to identify appropriate/ reasonable solutions to encourage employees to return to work.

The audit has however identified opportunities to strengthen controls in some areas, and in particular around absence record maintenance.

Agreed actions from the audit	Priority
Clarification will be gained that all managers have received appropriate training on the implementation of the revised attendance policy and procedure and mop up sessions arranged as required, to ensure that short- and long-term absences are being managed effectively.	●
Managers will be reminded of the need for regular contact with staff during any period of absence to help support and maintain wellbeing. Similarly, the need for maintaining accurate, complete and consistent absence management records both within Oracle and on the Return to Work (RTW) forms be highlighted so that absences are not under or over-stated. To ensure compliance with policy requirements, Senior Operational Managers should undertake periodic dip sampling of attendance records.	●
Managers will be reminded that in line with the Council's document retention policy, sickness absence records should be securely retained for six years after termination of service. To ensure that sickness absence records are readily available, including where line management responsibilities change, all sickness absence records will be held in a secure shared area on the Q drive that is accessible to all managers.	●

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit was undertaken during October 2021 to February 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

The Older People Care Service has the 2nd highest sickness absence rate within the Council, with 75% of staff recording absences during the period December 2020 to November 2021. This equated to 12044 days lost to sickness absence. Due to the nature of the service and staff working directly with the elderly and vulnerable, there is an expectation that staff absence will be higher as they cannot risk attending work if they have an illness that could be transmitted.

A high level of attendance at work from employees is essential to the successful delivery of the Council's business. The corporate attendance policy and procedure aims to strike a reasonable balance between the pursuit of business needs and the genuine needs of employees to be absent from work when they are unwell. Managers have a duty of care to both employees who are absent due to sickness and to those who remain in work and may need to cover for absent colleagues.

This review commenced prior to the implementation of a new attendance policy and procedure published in December 2021 and therefore the absence records reviewed (covering the period December 2018 to October 2021) have been assessed against the previous policy requirements.

Previous audit

No previous audit of sickness absence within the Oder People Care Service has been undertaken.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Attendance policy and procedures and manager training
- Sickness absence monitoring and reporting arrangements
- Retention of and access to sickness documentation
- Compliance with policy

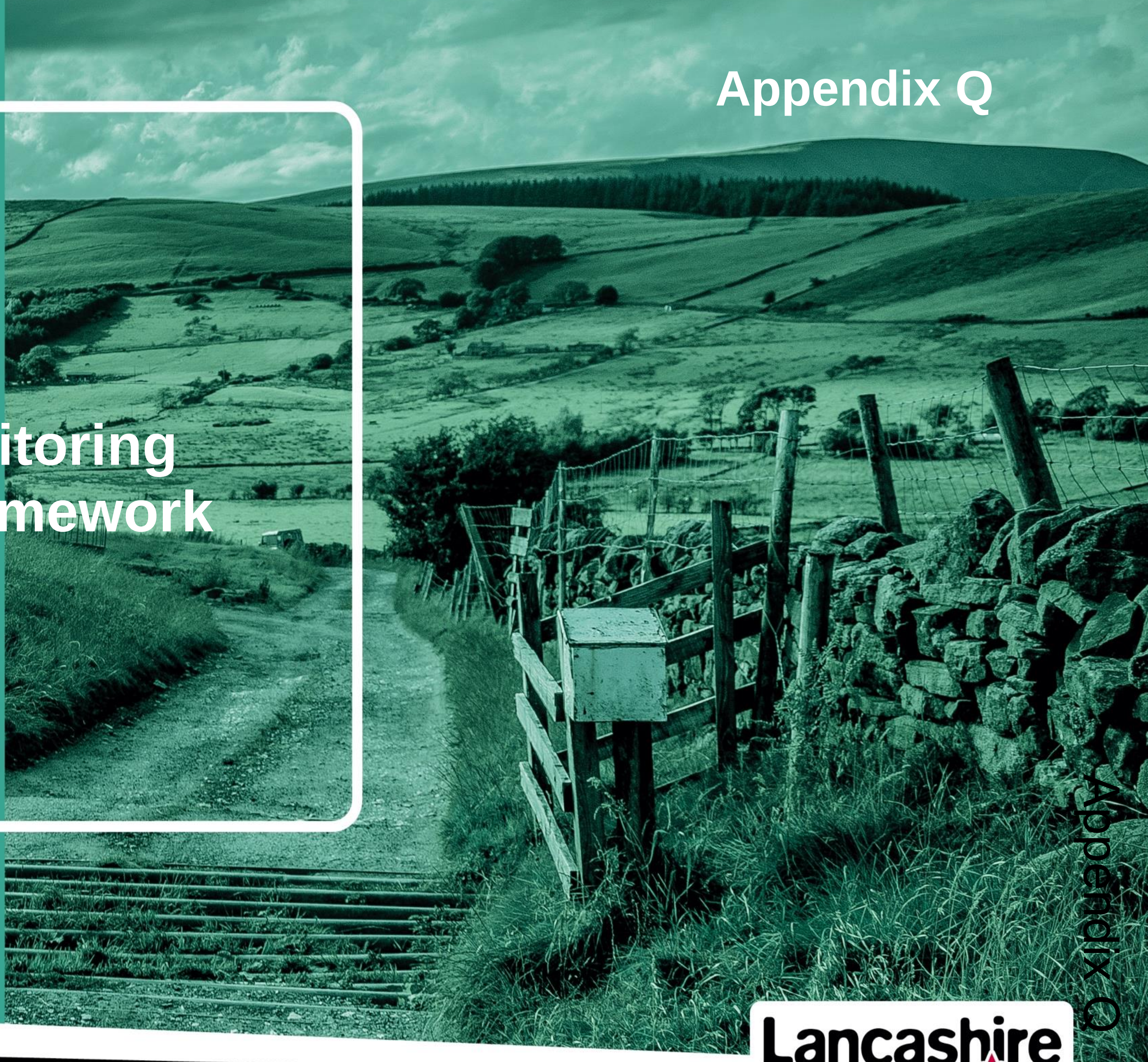
Area of Coverage	Commentary	Assessment
Attendance policy and procedures, and manager training	The corporate management of sickness absence policy and procedure was replaced in December 2021 by an attendance policy and procedure, offering a more modern approach. This includes removing prescriptive procedures and timescales to empower managers to make appropriate decisions at the right time for the individual and the service they work within. The policy and procedures are available directly from the intranet, and Human Resources (HR) have been running a series of interactive briefings for managers, which are complimented by pre-recorded briefings available online. HR confirmed that they have delivered briefings to Older People Care Service managers regarding the implementation of the updated policy. However, we were only able to substantiate that 32% of the managers in our sample have received the applicable training.	
Sickness absence monitoring and reporting arrangements	Sickness absence data is monitored monthly across the service. This includes high level monitoring of rolling monthly sickness absence data for the service by the Head of Service, and low-level monitoring by the Senior Operational Managers and Registered Managers. HR Business Partners also examine long term sickness absence cases within the service, and work with the relevant managers to progress these absences accordingly.	
Retention of and access to sickness documentation	Whilst sickness absence records were provided for most absences in our sample, some were not despite reminders being sent. In most of these cases, we cannot confirm whether this failure to supply the requested documentation is due to the records being unavailable because of the manner in which they were stored, or whether the records were not appropriately maintained.	

Compliance with policy	Evidence of managers maintaining regular contact with absent employees was not consistently kept. This information is required to help assess the health and wellbeing of staff and support them in their return to work. In most cases the root cause of absence is analysed by managers and appropriate/ reasonable adjustments made to encourage employees to return to work. Examples seen included phased return, returning on light/ adjusted duties, referral to the Remploy service, and consideration of alternative employment. Referrals to Occupational Health were not consistently made when appropriate to do so (in line with the previous sickness absence policy). We acknowledge however, that the newly implemented attendance policy places the onus on the manager to decide if a referral to Occupational Health should be made. Return to work meetings are held between managers and staff following instances of absence once the employee is back in work. The completion of the meeting record was however inconsistent in some cases, including discrepancy between the absence dates entered onto the Oracle HR system. It was evident that in the main managers are managing persistent absence effectively, with stage one and two processes being instigated once triggers are hit. Achievable absence monitoring targets are agreed to mitigate further attendance deterioration. There were however some anomalies and we have agreed actions in this regard. Case reviews are largely initiated, and appropriately documented. Advice/ recommendations resulting from Occupational Health assessments are also considered within this process.	

Appendix Q

Internal Audit

Contract Monitoring Homecare framework providers



2021/22

Lancashire County Council

Appendix Q

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	3	2

We are satisfied that whilst there is an adequate contract monitoring framework in place, which has been further enhanced with the introduction of the Quality Assurance Framework, contract monitoring arrangements were halted at the start of the pandemic and replaced with alternative arrangements to support providers in maintaining services. In readiness for the re-introduction of contract monitoring activity at the start of January 2022, the Contract Monitoring Team (CMT) developed a process for assessing provider capability to commence business as usual and met with providers to discuss performance in 2021. We did note that contract review meetings prior to the pandemic had not been held as frequently as they were scheduled.

The audit has also identified areas where controls may be further strengthened, in particular ensuring KPI's are logged, and finance queries are dealt with effectively to ensure providers are paid appropriately.

Agreed actions from the audit	Priority
Staff will be reminded to complete the KPI submissions tracker in a timely manner ensuring that providers are complying with the requirements of the contract and data is available to provide meaningful dialogue for the contract review meetings and non- submission of data is easily identified for appropriate follow up.	Medium
Finance queries will be signposted to the most appropriate person/ team to deal with them, and staff responsible for inputting CPLI's will be reminded of the need to ensure that they are input on a timely basis to avoid late payment of care charges to providers.	Medium
Consideration will also be given to implementing an escalation process where payments continue to be delayed avoiding the provider incurring cash flow issues.	Medium
The Homecare Framework Management Strategy will be updated to reflect the current operational arrangements so up to date information is available to new and existing staff, additionally a version control will be added.	Low
Staff will be reminded of the requirement to complete the annual review or alternatively consider if this is still required to ensure that a consistent approach to these meetings is adhered to by CMT.	Low

Background

This audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit, Risk & Governance Committee. The audit covers the period January 2019 to March 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards. The audit commenced in June 2021 and was halted at the start of November 2021 at the request of the Head of Service due to the impact of the pandemic on both the care provider market and the Contract Monitoring Team, the review resumed in March 2022.

Context

The Home Care Services Framework for older people, people with physical disabilities, people with learning disabilities/autism and people with mental health needs commenced in November 2017, and there are currently 46 providers who deliver care at home for individuals, such as assisting with personal care, meal preparation, cleaning and shopping, which may be for a period of a few hours a week to several hours a day, seven days a week. The contract was extended in November 2021 for a further two years, the annual spend is £50m.

There is a defined contract management framework in place aligned to the Homecare Framework contract which was suspended during the Covid-19 pandemic and replaced with alternative support mechanisms appropriate to the circumstances at the time.

Whilst the contract review meetings were halted, CMT started to hold meetings with providers from July 2020 to determine the impact of Covid- 19 on service delivery and performance. Following on from these meetings and in preparation for the council to return to business as usual (BAU), CMT devised a BAU process and meetings were held with Homecare Framework providers to ascertain their capability and confidence in resuming BAU in relation to staffing resources and finances, which included a review of their performance during 2021 prior to resuming standard contract monitoring from January 2022.

Previous audit

Internal audit has completed previous contract monitoring reviews undertaken by this team which have included consideration of the Crisis, Reablement, Direct Payments and Provider-led reviews resulting in mixed opinions from limited to moderate assurance.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Contract monitoring activity
- Payments to providers
- Complaint and compliments
- Support to providers during the pandemic
- Contract Management Strategy
- Breaches of contract

Area of Coverage	Commentary	Assessment

Contract monitoring activity	Contract review meetings should be held on a quarterly or six-monthly basis, with an annual written report produced by the provider reflecting on their performance. However, the annual provider reports for 2019 had not been completed by any of the providers in our sample, and contract review meetings due prior to the pandemic had frequently not taken place. During June and July 2020, CMT held Covid-19 recovery meetings with providers to determine the position of the business at that time. Areas discussed included management and staffing resources, the number of individuals being supported, financial stability and the submission of KPI's which had been suspended to allow providers to concentrate on service delivery. At the time there was an intention of resuming contract monitoring activity, this was delayed due to further covid outbreaks, lockdowns, and the annual winter pressures Business as usual synopsis meetings commenced in September 2021 in preparation for returning to contract monitoring arrangements from January 2022. CMT devised a methodology for these meetings, a guide and templates were produced for CMT staff to follow. At the BAU meeting CMT requested KPI's to be submitted for 2021 in readiness for the commencement of the contract review meetings. Contract monitoring activity was resumed in January 2022, and providers were informed that a new Quality Assurance Framework (QAF) would replace one of the quarterly contract review meetings. The QAF has been trialled as part of the Quality and Performance Improvement Planning (QPIP) process, which was initiated by the Contracts team in June 2021.	
Payments to providers	Care is commissioned by the Care Navigation community team or by Adult Community Social Care Services, who create a Care Package Line Item (CPLI) in the CONTROCC system alongside the commissioned care hours which creates the payment within Oracle. Each provider tendered their own individual hourly rate for each year of the initial four years of the contract, The provider's hourly rates for 2021 had been input into CONTROCC accurately. Enabling payments submitted for payment via the Care Portal to be processed by the Finance Team. The contract provides for these charges to be reviewed on the fourth year of the contract (which was November 2021) and upon request by the provider if they meet four criteria which the provider is able to evidence, for example that they have incurred additional costs outside of their control and manageability. Within our sample three providers requested an uplift and were able to provide appropriate evidence to support the increase and these were approved by the Director of Adult Community Social Care. During the pandemic the council introduced 'Pay on plan' to ensure a steady cash flow for providers. Under this arrangement, payment was made on the level of commissioned care rather than the actual level of service provided, although providers could opt out of this arrangement if they wished. Providers were however expected to continue to submit their actual hours wherever possible and finance would adjust payments accordingly. As the Contracts team are not responsible for making payments to providers, finance are included within the contract review meetings. CMT may be called upon by the provider to resolve a finance query if they are experiencing delays in resolving queries via other means. However, as CMT do not approve care packages or input the CPLI this is not the most efficient means of dealing with these issues and CMT are therefore looking to address this by arranging a meeting with all stakeholders to agree a more efficient process.	
Complaint and compliments	There is specific provision in the Homecare Framework contract to deal with complaints, whereby each provider is required to have their own complaint and compliments procedures that allow individuals and their representatives to raise concerns or complaints directly with them. When a provider receives a complaint, they should complete a complaints form and send it to CMT to enable them to adopt a consistent approach in recording and dealing with complaints. However, there is a general lack of compliance with this requirement. CMT have raised actions requesting the providers to complete the form and return it to them. CMT maintain an 'event log' for each provider where any issues, concerns, complaints and compliments are logged. Additionally, the council has a corporate complaints procedure which allows service users or their representatives to submit	

	complaints via the customer access service. These are raised with CMT as appropriate and logged on the Contracts team complaints log. Our testing of complaints raised via the customer access service identified one complaint that had not been logged on the provider event log although it was logged on the contracts teams complaints log.	
Support to providers during the pandemic	In response to the pandemic, and as a means of ensuring that the council was able to respond to the needs of providers a Care Capacity Tracker (CCT) was developed as a means of gathering information. This included daily track daily and capturing data on PPE, staffing levels, food deliveries, transport, medicine, equipment and financial matters. This was used to inform the council's response and priorities. As local restrictions started to lift, the council began to transition to a recovery phase and the CCT moved to gathering data on a twice weekly basis from June 2021, although urgent calls could still be made by providers to CMT as and when needed. NECS, a Health system replaced the CCT in July 2021. This captures vacancy data within care settings/ providers, rates of Covid infection for both service users and staff and provider operating confidence. In addition to the above, and since the start of the pandemic, communications were sent to all care providers highlighting guidance available from the council and nationally. Weekly newsletters were produced from April 2020 to September 2020 which included updates from the Lancashire Resilience Forum and the Infection Prevention and Control team. The content was evolving throughout the pandemic to match local, regional and national guidance. Additionally, webinars were delivered every three weeks from May 2020 until April 2022, which included messages from senior managers from the council and other partners. Information and advice was also provided on the council's internet and a dedicated Covid-19 web page was set up for care providers with links to the latest guidance from the Department of Health on working safely, infection control, testing and vaccinations.	●
Contract Management Strategy	The Homecare Framework Agreement commenced on 13/11/17 and there are currently 31 providers on it who deliver care to individuals in their own homes. The initial period of the contract was for four years, although the council extended the contract for an additional two years effective from November 2021. The responsibilities of providers, including the arrangements for performance to be monitored via a set of key performance indicators (KPIs) are clearly defined. A draft Contract Management Strategy, consistent with the Homecare Framework, is in place to support contract management activity including regular contract review meetings and the monitoring of service delivery and performance. Additionally individual provider event logs are kept, ensuring key information is not missed, and staff are supported to undertake these tasks via the use of designated templates which guide them through each of the processes. A detailed workplan is maintained to ensure visits are conducted to schedule and a risk profile has been added for each provider to act as an early warning to highlight issues which may be affecting service delivery. A Quality Assurance Framework (QAF) which has been under development by CMT since pre- pandemic times, has now been put into operation. Its aim is to encourage providers to continue to improve the quality of their service which will result in a better homecare experience for the individual. It is the intention of CMT that each HCF provider will complete the QAF during 2022/23 which will take the place of a contract review meeting. Monthly CMT team meetings are held at which discussions include progress being made against the workplan, the content and quality of the contract review meeting reports since they resumed in 2022. The CMT chair a monthly 'RADAR' meeting which provides a forum for social care and health partners to share information relating to concerns around the quality and safety of commissioned adult social care. We noted that feedback from the RADAR meetings is shared with staff at the	●

	contract team meetings.	
Breaches of contract	There are specific provisions in the contract to address breaches. We reviewed two providers who had breached the contract terms and confirmed that CMT had taken appropriate action in each case in accordance with the contract terms.	

Appendix R

Internal Audit

Payment Card Industry Data Security Standards

2021/22

Appendix R

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Limited	0	5	1	0

Overall, we can provide limited assurance that the control framework is adequately designed and effectively operated. Although, the council are aware of potential issues with its ability to demonstrate compliance with the Payment Card Industry Data Security Standard (PCI DSS), there were no lead roles or responsibilities identified during this review to assist with resolving this issue.

While Cyber Security Controls are in place across the Council, at the time of the audit the council were unable to identify which parts of their IT infrastructure were connected to financial transactions. Therefore, it was not possible to confirm if the controls in place and reviewed during the previous Cyber Security Controls audit would also satisfy the PCI DSS requirements

Policy and procedural documents for PCI DSS were very limited. There was a brief reference to PCI DSS compliance contained within the Information Handling Policy. However, this was the only bespoke council document to contain such references. Although generic guidance is provided to staff to advise on secure practices there is no bespoke documentation provided by the council on secure processes to follow, particularly in relation to housekeeping documentation for the management and storage of physical cardholder data, such as till receipts.

Agreed actions from the audit	Priority
Roles and responsibilities have been assigned to help ensure the Council can achieve and maintain compliance with the standards going forward.	High
A policy is to be drafted in consultation with the Information Governance team as to best practice. Procedural documentation will be subsequently created to support the policy and processes for staff and managers.	High
Standard Operating Procedures (SOPs) regarding compliance audits will be created in support of the ’policy and procedures’ management action above. All breaches and suspected fraud detected either by services or Internal Audit work will be reported to the Information Governance team and the Council's fraud service.	High
Discussions to be held with Information Governance to identify appropriate mechanism for compliance reporting.	High
An initial assessment is to be carried out on transactions across the council network. This will be completed by an independent assessor who will be recruited to conduct this assessment. An action plan will be created from the output.	High
A Gap Analysis will be completed, which is informed by the results of the initial assessment completed by an independent assessor as described in the management action above.	Medium

Background

his audit has been undertaken in accordance with the 2021/22 Internal Audit Plan as approved by the Audit Risk & Governance Committee. The audit has been conducted in conformance with the Public Sector Internal Audit Standards.

Context

The PCI DSS is an information security standard for organisations that handle branded credit cards from the major card schemes. The PCI Standard is mandated by the card brands but administered by the Payment Card Industry Security Standards Council. Who are a global organisation that maintains, evolves and promotes payment card industry standards for the safety of cardholder data across the world.

Merchants of any size accepting, processing, storing or transmitting credit card information, is required to comply with the standards. The standard was designed to reduce payment card fraud by increasing security controls around cardholder data.

Merchants are entities that accept debit or credit card payments for goods and/or services. It should be noted that the PCI DSS applies to merchants even if they have subcontracted their payment card processing to a third party.

Organisations can assess their own compliance with the standards, against a set of criteria which varies depending on the number of card transactions processed per year.

It is important for the council to demonstrate compliance with the standards to enable their customers to transact with the council as efficiently as possible and with confidence, knowing their cardholder details are being handled securely.

Scope of Audit

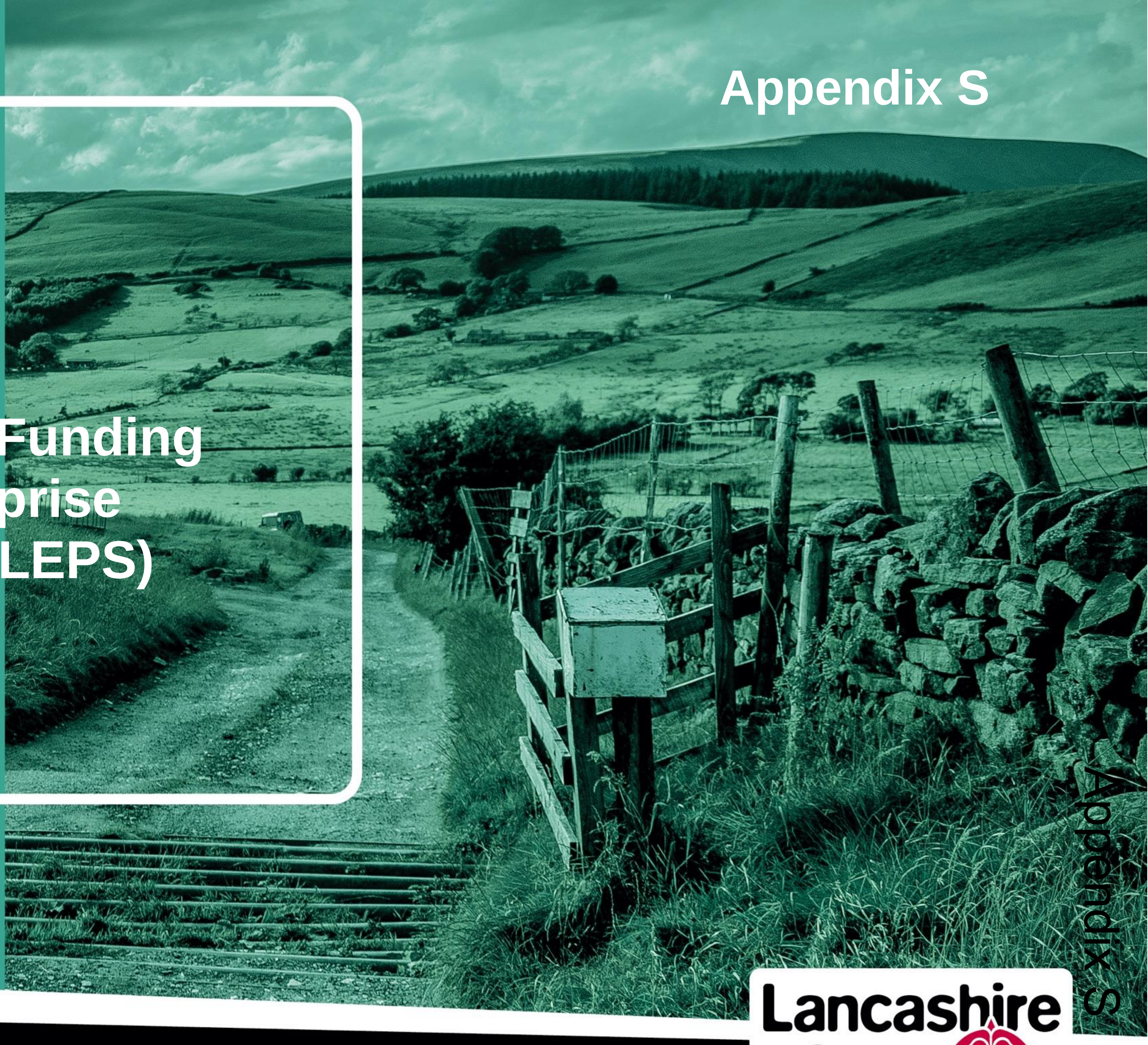
The main control areas for this review relate to the 12 high level requirements of the PCI DSS standards and how those standards are met and at an organisational level require consideration of the following:

- Accountability, roles, and responsibilities
- Policy and procedures
- Internal assurance mechanism for continued compliance
- Gap analysis against 12 high level requirements
- Remediation and reporting
- Assessment of organisational status

Area of Coverage	Commentary	Assessment
Accountability, roles, and responsibilities	There were no clear roles and responsibilities defined with respect to ensuring the council was adhering to PCI DSS or achieving compliance. It had been identified that the council had potential deficits in compliance however a clear lead on resolving this had not been identified or actioned.	●
Policy and procedures	Policy and procedural documents for PCI DSS were extremely limited. There was a brief reference to PCI DSS compliance within the Information Handling Policy which stated: Staff are provided with the 'Customer Operating Instructions' provided by Worldpay to advise on secure practices however this is a generic document and not bespoke to the council. It was identified that there were no council standard operating procedures or housekeeping documentation for the management and storage of physical cardholder data, such as till receipts.	●

Internal assurance mechanism for continued compliance	During the review it was acknowledged by staff that the council is not PCI DSS compliant although the steps required to achieve this were in the process of being identified.	●
Gap analysis against 12 high level requirements	Evidence to fully assess the gap analysis against the 12 high level PCI DSS requirements was not available for review. It was advised that the council are aware of its non-compliance and were hoping to rectify this. The council's cyber security controls were assessed as part of a previous audit that received moderate assurance. As such, we were able to utilise elements of this report to assess where potential gaps may be. However, we cannot confirm if this relates to the specific infrastructure and controls used for transactions:	●
Remediation and reporting	As mentioned above the council were aware of potential shortcomings in compliance. The Auditor was advised that a report was to be submitted detailing options to address this, however no information was given on its audience or where it was to be approved.	●
Assessment of organisational status	There was no evidence available of any risk assessments carried out in relation to PCI DSS compliance.	●

Appendix S



Internal Audit

Peer Network Funding to Local Enterprise Partnerships (LEPS) Grant

2022/23

Appendix S

Lancashire County Council

Grant certification and verification

We have examined the 2021-2022 Peer Network Programme grant funding claim, covering the period April 2021 to March 2022. The Grant was submitted by Lancashire County Council (the Accountable Body) on behalf of Lancashire LEP. We have examined the records of the Accountable Body as necessary and obtained such explanations and carried out such tests as we consider necessary.

The objective of this review was to perform such procedures as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express a positive conclusion on the schedule. In doing so we performed a reasonable assurance engagement as defined within the framework and conducted this engagement in accordance with ISAE 3000 (Assurance engagements other than audits and reviews of historical financial information).

We reviewed the transactions and the invoices submitted to us by relevant providers and can confirm that the expenditure claimed for all six claims totalling £286,648.83 is in accordance with the Grant Funding Agreement specified in the grant Terms and Conditions. The expenditure incurred during the period 1st April 2021 to 31st March 2022 was specifically related to the project described within the Grant Offer Letter.

Background

This audit has been undertaken in accordance with the 2022/23 Internal Audit Plan as approved by the Audit, Risk & Governance Committee in April 2022. The audit covers the period April 2021 to March 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards. Our audit work was completed during April 2022.

The review was conducted to provide assurance to the Department for Business, Energy and Industrial Strategy (BEIS) that the Audit Service have considered the information and evidence provided by the Growth Hub Team in support of the grant claims submitted, and that it is complete, true and accurate. The Growth Hub Team have complied with the terms and conditions of the grant and has expended the sums in respect of which the Peer Network Grant claims were made in undertaking the project and that all the activities were completed by 31st March 2022.

Context

BEIS agreed pay Lancashire County Council an amount not exceeding £390,000.00. BEIS will distribute funding to Growth Hubs via the Lancashire Enterprise Partnerships of Accountable Bodies through section 11 of the Industrial Development Act 1982 which enables the Secretary of State to make provision for the giving of advice to persons carrying on or proposing to carry on a business. Peer Networks will support Small and Medium Enterprises in recovery from the impacts of COVID-19 and improve their productivity.

Financial information

During the period April 2021 to March 2022, Lancashire County Council submitted six claims (based on actual spend) as follows: -

Period	Claimed
Claim 1 - Apr 21 - May 21	£2,935.81
Claim 2 - Jun 21 - Sep 21	£17,768.58
Claim 3 - Oct 21	£4,750
Claim 4 - Nov 21	£44,953.91
Claim 5 - Dec 21 - Jan 22	£65,633.87
Claim 6 - Feb 22 - Mar 22	£150,606.66
Total	£286,648.83

Previous audit

An internal audit of the 2020-21 Peer Network Funding to Local Enterprise Partnerships was carried out in April 2021.

Scope of Audit

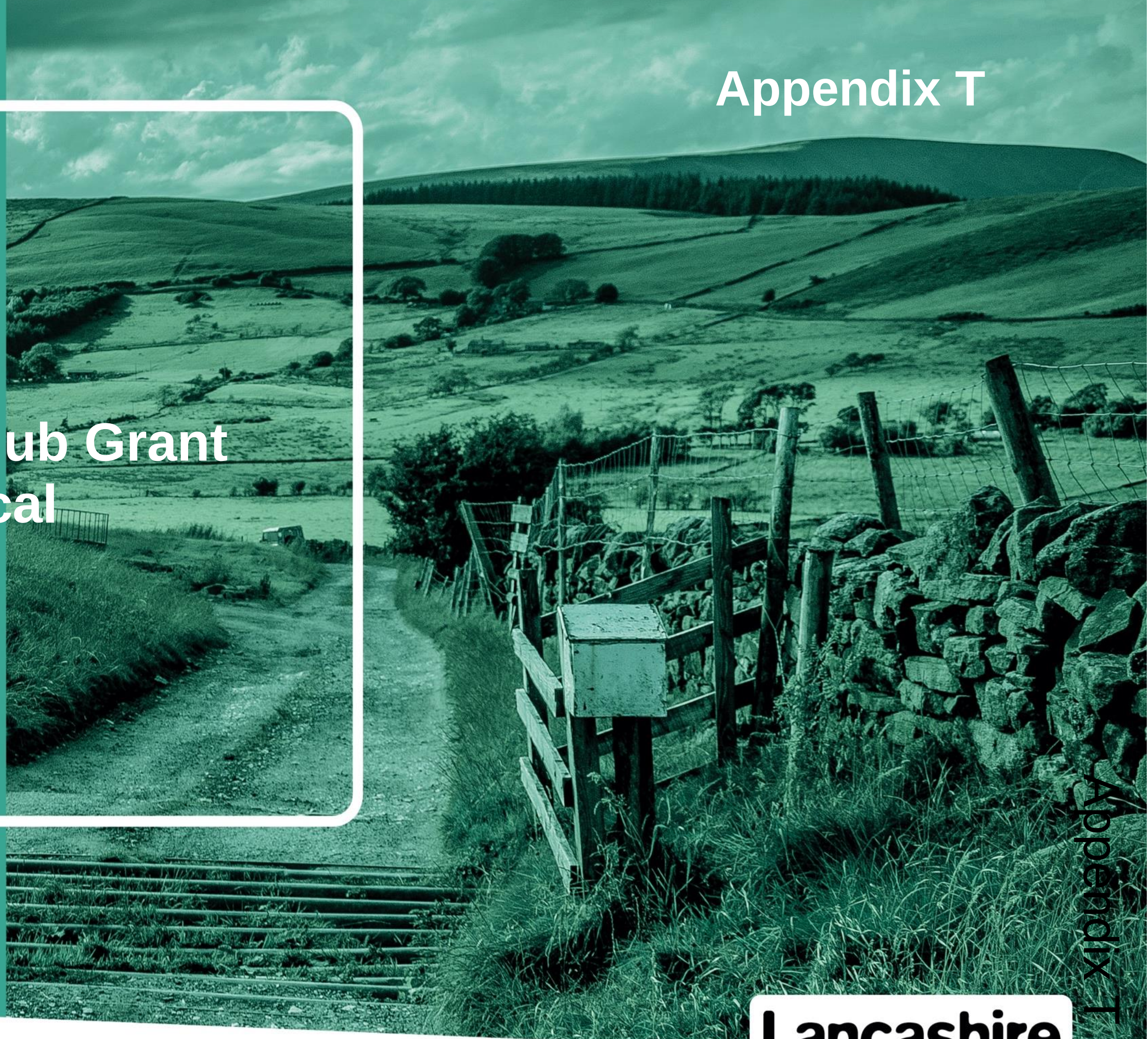
The scope of our work was to verify the accuracy of the grant submissions and to verify that the expenditure incurred was in accordance with the terms and conditions attached to the grant.

Appendix T

Internal Audit

Core Growth Hub Grant Funding to Local Enterprise Partnerships

2022/23



Lancashire County Council

Appendix T

Grant certification and verification

The Department for Business, Energy and Industrial Strategy (BEIS) requires Internal Audit to provide assurance that Lancashire County Council has complied with the conditions of the Core Growth Hub Grant. This includes the sums in respect of which claims were made.

We have examined the Growth Hub core grant funding claims from April 2021 to March 2022 submitted by Lancashire County Council on behalf of Lancashire LEP. We have examined records as necessary and obtained such explanations and carried out such tests as we consider necessary.

We found that the Accountable Body has expended monies to cover the eligible expenditure specified in Schedule 1 of the Grant Offer letter, which has been incurred and defrayed during the period 1st April 2021 to 31st March 2022 amounting to:

Activity	Expenditure
Growth Hub Delivery ERDF Match	£234,308
Access to Finance	£119,628
Boost and Co Collaborations/CRF	£86,550
Low Carbon Support	£50,000
Executive and Performance Management	£46,130
Total	**£536,616**

Additionally, we can confirm that: -

1. None of the costs were incurred before 1st April 2021.
2. There are no Accountable Body overheads included in the above.
3. The totals at above exclude recoverable Value Added Tax and interest and service charges arising from hire purchase, leasing and credit arrangements.
4. The totals at above exclude any addition for profit by the Accountable Body and profit earned by any company in the Accountable Bodies group (as defined in Schedule 1 of the Grant Offer letter and claim form) as a result of work relevant to the project undertaken by the Accountable body or sub- contracted to such company by the Accountable Body.
5. The Accountable Body has maintained adequate records to enable us to report on this claim for payment of grant.

Background

This audit has been undertaken in accordance with the 2022/23 Internal Audit Plan as approved by the Audit, Risk & Governance Committee in April 2022. The review was conducted to provide assurance to BEIS that Lancashire County Council has expended the sums in respect of which Core Growth Hub Grant claims were made, and that all the activities were completed by 31st March 2022.

The audit covers the period April 2021 to March 2022 and has been conducted in conformance with the Public Sector Internal Audit Standards. Our audit work was completed during May 2022.

Context

Lancashire County Council received grant funding from the Department of Business Energy & Industrial Strategy (BEIS) for the 2021-2022 Lancashire Economic Partnerships Growth Hub (Core Growth Hub Grant). The grant was issued to pay Lancashire County Council the "Accountable Body" under Section 11 of the Industrial Development Act 1982. This is to support the further development of Growth Hubs aligned to the Government's commitment to ensure that businesses in every region have access to high quality advice and guidance also to further simplify access to support for businesses.

The Core Growth Hub Grant is payable quarterly, in advance, for up to 100% of the net eligible expenditure incurred by the Lancashire Economic Partnership for the purpose of undertaking the project up to a maximum amount of £536,500, with any overpayments being refundable to BEIS.

Financial information

During the period April 2021 to March 2022, Lancashire County Council submitted four claims (quarterly) as follows: -

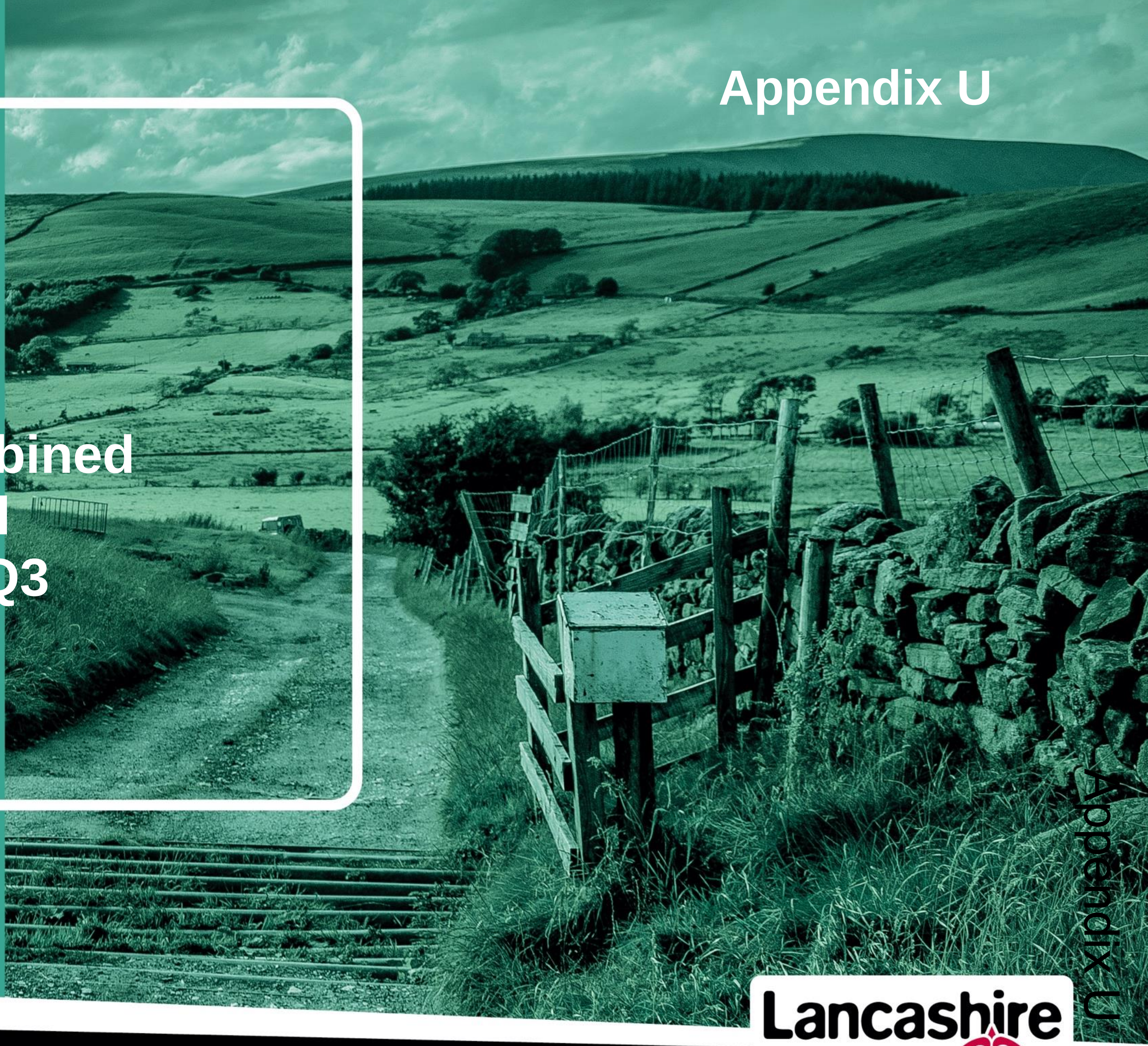
Period	Claimed	Actual spend
Quarter 1 (Apr 21 to Jun 21)	£134,125	£94,857
Quarter 2 (Jul 21 to Sep 21)	£94,857	£146,139
Quarter 3 (Oct 21 to Dec 21)	£146,139	£109,547
Quarter 4 (Jan 22 to Mar 22)	£161,379	£186,073
Total	**£536,500**	**£536,616**

Previous audit

An internal audit of the 2020-21 Growth Hub Funding to Local Enterprise Partnerships (LEPS) was carried out in May 2021.

Scope of Audit

The scope of our work was to verify the accuracy of the grant submissions and to verify that the expenditure incurred was in accordance with the terms and conditions attached to the grant.



Internal Audit

Liverpool Combined Authority Local Energy Hub – Q3 2021/22

2022/23

Lancashire County Council

Appendix U

Grant certification and verification

We have examined payments made in Quarter 3 of the 2021-22 financial year, submitted by Lancashire County Council to the Liverpool City Region Combined Authority in relation to the Local Energy Hub grant programme. The objective of this review was to perform checks to provide assurance that the grant conditions have been met.

We confirmed that all expenditure incurred complied with grant conditions. In line with grant conditions, Lancashire County Council has appointed a Senior Project Officer (Low Carbon and Renewable Energy) and a Community Energy Investment Lead. Employment to the Senior Project Officer role was made in September 2021, whilst the Community Energy Investment Lead was established in December 2021. For Quarter 3 of the 2021/22 financial year, payments totalling £22,458.16 were made, of which £21,673.85 were salaries for the two newly appointed posts and £784.15 was expenditure on other eligible costs including travel mileage expenses.

Background

This audit has been conducted to provide assurance to the Liverpool City Region Combined Authority that the Internal Audit Service consider that information and evidence provided by the External Funding and Investment team in support of the grant claims submitted for quarter 3, is complete, accurate and that grant terms and conditions have been complied with.

The audit covers the period October 2021 to December 2021 and has been conducted in conformance with the Public Sector Internal Audit Standards. Our audit work was completed during April 2022.

Context

Grant funding was allocated to Lancashire County Council to support the establishment of the North West Local Energy Hub and further development of local energy strategy. Liverpool Combined Authority, as the accountable body, secured funding from the Secretary of State for Business Energy and Industrial Strategy (BEIS) for the period of July 2021 to March 2024.

Schedule 3 of the grant conditions state payment will be made to Lancashire County Council within 20 working days of receipt of each quarter's claim forecast, subject to satisfactory audit assurances that payments comply with grant conditions and reconciliation of any previous quarter's payment. A quarterly certificate confirming this must be signed by the S151 Officer and the Head of Internal Audit and submitted for each claim.

Financial Information

Grant funding for the sum of £260,000 plus £10,000 in respect of expenses was allocated to Lancashire County Council to support the establishment of the North West Local Energy Hub and further development of local energy strategy.

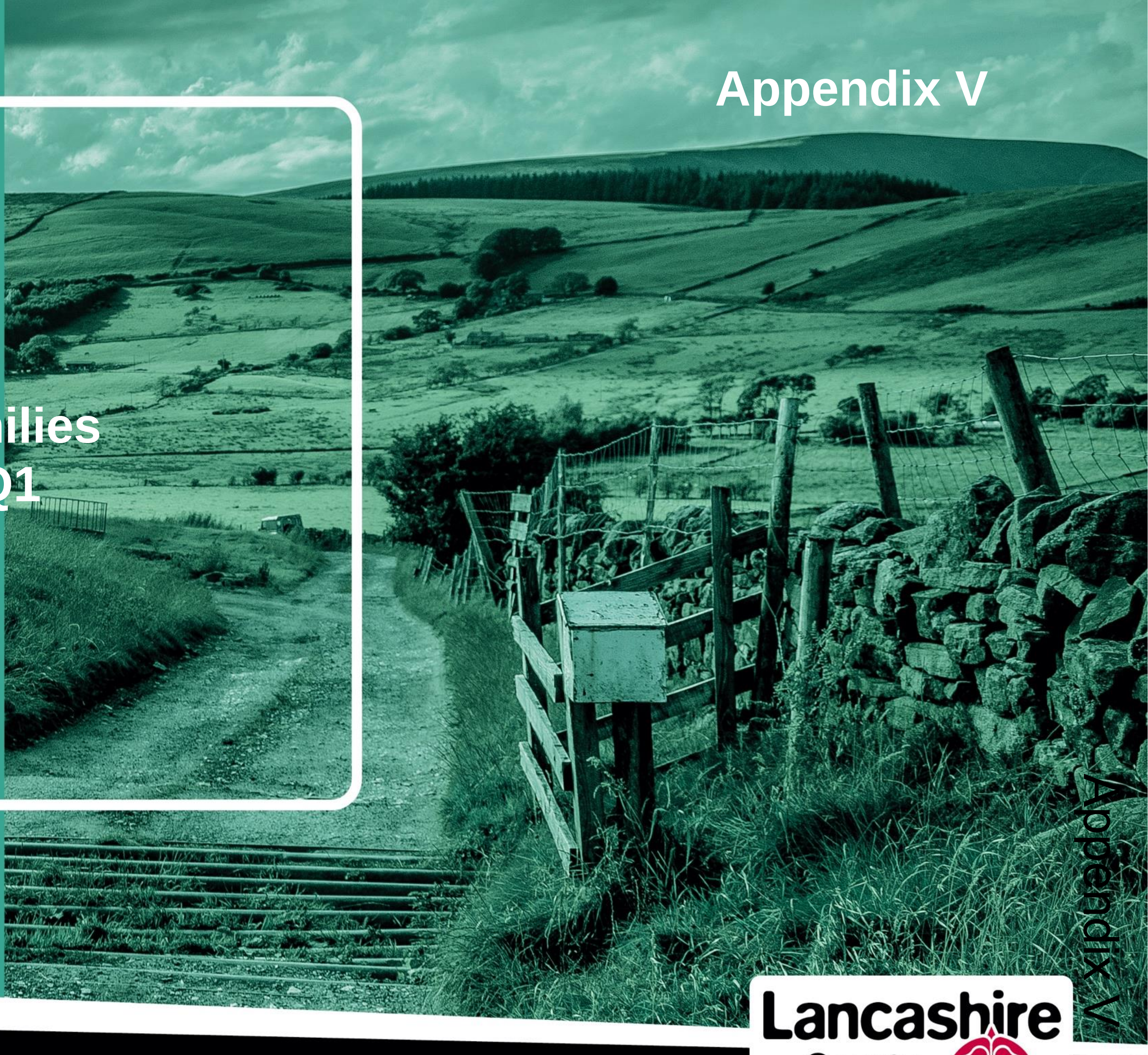
Scope of Audit

The scope of our work was to verify the accuracy of the grant submissions and to verify that the expenditure incurred was in accordance with the terms and conditions attached to the grant.

Appendix V

Internal Audit

Supporting Families Grant Claims– Q1



2022/23

Appendix V

Lancashire County Council

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	2	4

Grant certification and verification

We have examined claims made in Quarter 1 of the 2022-23 financial year, in compliance with grant conditions at the request of the Children and Family Wellbeing service to meet the Ministry of Housing, Communities and Local Government (MHCLG) Financial Framework for the Expanded Supporting Families Programme.

Audit testing for April, May and June of 2022 comprised a sample of 54 claims from a population of 535 and we can confirm that in each case tested the family was eligible for the programme, was worked with in the Supporting Families way and that outcomes achieved were in line with the council's outcome plan.

Background

Audits of compliance with grant conditions are conducted quarterly at the request of the council's Children and Family Wellbeing service to meet the Department for Levelling Up, Housing & Communities Financial Framework for the Supporting Families Programme.

Context

For each claim window, the Supporting Families team submit to the Internal Audit Service (IAS) all claims they consider eligible for submission to the Department for Levelling Up, Housing & Communities, and in accordance with the financial framework for the Expanded Supporting Families Programme. They complete a template collating sources of evidence to support the case eligibility including screenshots from Supporting Families spreadsheets populated from case management recording systems and spreadsheets. Our validation process is limited to confirming that the screenshots provided support the eligibility criteria. We do not audit underlying information held within the various systems used by council and external teams but we do conduct periodic audits of the accuracy and completeness of this data.

Financial Information

The June claim included 535 families, with £800 being awarded for each individual submission. This totals £428,000 for the period reviewed.

Scope of Audit

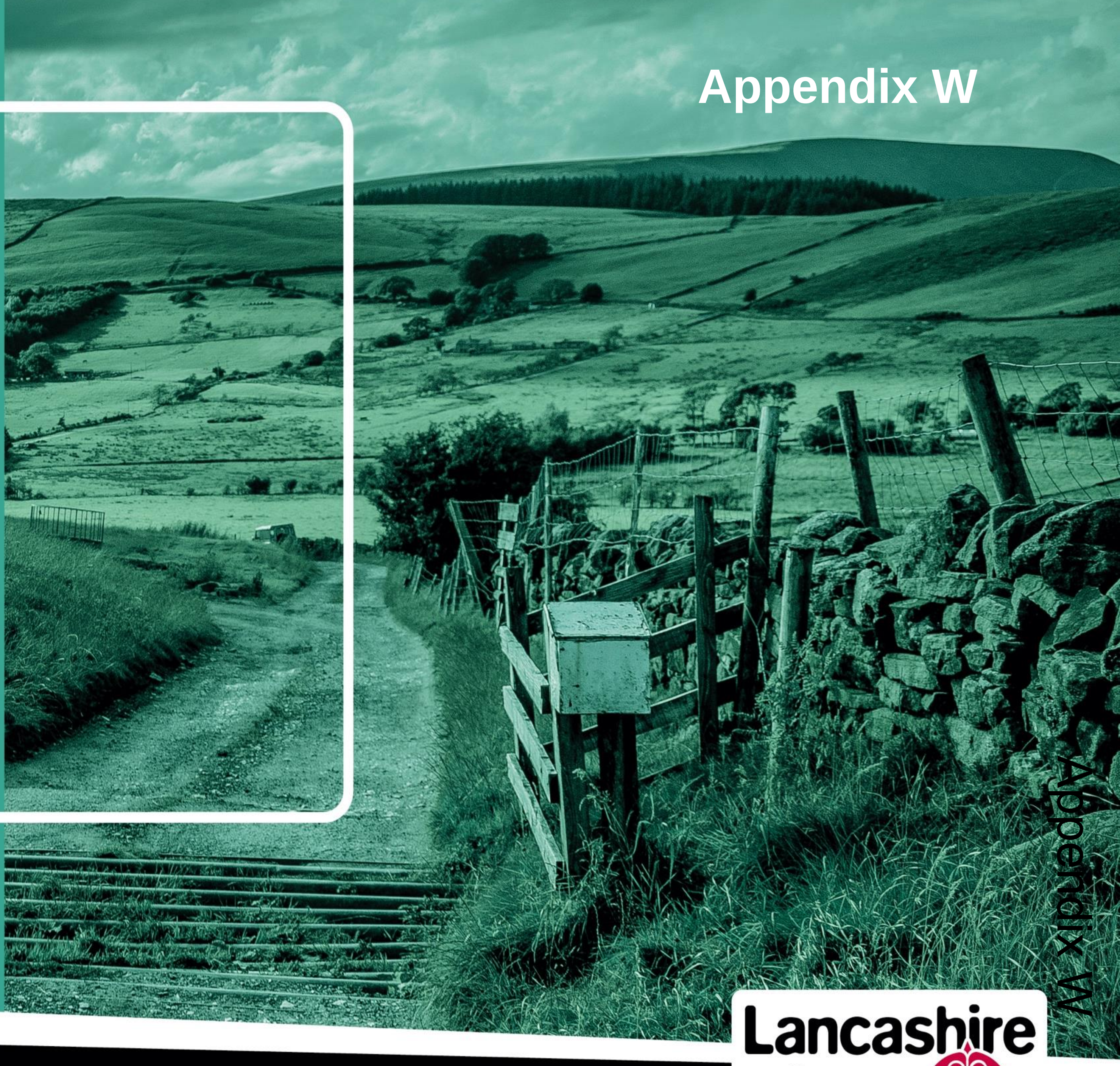
The audit covers the period April to June 2022 and was completed during June 2022. Audit testing is based on a random sample of 10% of the total claims to be submitted.

Appendix W

Internal Audit

Bank Mandate Special Investigation

2022/23



Appendix W

Lancashire County Council

Audit findings requiring action

Extreme	High	Medium	Low
0	5	0	0

A bank mandate fraud was nearly successfully perpetrated against the Council resulting in four payments totalling £45,966.96 being paid into the offender's bank account. Fortunately, due to the actions of the Financial Conduct Authority (FCA) all the funds were recovered, and the Council suffered no loss.

The fraudster impersonated the Director of Finance of the care provider requesting via email that their bank account details are changed. The Fraudster was able to access and effectively highjack an already existing email chain to impersonate the Director of Finance of the care provider. In doing so they were able to convince a Council employee that a request to change bank details was a legitimate request. Although, the email addresses were different they were almost identical. Therefore, it is understandable why this difference was not identified, particularly as the email appeared to be a continuation of a conversation that the Council employee originally instigated. It should also be noted that another employee of the care company was also a recipient of the emails, including the emails from the fraudster. They also did not identify the change to the email address.

Despite the fact that the Council employee believed that they had received a genuine instruction to change the bank account details this fraud would have been avoided had the correct procedure for changing bank account details been followed. This procedure would have ensured that the request to change the bank account details are verified separately, which would have identified the fraud.

Unfortunately, due to a lack of communication and training the Officer who received the request did not know to follow the correct procedure and completed the e-form to change the details. They confirmed they were not aware there was a procedure they had to follow. As part of the last audit of the accounts payable central controls it was reported that: -

- The process for changing supplier bank account details is accessible on the Intranet.
- The PIM Team processes requests in line with procedure notes which state changes should be made only if supported by legitimate documents.
- However, in some services, the legitimacy of the request is not always confirmed.

To address this weakness a request had been submitted to ICT requesting that they add links to the guidance available directly on the e-form. Unfortunately, at the time of the fraud this request was waiting action. ICT have been requested to expedite this request as a matter of priority.

The care provider whom this fraud relates to uses the Council's iSupplier system. As such they had access to securely change their own bank details. Therefore, had the response to the request to change the bank details been to have advised the care provider how they can change their own details it would have prevented this fraud.

The audit has identified five high priority management actions to further improve the councils' security arrangements. The details of these management actions and the specific controls that are in place have intentionally been excluded from this extract. Highlighting these could provide criminals with information about the council's security arrangements that may assist them in attacking and harming the council.

Background

This Investigation was commissioned by Neil Kissock (Director of Finance) after he received a report of a suspected bank mandate fraud. The fraud resulted in four payments totalling £45,966.96 being paid into the offender's bank account. The investigation was to establish the circumstances around the fraud, attempt to identify any perpetrators, along with any management actions required that would reduce the risk of this occurring again.

Context

Bank mandate fraud is also known as payment diversion fraud or business email compromise. The Council is not alone being at risk of this type of fraud as it affects all types of businesses in all sectors. However, criminals have been actively targeting local Council's for a number of years in regard to this type of crime.

Bank mandate fraud is effectively an impersonation fraud in which the criminal impersonates a genuine Council supplier and convinces an employee to change the bank details on a payment system. After the bank details are changed all future payments made to the genuine supplier are made to a bank account controlled by the criminals. Usually, the first time anyone is alerted to the fraud is when the genuine supplier complains they have not received the payments they were due. This type of crime is a cyber enabled crime often involving criminals creating fake e-mails that are very similar to the genuine business/customer email aiming to convince the employee it is a genuine request to change the bank details.

Cyber enabled crime is a traditional crime, such as theft, harassment, child exploitation and in this case fraud, that can be committed without a computer but are enabled by a computer, usually making the crime easier to commit and or harder to detect. In some regards Bank mandate fraud is an old-fashioned long standing and common type of fraud. However, this type of crime has become more prevalent as technology has made it relatively easy to perpetrate, and much more difficult to identify the offenders.

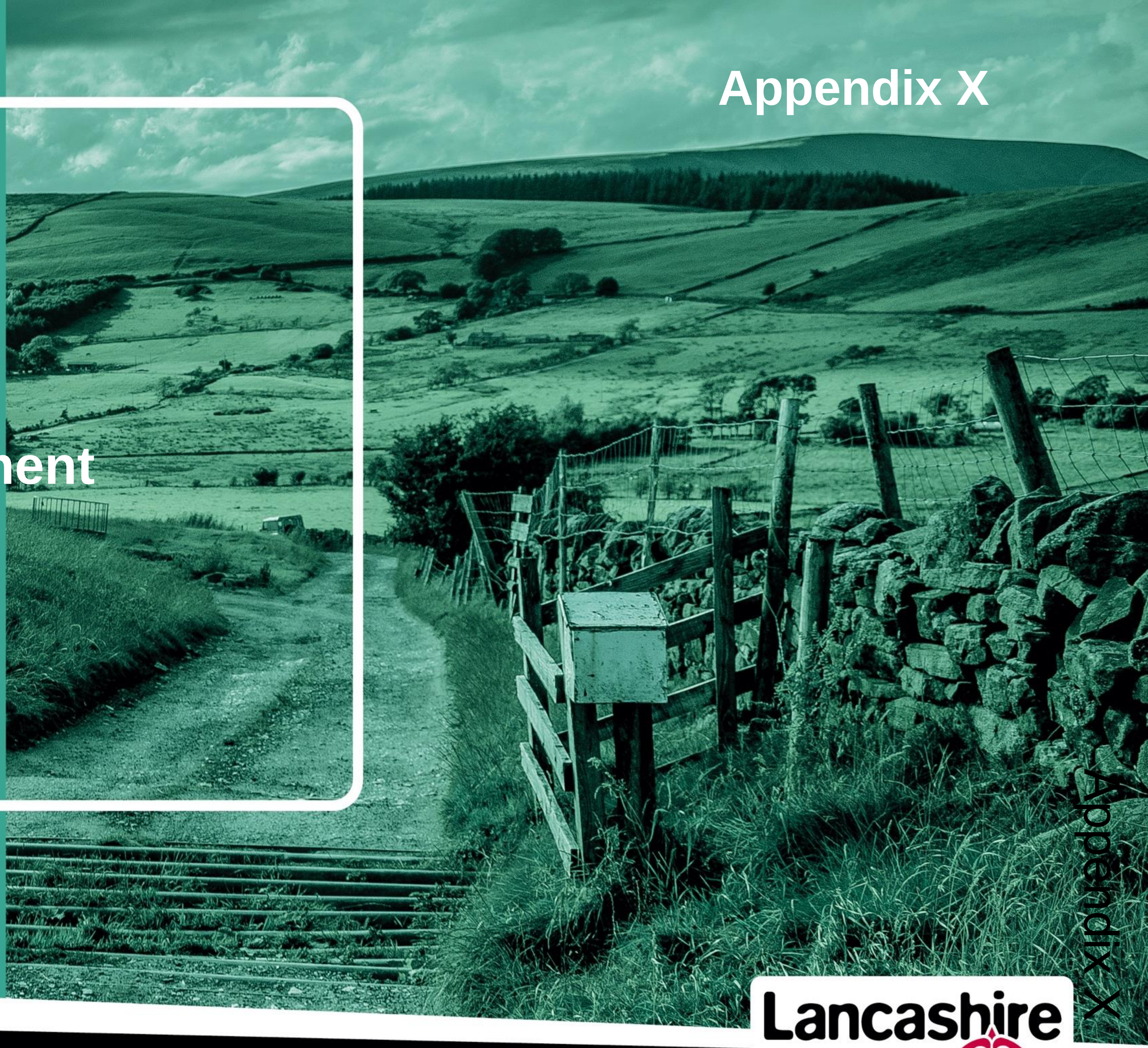
In order to reduce the risk of this known fraud occurring the Council has a procedure that has built in controls that when followed will ensure the details of the request are verified separately with the genuine supplier. To further reduce this risk any suppliers who use the Council's iSupplier system are able to securely change their own details. This negates the need for Council employees to receive and action requests to change bank details for these suppliers. Following this change the following four scheduled payments were sent to the criminal's bank account and later returned to the Council by the FCA: -

Date	Amount
12 April 2022	£2,982.22
14 April 2022	£11,928.88
14 April 2022	£8,946.66
25 April 2022	£22,109.20
Total	£45,966.96

Appendix X

Internal Audit

Debt Management



2021/22

Appendix X

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Moderate	0	0	1	1

Debt recovery strategies are defined and programmed into Oracle which routes debts to the appropriate strategy at set intervals should debts not be recovered. An updated Debt Management and Income Allocation policy was approved by the Audit, Risk and Governance committee in October 2021. Debts are routed to appropriate strategies for manual intervention consistently. Higher value debts are prioritised in order to reduce the value of bad debt provision and volume of write- offs. Debtors are notified of referrals to the council's appointed debt collection agency. Debts are routed to write-off strategies when alternative debt recovery options have been exhausted and are consistent with the policy but write-offs are not processed in a timely manner. The council has adopted the Government's 'Breathing Space' scheme to give debtors protection from legal recovery action but recovery action against one debtor continued despite being under the grace period.

We agreed three actions as part of our previous joint audit on Accounts Receivable and Debt Management, of which we consider two have now been implemented. One action has been partially implemented and work is ongoing, with the Debt Management team continuing to clear the backlog of outstanding debt cases following the resumption of the service

Agreed actions from the audit	Priority
The Debt Management team will review the effectiveness of write-off strategies within their processes in order to improve the timeliness of debts being written-off from accounts.	
The debt management service will review its procedures for placing customer accounts on hold to ensure that debtors in 'breathing space' are not chased for their outstanding contributions, as per legislation. The review will ensure that notification of debtors being placed in breathing space are actioned as a priority to ensure that automated strategies are ceased.	

Background

This annual audit of the controls operating over council's Debt Management processes and debt recovery procedures was carried out as part of the 2021/22 internal audit plan and has been conducted in conformance with the Public Sector Internal Audit Standards. The Audit covered the period between January 2021 and February 2022. The accounts receivable arrangements have been audited concurrently with this audit and the audit findings have been reported separately (see ref: 2021-61).

Context

Oracle Financials is the council's corporate accounting system. Invoices raised to customers are processed through the Collections Agent module. Invoices are raised by the Accounts Receivables team on behalf of services following notification of goods or services provided to customers. Outstanding debts are chased in line with the county council's debt management policy, with first reminder and final notice letters automatically issued to customers via Oracle. Should debt remain outstanding, debt collectors within the service will introduce further manually intervened strategies.

Financial information

Between 1 April 2021 and 31 March 2022, the council had total billed income of £516m, of which £7.8m (1.5%) was bad debt provision and wrote off £8.5m (1.6%) of debt.

Previous audit

Our last audit report was issued in September 2019 as part of a joint audit reviewing Accounts Receivable and Debt Management. This audit received moderate assurance.

Scope of Audit

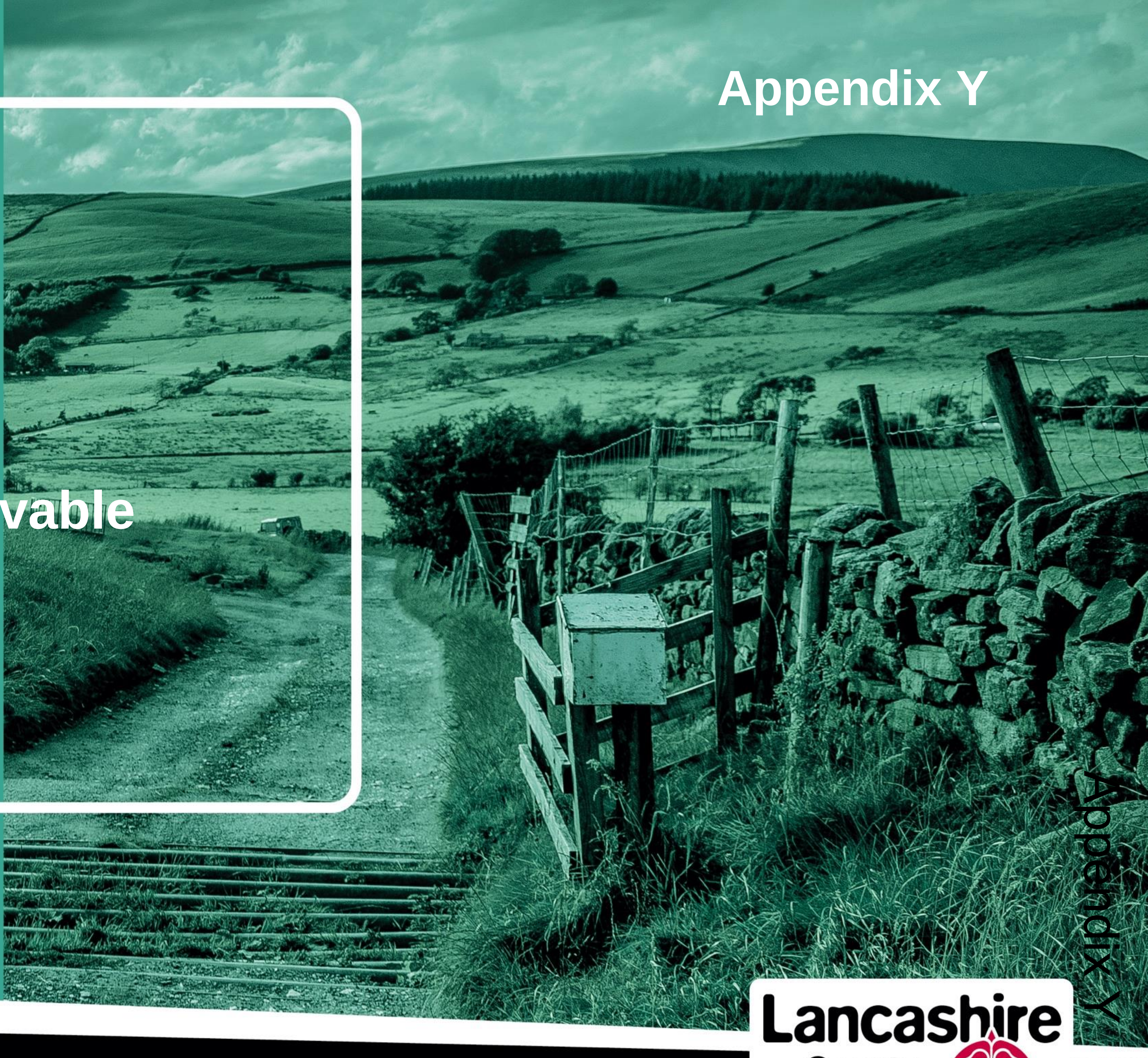
In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Debt management
- Policies and reporting
- Debt recovery strategies

Area of Coverage	Commentary	Assessment
Debt Management	The Debt Management service has been working to clear the level of outstanding debt since the service resumed activity in 2018. Whilst the bad debt provision and write-off amounts have reduced over this time, including 2021/22, the service is continuing to apply a policy of prioritising debts based on value. As such, we have identified some inconsistencies in the application of debt recovery strategies. For debts which are to be referred to Indesser, debtors are notified that the referral will be made in seven working days should payment not be received. However, dependent on the value of the debt and other action taken to avoid referral, this process can take up to 10 weeks rather than seven days. The implementation of Oracle Fusion, currently scheduled for Autumn 2022, is expected to solve this issue as under Fusion, referrals will be issued manually following a complete review of the debt. Therefore, a management action was not raised on this occasion. Write-off strategies are applied when arrears are considered irrecoverable after exhausting alternative options. The debt management policy dictates the application of these strategies and they are applied consistently by the service. However, despite debts being routed to write-off strategies, debts remained 'open' on Oracle with insufficient updates provided on account records. The council has adopted the Government's 'Breathing Space' scheme which allows debtors legal protection from their creditors for a period of 60 days. The service holds a monitoring spreadsheet for debtors identified. Despite this, in one instance a customer was in a period of breathing space, but their account had not been amended to identify this, and an automated letter chasing outstanding contributions was issued.	
Policies and Reporting	A new Debt Management and Income Recovery policy was produced and approved by the Audit, Risk and Governance Committee in October 2021. The policy outlines responsibilities for raising bills and allocating income, and defines the strategies for debt recovery, including processes for referring debt to the council's appointed debt collection agency or legal	

	services, and protocols for when debts can be written-off. Data on the council's bad debt provision (defined as debt outstanding for at least two years) and prior twelve-month write-offs are presented quarterly to Corporate Management team by the Head of Corporate Finance and Exchequer Services. This information is compared to the council's overall billed income for the same period and against previous quarters to allow a comparative current position. Data is also provided monthly to the Head of Service and regularly monitored by the Senior Financial Services Manager to evaluate the effectiveness of the service's debt recovery.	
Debt Recovery Strategies	Debt recovery strategies are outlined in the new policy and are input into Oracle in order to process attempted debt recovery. The first strategies are automated processes, issuing first reminders and final notices to customers at set intervals once the due date for the invoice has passed. Should debt remain outstanding, debts are routed to strategies which are manually processed by debt collectors within the service, which include the use of the council's appointed Debt Collection Agency (Indesser) or the council's Legal department. Ceasing of goods or services is at the discretion of the individual service, and any decisions made are processed on accounts by the Debt Management team. The council has a duty of care to service users of care provision, and as such, cannot cease these services as a result of outstanding debt.	

Appendix Y



Internal Audit

Accounts Receivable

2021/22

Appendix Y

Lancashire County Council

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	0	0

Accounts Receivable procedures and processes operate effectively to support raising invoices and allocating incoming monies. A debt management and income allocation policy is in place having been approved by the Audit, Risk and Governance committee in October 2021. The outlined processes for raising bills and allocating income are followed consistently by the service, although we have identified a number of cases where late notification of goods or services provided by the council meant that invoices were not raised in a timely manner. Monies received by the council are allocated to the appropriate debtors promptly. Unallocated income as a result of insufficient information is monitored and investigated on a regular basis. We agreed one action in our previous audit report which we now consider has been implemented

Background

This annual audit of the controls operating over the council's Accounts Receivable procedures was carried out as part of the 2021/22 internal audit plan and has been conducted in conformance with the Public Sector Internal Audit Standards. The Audit covered the period between January 2021 and February 2022. The debt management arrangements have been audited concurrently with this audit and the audit findings have been reported separately (see ref: 2021- 63).

Context

Oracle Financials is the council's corporate accounting system. Invoices raised to customers are processed through the Collections Agent module. Invoices are raised by the Accounts Receivables team on behalf of services following notification of goods or services provided to customers and include ongoing packages of care, which are billed on a four-weekly basis. Incoming monies are regularly monitored by the service who allocate funds to the appropriate debtor transaction.

Financial information

Between 1 April 2021 and 31 March 2022, the council had total billed income of £516m of which £7.8m (1.5%) was bad debt provision and wrote off £8.5m (1.6%) of debt.

Previous audit

Our last audit report was issued in September 2019 as part of a joint audit reviewing Accounts Receivable and Debt Management. This audit received moderate assurance.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Policies and procedures

- Invoice processing
- Income allocation

Area of Coverage	Commentary	Assessment
Policies and Procedures	A new Debt Management and Income Recovery policy was approved by the Audit, Risk and Governance Committee in October 2021. The policy outlines responsibilities for raising bills and allocating income, and defines the strategies for debt recovery, including processes for referring debt to the council's appointed debt collection agency or legal services, and protocols for when debts can be written-off. Access permissions to the relevant Oracle modules are restricted to the appropriate staff, allowing Accounts Receivable and Debt Management staff to fulfil their responsibilities in raising bills, allocating income and implementing manual strategies for debt recovery. Permissions for staff outside of the service are limited to staff who hold a responsibility for reviewing and monitoring outstanding debts and invoices, and where possible permissions are restricted to read-only access.	
Invoice Processing	Invoices are raised onto Oracle by the Accounts Receivable team upon receipt of notification of a bill following goods or services provided by the service. The 'Collections Agent' module automates an invoice to be sent to the debtor which includes payment instructions and relevant contact details. We found in a sample of 80 transactions that 13 invoices were not raised promptly following the provision of goods or services. Delays were as a result of late notification of bills from services to the Accounts Receivable team,. In each case, bills were raised within a week of receipt by Accounts Receivable. The Receivables manager has confirmed that there is no concern with regards to the timeframe for submission of bills, and as such an action has not been raised at this time. For ongoing services such as packages of care, Direct Debits are encouraged by the service to assist with regular and timely payments. Direct Debit mandates are also issued on the back of each letter of correspondence issued by the service, including reminder and final notice letters.	
Income Allocation	A daily ADI report is processed by Accounts Receivable which identifies payments made to the council. Payments are receipted and allocated to debtors which clears the outstanding arrears owed. In our sample of 80 transactions, we confirmed that 73 had been processed promptly following payment being made, with the remaining seven being monitored by Debt Management as part of debt recovery processes. Income which is not identifiable via the information provided upon payment is collated on a monthly unallocated checks report and monitored daily by staff who investigate and make enquiries to determine the appropriate debtor transaction raised to allocate monies towards.	

Agenda Item 10

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
(All Divisions);

Internal Audit Charter
(Appendix 'A' refers)

Contact for further information:
Andrew Dalecki, Tel: 01772 533469, Head of Internal Audit,
andrew.dalecki@lancashire.gov.uk

Brief Summary

The Internal Audit Charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity; establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

The Charter is subject to periodic review by the Head of Service – Internal Audit.

Recommendation

The committee is asked to consider and approve the Internal Audit Charter, as set out at Appendix A.

Detail

Since the Internal Audit Charter was last approved, the Internal Audit service has experienced some changes, including the appointment of a new Head of Service. It is therefore appropriate that the document is reviewed and amended to ensure the document is up to date and supports the activities of the Internal Audit Service.

Following the review of the Charter, it remains relatively unchanged. The main change can be found at section 1.2. This moves responsibility for approving the Charter from the council's Corporate Management Team and the Audit, Risk and Governance Committee, to just the Audit, Risk and Governance Committee.

Lancashire County Council

Consultations

The Chief Executive and Director of Resources and the Director of Finance have been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

The Internal Audit Charter establishes the framework within which Lancashire County Council's Internal Audit Service operates. This in turn supports the Audit, Risk and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council
Internal Audit Service Charter

1 Introduction

1.1 This charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

1.2 It will be subject to periodic review by the Head of Service – Internal Audit ('head of internal audit') and presented to the Audit, Risk and Governance Committee for approval.

1.3 Where the Internal Audit Service provides the internal audit function for other organisations external to the county council, the purpose, authority and responsibility of internal audit activity for those organisations is set out in separate charters for those organisations. Where the Internal Audit Service provides either the internal audit function or ad hoc assurance to an external organisation, its work is also set out in an engagement letter agreed with that organisation.

2 Relevant regulations and interpretation

2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').

"Internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*

Accounts and Audit Regulations 2015

2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing).These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

2.3 Lancashire County Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.

2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its Statement on the Role of the Chief Financial Officer in Local Government CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the chief executive and director of resources (S151) to ensure an effective internal audit function is resourced and maintained.

3 Definitions

3.1 Both the Global Institute of Internal Auditors and PSIAS set out the following definition of internal auditing*:*

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Global Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2017

3.2 The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognises that these terms need to be interpreted in the context of the council's own governance arrangements.

3.3 PSIAS defines the board as:

"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. […] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

Public Sector Internal Audit Standards, 2017

3.4 Within Lancashire County Council the board is defined as the Audit, Risk and Governance Committee.

3.5 Senior management is defined as the council's Corporate Management Team. This consists of the chief executive and director of resources (S151); executive director of growth, environment & transport; executive director of education & children's services, executive director of adult services and health & wellbeing, director of finance, director of strategy and performance, and director of corporate services.

3.6 PSIAS also refers to the 'chief audit executive' who, at Lancashire County Council, is deemed to be the head of internal audit.

Responsibilities

3.7 The Regulations set out that the county council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.

3.8 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.

3.9 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all of the council's functions and services and all of its activities.

3.10 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However, the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.

3.11 Accountability for responses to the Internal Audit Service’s advice and recommendations for action lies with the council's managers, who either accept and implement the advice or accept the risks associated with not taking action. Advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

3.12 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, a statement of conformity with PSIAS, and the results of the quality assurance and improvement programme.

3.13 A note of the responsibilities of the Corporate Management Team ('senior management') and the Audit, Risk and Governance Committee ('the board') in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are set out in PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

4 Independence, objectivity and integrity

4.1 The Internal Audit Service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.

4.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team and the Audit, Risk and Governance Committee, but remain a decision for the head of internal audit. The head of internal audit has direct access to and freedom to report in their own name and without fear or favour to all officers and members, and specifically the Audit, Risk and Governance Committee. They have the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit, Risk and Governance Committee.

4.3 The independence of the head of internal audit is further safeguarded by ensuring that their remuneration and performance assessment are not inappropriately influenced by those subjects to audit.

4.4 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The head of internal audit makes an annual declaration that the internal audit function is operationally independent.

4.5 All auditors also make an annual declaration that they have read and are aware of the obligations placed on them by the Public Sector Internal Audit Standards and, specifically the Code of Ethics. They each acknowledge that they must adhere to the Code of Ethics and demonstrate integrity, objectivity, competence and confidentiality in the discharge of all their duties.

5 Reporting lines and relationships

5.1 The head of internal audit reports functionally to the Audit, Risk and Governance Committee and organisationally to the director of finance. They have direct access to the chief executive and director of resources, who is also council's finance officer under s.151 of the Local Government Act, 1972.

5.2 The head of internal audit has, in addition, regular access to the chair of the Audit, Risk and Governance Committee which normally meets at least four times each year, and the head of internal audit reports to each meeting of that committee under its terms of reference. The Audit, Risk and Governance Committee is responsible for approving the annual audit plan.

5.3 The head of internal audit, the Internal Audit Service as a whole, and the county council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.

5.4 The Internal Audit Service works with the Council's external auditor, and other review bodies as necessary, to provide an efficient and effective approach to audit and inspection, which is intended to deliver effective performance and avoid any duplication of work.

6 Access to information

6.1 The Internal Audit Service has the right of unrestricted and direct access to the county council's records however held, its assets, premises and officers. In entering into partnership arrangements with external organisations the council ensures that the same rights of audit access apply to partners' records, assets, premises and officers. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.

6.2 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the council's legitimate and ethical objectives.

7 Internal audit resources

7.1 Lancashire County Council has taken the strategic decision to provide its internal audit service largely in-house and is committed to providing a service that meets the best quality standards. However the council has decided that, to meet the requirement that assignments are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. This is obtained specifically in respect of assurance over the council's information technology management and control systems.

7.2 The chief executive and director of resources ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the head of internal audit or the Audit, Risk and Governance Committee considers that the level of audit resources in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.

7.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by Lancashire County Council.

8 Competency

8.1 The head of internal audit and audit managers are required to hold appropriate professional audit qualifications. These are defined as full membership of one of the institutes of the Consultative Committee of Accountancy Bodies or professional membership of the Chartered Institute of Internal Auditors. It is expected that senior auditors will either hold, or be close to and actively working towards full professional qualification but, exceptionally, they may be qualified by experience at a demonstrably professional level.

8.2 The county council's performance and development opportunities are applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

9 Quality assurance and improvement

9.1 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments and is set out in a separate quality assurance and improvement programme.

9.2 The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS are reported annually to the Corporate Management Team and the Audit, Risk and Governance Committee. This report will include information regarding:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

10 Non-audit work: investigations and counter-fraud services

10.1 PSIAS recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services and or investigating suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.

10.2 The Internal Audit Service operates the council's whistle-blowing helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates the council's participation in the National Fraud Initiative, which matches data from the council's information systems with information held by other bodies to identify potentially fraudulent activity.

10.3 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is management's responsibility. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

10.4 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

Responsibilities in relation to the internal audit function

The council's Corporate Management Team ('senior management')

The Corporate Management Team will:

- Consider, and contribute to the development of the risk-based internal audit plan, supporting its completion within the organisation;
- Make appropriate enquiries to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function;
- Consider the scope of the external assessment, and internal quality assurance and improvement programme, and receive and consider the results of both, including areas of non-conformance with PSIAS.

The Audit, Risk and Governance Committee ('the board')

The Audit, Risk and Governance Committee will:

1 Approve the internal audit charter.

2 Approve the risk-based internal audit plan, including the Internal Audit Service's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

3 Approve significant interim changes to the risk-based internal audit plan and resource requirements.

4 Make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

5 Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

   a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

   b. Regular reports on the results of the quality assurance and improvement programme.

   c. Reports on instances where the Internal Audit Service does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

6 Consider the head of internal audit's annual report:

   a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement.

   b. The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion, which will assist the committee in reviewing the annual governance statement.

7 Consider summaries of specific internal audit reports as requested.

8 Receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.

9 Contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

10 Support the development of effective communication with the head of internal audit.

11 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Audit, Risk and Governance Committee
Meeting to be held on Monday 25 July 2022

Electoral Division affected:
None

External Audit – Audit Progress Report and Sector Update
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

The External Audit - Audit Progress Report and Sector Update as at July 2022 is set out at Appendix A for the committee's consideration.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and note the External Audit - Audit Progress Report and Sector Update Audit Progress Report and Sector Update July 2022, as set out at Appendix A.

Background and Advice

This report provides an update, including the external auditor's proposed timescales for the audit of the 2021/22 statement of accounts and the Value for Money (VfM) conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee.

The report also provides additional information on sector developments to members of the committee as those charged with governance for the county council.

Stuart Basnett, Senior Manager, will attend the meeting to present the report and respond to questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council & Lancashire County Pension Fund - Audit Progress Report and Sector Update

Year ending 31 March 2022

7 July 2022

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Appendix A

Contents

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 County 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.

Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit, Risk & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Risk & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 7 July 2022

Financial Statements Audit

We undertook our initial planning and interim audit for the 2021/22 audit in March 2022. We expect to begin our work on your draft financial statements in July.

Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report. We also completed the above procedures in relation to Lancashire County Pension Fund. We reported the Audit Plan for both the County Council and the Pension Fund to the Audit, Risk & Governance Committee at the meeting on 25 April 2022.

We will report our initial findings in the Audit Findings Report at the October Committee meeting, with a finalised report to be provided when all work has been completed, and we aim to give our opinion on the Statement of Accounts by the national deadline of 30 November 2022.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in January 2023.

Progress at 7 July 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. We expect work to begin on the 2021/22 Teachers' Pension return in September/October 2022.

Meetings

We meet with Finance Officers on a monthly basis as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in December and April to discuss the Council's strategic priorities and plans.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (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.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We will discuss any proposed variations to the Scale Fee set by PSAA Limited with Finance Officers, and communicate the final fee to the Audit, Risk & Governance Committee, as we have done in previous years'.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit, Risk & Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.	April 2022	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	July 2022	Complete
Audit Findings Report The Audit Findings Report will be reported to the October Audit, Risk & Governance Committee.	October 2022	Not yet due
Auditors Report This includes the opinion on your financial statements.	November 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	Within 3 months of the date of the opinion on the financial statements	Not yet due
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	30 November 2022	Not yet due

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have reviewed internal audit's work on the Council's (and Pension Fund's) key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's (and Pension Fund's) financial statements.
Review of information technology controls	Our information systems specialist is performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. IT (information technology) controls will be observed to determine if they have been implemented in accordance with our documented understanding.	Our work has not yet been finalised. Our IT specialists are liaising with officers at the Council. On receipt of their work we will consider whether they have identified any material weaknesses which are likely to adversely impact on the Council's (and Pension Fund's) financial statements.

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	Work performed	Conclusions and recommendations
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding. For some operating areas (such as the valuation of Land & Buildings and, for the pension fund, level 3 investments) a number of controls operate at year end and so we still need to finalise our walkthrough over these controls.	Our work to date has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Council's (and Pension Fund's) journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's (and Pension Fund's) control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach. We will undertake further testing of journals during our final accounts visit.
Response to management inquiries, approved by those charged with governance	As part of our planning work to understand the Council's (and Pension Fund's) governance arrangements, we have raised a number of questions to management which are to be reviewed and approved by Those Charged With Governance. The questions cover a variety of issues such as internal control, risk management, accounting estimates, going concern, fraud and litigation, and the potential impact of these areas on the Council's (and Pension Fund's) annual accounts.	Management provided responses to all of our questions and they will be presented to the July 2022 Audit, Risk & Governance Committee where they will be reviewed by Those Charged with Governance.

Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six opinion files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

Financial Reporting Council annual report (cont.)

Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits, the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

Grade	Number 2020/21	Number 2020/19	Number 2019/18
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	5	7	2

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Having formal internal consultations when considering complex technical issues.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Levelling up White Paper – Department for Levelling Up, Communities and Housing ("DLUCH")

On 2 February the Department for Levelling Up, Communities and Housing ("DLUCH") published its Levelling Up White Paper.

The paper states "Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six "capitals":

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability."

The paper also states "This new policy regime is based on five mutually reinforcing pillars." These are set out and explained as:

1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.
3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

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[Levelling Up the United Kingdom - GOV.UK (www.gov.uk)]

Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing ("DLUCH") published its Levelling Up White Paper.

Commenting on the release of the government's Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

"The publication of today's White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The '12 missions' can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

"Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country's devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton's Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

"To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people's lives.

"The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals."

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented "These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds."

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority's functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

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Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

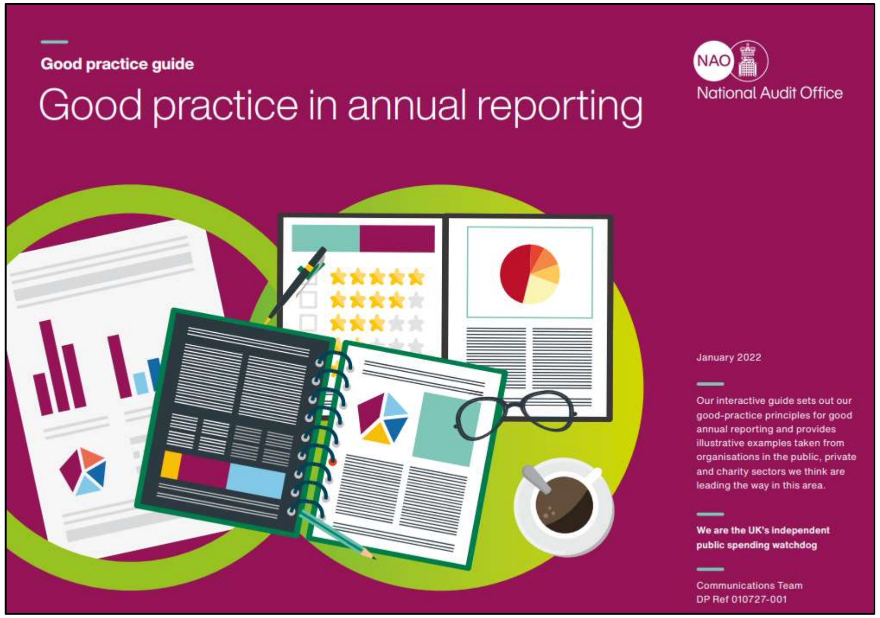
The NAO comment that the guide sets out "good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable."

The NAO further comment "The best annual reports we have seen use these principles to tell the "story" of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation's strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers' money that has been spent to deliver the outcomes the organisation seeks to achieve."

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:
[Good practice in annual reporting - National Audit Office (NAO) Report]

Grant Thornton

grantthornton.co.uk

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected: (All Divisions);

Corporate Risk and Opportunity Register - Quarter 1 Update
(Appendices 'A' and 'B' refer)

Contact for further information:
Paul Bond, Tel: 01772 534676, Head of Legal, Governance and Registration Services, paul.bond@lancashire.gov.uk

Brief Summary

This report provides an updated (Quarter 1 2022/23) Corporate Risk and Opportunity Register for the Committee to consider and comment upon.

The Corporate Risk and Opportunity Register is attached at Appendix A. The risk entry for Counter Terrorism (Risk ID Corp 6) contains private and confidential information and is provided at Appendix B and included in Part II of the agenda.

Recommendation

The Audit, Risk and Governance Committee is asked to note the updated Corporate Risk and Opportunity Register.

Background and Advice

Quarter 1 Update – Summary of Key Points:
The risks and opportunities have been updated using information provided through directorate risk registers and by individual directors. The Corporate Management Team have reviewed the risks and opportunities and the key points are:

- **Family Safeguarding** – this risk has now reached its target score, so it has been removed from the corporate register.

- **Covid-19 Impact on Services and Communities –** given that the county council has stepped down its specific response to the pandemic and we are now ‘living with covid,’ this risk has been removed from the register. However, we will continue to monitor the situation in Lancashire and use government guidance to help make difficult judgements based on the evidence regarding the impact on public health.

Lancashire County Council

- The following issues have been added to the corporate register:

  - **School Places** – the risk of insufficient school places meaning children and young people are missing out on education is a recent addition to the Education and Children's Services directorate register, with a current and target risk score of 12.

  - **Cyber Security** – this is a new risk that has been added to the Resources directorate register and it has a current risk score of 16 and a target score of 8. The Corporate Management Team have escalated this risk to the corporate register.

  - **Capital Investment Pressures -** this risk was on the corporate register a couple of years ago but was then removed and managed at directorate level. However, given the current risk score of 16 and target risk score of 12, it has been escalated to the corporate register.

  - **Counter Terrorism** – this risk has a current risk score and target score of 16 to reflect the current UK threat level. All the mitigations are in place, so this has previously been monitored at an operational level. However, after reviewing the position it has been escalated to the corporate register.

  - **Sub Regional Place Leadership and Governance** – this issue has been managed at directorate level but, given the prominence of the issues it covers and the progress that has been made, this issue has been added to the register as an opportunity. The current opportunity score is 12 and the target score is 16.

The updated content for each entry on the corporate register is set out in the updated Corporate Risk and Opportunity Register, shown at Appendices A and B.

The committee should also note that risks relating to the Pension Fund, in terms of the county council being the administering authority and co-owner of the Local Pension Partnership and as a shared administration services provider, are now being monitored by the Resources Directorate Leadership Team through their directorate risk register.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk and Opportunity Register means the council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

Appendix B to this report is included in Part II of the agenda because it contains exempt information, as defined in Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act, 1972:

- Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

Lancashire County Council Corporate Risk and Opportunity Register 2022/23 Q1

Risk ID Corp 1 – Reshaping the County Council: Our Improvement Journey		**Current risk score: 16**		**Target Risk Score: 9**
Risk Description • That the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond • Inability to secure sufficient resource (capacity) across the organisation to deliver on some areas of the Improvement Journey due to competing priorities and the need to prioritise capacity towards ongoing COVID-19 response and recovery. • Risk of not having a joined up, cohesive, corporate wide LCC change programme with CMT oversight and appropriately allocated resources. • Risk of multiple front doors with multiple gatekeepers to initiate change – Digital Services,	**Risk Consequences** **Capacity** • Inability to deliver full programme of staff and customer experience improvement • Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes **Change programme** • Priority change activities are not happening as quickly as they could/should, and as a consequence, the benefits for citizens/staff are not being realised as soon as they could be. • Resources are not focused on the priority change activities; and the competing demands on resource time results in focus being across too many initiatives and therefore the delivery is not as effective or efficient as needed. • There are financial costs for LCC, either for additional resources or delayed benefit realisation, as a consequence of the current approach, with the potential to failure to deliver key programmes. **Our ways of working** • Our future workplace model does not optimise the performance of our people, places, processes and technology. We are unable to leverage the best of	**Risk Owner** Corporate Management Team (CMT)/Director of OD & Change **Target date** March 2023/Ongoing	**Current Likelihood** Major (4) **Target Likelihood** Possible **Target Risk Confidence**	**Current Impact** Major (4) **Target Impact** Moderate

Customer Access, operational services etc. This leads to: • A lack of strategic prioritisation, sequencing and link to organisational objectives • Too many completing asks • Silo working approach • Inconsistent approach to prioritisation and delivery of change projects • Inability to deliver a balanced budget post 2023/24	what is possible today and continuously improve & adapt in response to future challenges. • Inability to deliver full programme of staff and customer experience improvement • Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes **Improved Partnership working** • Unable to build on the improved partnership working that has been a key feature of our response to the pandemic. The inability to build better alliances with our partners may have a detrimental impact on the outcomes for the people of Lancashire. **A New County Council** • County Councillors do not have the support they need to fulfil their roles within both the County Council and their communities. **Financial Sustainability** • Change opportunities may be missed that result in the council not meeting the needs of service users • Services become unsustainable and we cannot fulfil our statutory duties • Insufficient reserves • Unable to meet savings targets • External intervention if the council is unable to deliver a balanced budget in future years • Due to the pandemic there have been significant delays in the delivery of savings			

Current Controls	Control Owner

Capacity
• "Front Door to Change" designed and implemented to support prioritisation & allocation of resource for change across organisation.
• Core roles appointed to lead on the major elements (Staff Experience Lead, Customer Experience Lead, Analysis & Design Lead & PM Lead) who will drive and monitor progress against critical elements.
 	
Change Programme
• Detailed PMO roadmaps developed with Adults, ECS and PH, and resourcing issues resolved.
• Director of OD & Change involvement in LCC change programme.
 	
Our ways of working
• Improvement Journey priorities aligned with corporate priorities, subject to regular review by Strategic Improvement Board
• Staff Experience
  ○ Staff Experience Board established, with plan in place for priority outcomes & deliverables for the next 12 months
• Values & Behaviours developed and disseminated
• Customer Experience:
  ○ Customer Experience SRO appointed and funding in place to recruit customer experience lead
• Programme governance:
  ○ Head of Improvement appointed to drive Improvement Journey programme
  ○ Corporate Programme Office transferred to Director of OD & Change to support alignment of capacity & focus with agreed strategic & Improvement Journey priorities
• Data & Insight:
  ○ Adoption of Power Business Intelligence and agreement that it will become our core business analytics tool
• M365 landed – new tools and tech allowing flexible working
	Director of OD & Change

• Significant programme of review of HR policy and procedure underway influencing flexible working and supporting desired new ways of working • Leadership and management development offer in place and evolving to meet needs of new ways of working • Budget allocation agreed for recruitment of core team to develop & monitor IJ programme • Development of framework to create "Front Door to Change" in order to agree priorities, allocate appropriate resources • The council has a number of work streams that support the corporate strategy and our ways of working e.g. digital connectivity: inequalities workshops etc	
Improved Partnership Working • Through the refreshed corporate strategy, we will set out the county council's vision and approach, but we will also acknowledge that we cannot achieve this on our own. We will adopt a flexible approach to partnerships that will allow us and the people and businesses of Lancashire to respond to the needs of the county, in a way that benefits everyone. • We are maintaining a number of the joint/strategic decision-making groups e.g. Adult Social care and Health Partnership (Formerly ASC cell), OOH cell to build on the collaborative ways of working • These joint boards have decision making ability and will feed into the new Strategic Commissioning Board	CMT
A New County Council • All administrative procedures relating to county councillor appointments completed. • Induction programme completed • All councillors supplied with appropriate IT/telephony equipment	Director of Corporate services
Financial Sustainability • Updates provided to Cabinet through the money matters reports covering in-year financial position and medium-term financial strategy on a quarterly basis • Directorate Leadership Teams (DLT's) meet regularly and have a monthly focus on financial position and savings delivery chaired by the relevant Executive Director • Programme Office is supporting the overall programme of savings activity	Chief Executive & S151 Officer/Director of Finance

• Financial Benchmarking information (with other County Councils) produced and reviewed annually as a basis for identifying those service areas with most scope for further efficiencies • Continue to monitor the impacts of price changes via our regular monitoring activity updating our forecast outturn and the MTFS • Continue to work with staff to develop new options savings options and revisit options • Continue to seek out, learn from and adapt services to follow best practice	
Mitigating Actions **Capacity** • Continue to recruit to remaining positions and key matrix roles (including Change Hubs) • Regular engagement with CMT to understand capacity challenges and prioritisation requirements • Identify opportunities for realignment of roles / activities in complementary areas to support IJ delivery, including Directorate change hubs which will help to identify, prioritise & deliver priorities using the full range of available resources. • Develop resource profile for activity in scope of IJ and identify any potential shortfalls with associated options / costings for filling gaps • Implement "Front Door to Change" framework and recommended actions including mapping of change capacity & demand, and prioritisation across directorates. **Change Programme** • Develop a joined up, cohesive view of all change activity. • Support CMT to have greater visibility and discussion on the entire change programme enabling informed strategic decision making from CMT and appropriate resource allocation. • Agree governance which will allow effective prioritisation and sequencing of change activity at a corporate level. **Our Ways of Working** • Link values & behaviours to performance & development discussions • Recruit Staff Experience Lead to lead implementation of staff experience programme deliverables	**Mitigation Owner** Director of OD & Change

• Ensure linkage between Ways of Working programme and Corporate Asset Management, use learning from Ways of Working to shape asset strategy to identify and deliver options for asset optimisation priorities and Introduce new staff survey / engagement approaches to improve data, insight and understanding of staff experience • Establish corporate Data and Insight Board with remit to identify priority requirements and develop solutions	
Improved Partnership Working • Improved Partnership working is an explicit cross cutting theme within the Corporate Strategy • Adult Social Care is continuing to feed into the county council's position on the levelling up agenda • Exec Director and Unitary Directors of Adult Services continue to highlight the importance of Adult Social Care at strategic health led discussions • Develop options for joint commissioning of learning & development to support systems leadership across key partners	CMT
A New County Council • Member development programme in place • Overview & Scrutiny work programme developed • AGM & appointments to Cabinet & all committees • Review of constitution	Director of Corporate Services
Financial Sustainability • DLT's review progress and are each chaired by the relevant Executive Director • Revenue position includes a planned contribution from reserves to support savings delivery and the 2022/23 funding gap • Savings plans have been subject to review as part of the budget monitoring process	Chief Executive & S151 Officer/Director of Finance

Progress: **Our Improvement Journey** • Recruitment to Improvement Journey core team complete; phase 2 recruitment underway. "Front Door to Change" design work & key engagement completed • Corporate Programme Management Office redesign underway to enhance ability to provide corporate view of change activity and effective co-ordination and prioritisation of activity. • Strategic Improvement Board has been re-established and a draft Strategic Change Delivery plan produced • Range of flexible spaces offered in County Hall complex to meet identified needs of services, using a single agile work style; desk and space booking pilot completed • Flexible working policy approved with additional supporting policies under development • Ongoing engagement with cabinet to ensure political support for progress • Phase 2 options to be developed and tested with Corporate Management Team and cabinet • Customer experience board established • The review of HR, Skills Learning and Development has been completed and a set of recommendations, accompanied by an implementation plan, has been presented to Corporate Management Team • Strategy & Policy review has been undertaken **A New County Council** • Discussions continue to take place with political groups to improve communications with members on key issues and a county councillor questionnaire has been completed and shared with political groups. An action plan is being developed.		

- Full Council has considered a range of constitutional issues that include:
  - Changes to cabinet member portfolio descriptions
  - Proposals for changes to the scrutiny function
  - The disestablishment of the Cabinet Committee on Performance Improvement
  - That the Political Governance Working Group meets on a quarterly basis
  - Minor changes to the Local Member Grant Scheme
  - Lead members providing an annual report at Full Council meetings
  - Minor changes to the members Code of Conduct
- Local Government Association Peer review action plan is being progressed

Improved Partnership Working

- Continue the work towards the development of strengthened partnership working through a joint long term strategic plan and a County Deal for Lancashire. An outline business case 'Our New Deal for a Greater Lancashire' has been produced and Lancashire Leaders are waiting on Government for further discussions. A new director has been appointed to lead on this work going forward.
- Agreed co-terminus footprint with health partners (Integrated Care System)

Financial Sustainability

- Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing from 2022/23 to 2024/25. However, on current forecasts it will be necessary that additional savings will be required to bring the council to a financially sustainable position. Therefore, a further targeted service challenge review process will be undertaken as part of the 2023/24 budget process. A further significant factor is in relation to savings delivery, as

	in the region of c£15m of agreed 2021/22 savings must now be delivered in 2022/23, in addition to savings that have already been agreed to be delivered in future years as part of their agreed profile, with the total value of agreed savings to be delivered by 2024/25 being c£41m		

Risk ID Corp 2	Title: Integration & Innovation	Current risk score: 20		Target Risk Score: 6
Risk Description Earlier this year, the Department of Health and Social Care published the legislative proposals for a Health and Care Bill. The proposals contained within the white paper **'Integration and innovation**: **working together to improve health and social care for all'** sets out a range of reforms due to take effect from April 2022. These include: • Making Integrated Care Systems (ICS) statutory bodies • Transferring the functions of Clinical Commissioning Groups to the ICS • Removing competition and changing procurement rules • Seeking to strengthen the voice/influence of local government • Introducing measures to enhance assurance of social care by CQC • Creating a standalone power for Better Care Fund • Encouraging joint appointments of executive directors to support integrated care/working • Strengthening the role of Health and Wellbeing Boards As mentioned above, several themes are particularly relevant to the future	**Risk consequences** Lack of clarity on governance during and following the White Paper reforms Uncertainty of health workforce during reforms leading to joint working on programmes / projects not moving forward at the pace needed so as not to lose the excellent progress made during the pandemic in relation to integration, decision making etc. Possible issues relating to finances, particularly if Covid temporary funding is ending as well as current NHS deficit Concerns from social care staff on future assurance inspections by CQC	**Risk Owner** **Adult Social Care in conjunction with CMT and partners** **Target date** March 2022	**Current Likelihood** Possible **Target Likelihood** Certain **Target Risk Confidence**	**Current Impact** Minor **Target Impact** Major

working relationship between health and local government, and we will be looking to develop these through 21/22. The government has also said that reforms to social care and public health will be dealt with later in 2021 outside the Health and Care Bill addressed in the white paper, with some minor exceptions. In readiness for this, the County Councils Network simultaneously launched ' The Future of Adult Social Care- Optimised Delivery.				

Current Controls • We are maintaining a number of the joint/strategic decision-making groups e.g. Adult Social Care & Health Partnership, OOH cell, to build on the collaborative ways of working	**Control Owner** Directors & HoS
Mitigating Actions • Joint work programmes agreed between Adult Social Care and Health	**Mitigation Owner** Directors & HoS
Progress: • We will continue to work with health partners on our joint work programme and ensure continued senior county council representation at the Integrated Care Provider Development Advisory Group (Exec Director) and at the Integrated Care System Development Oversight Group (Chief Executive). This is pivotal to ensuring local government context and opportunity is understood and reflected in all plans and priorities. We will also continue to hold regular Internal health integration meetings (cross directorate) that are chaired by the Chief Executive to ensure clear and consistent approach to all meetings with NHS colleagues. Briefings for county councillors involved in NHS meetings will continue as will weekly meetings with lead cabinet members.	

• We are exploring the opportunity to create an integrated approach to commissioning and the development of an integrated approach to service delivery, in particular the use of Lancashire County Council's residential care to prevent avoidable admissions and increase the offer for older people who are mentally ill or have dementia. • Co-terminus boundaries have been agreed with health partners	

Risk ID Corp 3	Title: ICT Provision	Current risk score: 16		Target Risk Score: 8
Risk Description	**Risk Consequences**	**Risk Owner** Director of Strategy & Performance/ Director of Finance	**Current Likelihood** 4	**Current Impact** 4
Oracle R12 to Fusion Oracle vR12 supports the heart of the council's people and financial resources. R12 is now end of life and is approaching the end of the final extended support period. LCC have embarked on a programme to replace R12 with Oracle Fusion and associated new processes for managing our money and our people information for 45,000 users.	Should the Fusion Programme fail, major disruption can be expected in the management of the Council's money, suppliers, customers, debtors, creditors, current workforce, retired workforce and impact for other beneficiaries of the system outside of LCC specifically with payroll services. Contract award to Oracle has been made via BTLS and novation challenge could halt project progress without the ability to extend the programme end date past March 2022	**Target date** March 2023	**Target Likelihood** 2 **Target Risk Confidence**	**Target Impact** 4
Further risk of challenge to implement Fusion exists when contract novation from BTLS to LCC is executed. Failure to assign resources to the Oracle Fusion Programme will leave LCC without the ability to complete the project on time				
Data The organisation fails to use its data resource to good effect for the benefit of Lancashire residents	Un-optimised service provision with failure to plan service intervention and service delivery at appropriate times.			
Core Systems Lancashire has built up a 'technology debt' with regards to its major	These line of business (LOB) systems restrict the council from operating efficiently and hamper teams from innovation, automation and modern best practice.			

systems which help the organisation function in a modern, efficient, effective way.				
Current Controls **Oracle Fusion** Fusion Project Board established, SRO identified, programme under active management of the Chief Digital Officer. **Data** Some management information is provided through appropriate Service Management Line of Business Systems. These systems are supported through best practice reporting and through the contribution of the Business Intelligence Team. This team are a stretched resource and cannot cover all data for the County Council. **Core Systems** Controls for this are informal and exist on a basis of replacing the systems at the very end of their life as they are about to, or following, the data they go out of support by their vendor.		 Chief Digital Officer Director of Strategy and Performance Director of Strategy and Performance		
Mitigating Actions **Oracle Fusion** • Replace R12 with Oracle Fusion • Let contract with Oracle • Appoint Systems Integrator and deliver technical implementation • Appoint Change Partner and with them adopt new processes for all Fusion capabilities • Appoint Data migration partner and secure LCC resource to ensure data is R12 is cleaned and migrated in a timely manner to Fusion **Data** • New head of data has been recruited and is in post. The post supports the needs of the organisations data requirements and to ensure they are designed and architected in optimal ways to support service delivery and customer experience.		**Mitigation Owner** Oracle Fusion Programme Manager Chief Digital Officer		

• Next phase of planned work is to develop DaaS (Data as a Service) for Business Intelligence and the creation of Data Catalogues alongside a Master Data Management System which provides a single view of multiple systems **Core Systems** • The appointment of the Chief Digital Officer, the insourcing of the IT function and the creation of a Head of Architecture are helping to support the development of improved ways of working. The Head of Architecture is responsible for having agreed roadmaps for maintain products either via a SaaS (Software as a Service) route or regular updates products to enable business department to have LOB systems that provide the support for their respective function. The top SaaS product is the migration to Oracle Fusion which is the subject of a separate risk. A Head of Digital Business Engagement post has also been created and filled to ensure that digital services understand and help to deliver service needs.	 Chief Digital Officer
Progress: **Oracle Fusion** The Oracle Fusion programme that will replace the existing system for managing our money and people resources will go live during 2022/23 although the original go live date has been put back. To ensure smooth transition end user engagement sessions are being rolled out and we are identifying 'hard to reach' users in service areas. Business Readiness surveys and Business Readiness Assessments are to be completed for each service area. **Data** A data strategy is being developed and mature processes are being adopted to establish the difference between unassured data and assured data. **Core Systems** Work continues to ensure our core systems are fit for purpose and that the organisation's data requirements are met. In terms of core systems, all senior management posts in the service are appointed to with staff in place. A Digital Services transformation programme is progressing and is due to be completed by the end of 2022. This will adopt best practice to deliver a high performing Digital Service.	

Risk ID Corp 4	Title: Demand Impact on Community & Services	Current risk score: 16	Target Risk Score: 12	
Risk Description Demand for client-based services continues to increase resulting in increased budget pressures and poor outcomes for those people in receipt of our services	**Risk Consequences** **Adult Social Care** Significant risk of provider failure, particularly for residential care and day service providers Further waves of Covid exacerbate these issues Risk of reduction in quality standards/not meeting CQC requirements and potential for an increase in safeguarding issues Potential for increased costs for the county council in maintaining provider income levels to 'shore up' the market and protect people's homes Some care home providers taking people for the 6 weeks 'discharge to assess' period at inflated rates. Risk to families if the placement needs to continue or very high 3rd party top ups, and to LCC if no other placement available and the top up needs to be absorbed by the council. Providers may increase their fees to maintain their ability to operate/generate sufficient returns. Could result in increased costs for the county council and for self-funders Risks for in-house services – ability to continue to operate/compete in the wider market Potential for increased complaints and less choice. Increase in number of safeguarding alerts	**Risk Owner** **ASC leadership** **Target date** **December 2022**	**Current Likelihood** Likely **Target Likelihood** Possible **Target Risk Confidence**	**Current Impact** Major **Target Impact** Major

	People may not be receiving services in a setting assessed as appropriate. Families and care providers are under pressure and are reporting being concerned that they are not able to safely manage risk, leading to increased potential harm or death. Increased risk to others in residential care settings. As yet, the future demand for such services is difficult to quantify. Some aspects of daytime support /accommodation-based services may require complete redesign. People are waiting many days for MH beds that have been recommended by Adults Mental Health Practitioners (AMHPs) and medics, leaving people in the community or in residential care who have been assessed as requiring detention under the Mental Health Act Puts families under more pressure and risks people being admitted to hospital, residential care or being placed out of Lancashire. Puts pressure on the budget as we are not able to fill voids in a timely way, meaning that there are supported living settings with empty rooms rendering the care therein less cost effective. **Children's Social Care** Potential drift and delay – impact on timeliness of assessments, plans and interventions with children and families			

	Increased revenue budget pressures **SEND** Insufficient local places to meet needs Unsustainable financial position Poor outcomes for children and families			

Current Controls **Adult Social Care** • Financial support package agreed by CMT for residential and day service providers • Residential and day service providers are called every day to monitor their 'stability' on a range of issues and pathways in place to address e.g. workforce, financial issues, PPE etc • Contracts team have dedicated resource to support providers on a day to day basis. Also have 'stand by' arrangements in place in case of provider failure • LSCFT have put in place a team to support people while they await a mental health bed • Commissioning team working with Contracts team, NHS and the care sector market to review the Market Position Statement - this will better inform the current state of the market and enable more confident joint planning for future need • Adults leadership team strong links with NWADASS and national work being done on wider market viability/reshaping • Position closely monitored by Adult Social Care & Health Partnership Board in form of ongoing reporting and jointly agreed action plans	**Control Owner** Adult Social Care Senior Leadership Team
Children's Social Care • Clear governance and accountability arrangements in place via the Keeping Children Safe Board • MASH / Demand Management group and Permanence and Children in Our Care group providing oversight of service improvements • Family Safeguarding Board providing leadership and oversight of Family Safeguarding Programme	Director of Education and Skills / Director of Children's Social Care

• Range of further activity to manage demand including Family Group Conferencing evaluation funded through pan-Lancs bid, VCFS led model of support pilot in Preston to be extended • Where Our Children Live Strategy together with Sufficiency Strategy to ensure most effective use of provision and to help identify and address gaps in service **SEND** • SEND Sufficiency Strategy agreed by Cabinet January 2020 • Alternative Provision Strategy agreed by Cabinet October 2021 • Delivery plans established	Director of Education and Skills
Mitigating Actions **Adult Social Care** • Financial support available to residential and day service providers • Close monitoring of providers enables pathways to be 'actioned' immediately if issues arise • Relationship with CQC maintained/safeguarding assessments being stepped back up (high risk safeguarding issues were monitored/actioned during Covid) • Service users and their families are being offered support and alternatives being offered/developed including links to community-based support • LRF will 'lean in' if required in event of further spike **Children's Social Care** • Delivery of Early Help Strategy • Delivery of Family Safeguarding • Evaluation of targeted interventions including Family Group Conferencing at pre proceedings, and VCFS model • Where Our Children Live Strategy and Sufficiency Strategy agreed by Cabinet in January 2021 • Deep dive on Placement Costs • Ongoing consideration of Covid impact • Provide input into the developing NHS operational plan for CAMHS service developments and be sighted on / support ICS discussions on CAMHS related NHS investment proposals	**Mitigation Owner** All Adult Social Care Directors and Heads of Service Director of Education and Skills / Director of Children's Social Care / Director of Policy, Information and Commissioning

SEND • Delivery of priorities within the SEND sufficiency strategy • Consulted on Strategy • Ongoing consideration of Covid impact	Director of Education and Skills
Progress: **Adult Social Care** • Market Position Statement and Intermediate Care Review on work programme for Adult Social Care & Health Partnership Board • Capital Board has now approved an investment pot for older people's services and a Service Level Agreement for facilities management, cleaning and catering services has been developed • Meetings held with Clinical Commissioning Groups (CCG), Lancashire Teaching Hospitals Trust (LTHT) and Lancashire and South Cumbria Foundation Trust (LSCFT) to consider flexible use of Lancashire County Council's (LCC) beds to relieve pressures • CCG / LCC progressing discussions to explore the “Bradford Model” and having internal discussions with Mental Health services to seek to expand the offer to Elderly Mental Ill/Dementia. • Report to Corporate Management Team regarding longer term strategic development of services agreed • Discussions in progress with Shared Lives Plus to potentially expand the offer • Transformation of day services – current offer in Older People's Community Services and Disability services being reviewed • Reviewing Shared Lives with a view to providing an expanded model / offer to different client groups • Established an internal Supported Accommodation working group to improve the scale, and pace of delivery	

• Dedicated work to consider how we can manage demand differently, including joint work with Customer Access Service to support people earlier in the process and signpost them to support available in their local communities **Children's Social Care** • Early Help Strategy agreed and delivery ongoing • Family Safeguarding launched • Outreach services expanded. Family Group Conferencing evaluation planned as part of national programme, with additional national funding provided. Pilot Voluntary Community and Faith Sector (VCFS) provision is in place supporting referrals from Children's Social Care Teams and funding agreed to extending service for further 12 months. • "Where Our Children Live" project - delivery plan in development • Shifted block residential provision to establish more for children and young people with most complex needs. There is a continued focus on step down fostering placements with option to pay retainers to secure provision. • Rates for Child in Need, Child Protection and Children Looked After all reducing but continued oversight in event of surge • 'Where our Children Live' capital bid to Department for Education was successful and plans to implement developed **SEND** • Increased Government funding provides some mitigation, but substantial pressure remains • Additional investment to reduce SENDO caseloads • Additional inclusion teachers and support workers provide direct support to enable the full-time attendance and inclusion of pupils with EHC plans who are either experiencing difficulties with their mental health that prevents their attendance at school or who are at risk of exclusion.	

<table>
<tr><td>Risk ID Corp 5</td><td>Title: School Places</td><td colspan="2">Current risk score: 12</td><td>Target Risk Score: 12</td></tr>
<tr><td>Risk Description

Insufficient school Places meaning children and young people are missing out on education</td><td>Risk Consequences
• Children are put at risk of harm
• Children missing out on education
• Adverse publicity</td><td>Risk Owner

Director of Education and Children's Services

Target date
March 2023</td><td>Current Likelihood

Possible (3)

Target Likelihood

Possible (3)

Target Risk Confidence</td><td>Current Impact

Major (4)

Target Impact

Major (4)</td></tr>
<tr><td colspan="2">Current Controls

• School Place Sufficiency Strategy in place
• Monitoring of admission preferences key performance indicators
• Monitoring of children missing education to identify localities where there are pressures, and proactive work with schools and settings to secure places and provide additional support to secure places for in-year admissions</td><td colspan="3">Control Owner

Director of Education and Children's Services</td></tr>
<tr><td colspan="2">Mitigating Actions

• Working with the Assets Team to ensure that the Directorate is informing and supporting the Implementation of the plans set out in the School Place Sufficiency Strategy 2022-2025</td><td colspan="3">Mitigation Owner

Director of Policy, Commissioning and Children's Health</td></tr>
<tr><td colspan="2">Progress:

• Initial discussions scheduled to identify further opportunities and mitigations</td><td colspan="3"></td></tr>
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Risk ID Corp 7	Title: Capital Investment Pressures	Current risk score: 16 Target Risk Score: 12		
Risk Description The council is unable to support all of its capital investment requirements going forward.	**Risk Consequences** Focus primarily on reactive works and resultant negative impact on asset condition.	**Risk Owner** Director of Finance **Target date** Ongoing	**Current Likelihood** 4 **Target Likelihood** 3 **Target Risk Confidence** **Amber**	**Current Impact** 4 **Target Impact** 4
Current Controls Capital Strategy and capital delivery programme approved annually at Full Council in February. The purpose of the capital strategy is to set the long-term strategic framework within which the authority will use as the framework and context for capital and investment decisions. The strategy recognises that there is a significant ongoing and future capital requirement in maintaining our current asset base with a significant volume of reactive works and risk about future grant funding levels. The key priorities set out in the strategy for application of capital expenditure are: • Delivering the policy ambitions of the Corporate Strategy • Managing the risks within the existing asset base • Exercising financial prudence and maintaining debt levels that are sustainable within the council's revenue budget. • Investing in schemes which will reduce the council's revenue costs • Being alert to opportunities to lever in additional resources including external funds to help deliver the Corporate Strategy priorities.		**Control Owner** Director of Finance / Director of Strategy and Performance		

Mitigating Actions	Mitigation Owner
This is managed by Capital Board at an officer level to ensure that the development of the capital programme is carried out with due regard to risk management and prudent and sustainable resource management. Alignment with property strategy review with capital work being focused on those buildings likely to remain operational and not surplus to requirements going forward given potential embedding of different working arrangements going forward. Grant levels confirmed for 2022/23 and projects / schemes they will support being agreed and the agreed delivery programme for 22/23 also being reviewed to reflect the impact of slippage / earlier than planned delivery in the final quarter of 2021/22. Additional capital requirements for 2023/24 to be provided by services before the end of July for consideration by CMT / Cabinet as part of the 2023/24 budget process.	Director of Finance
Progress: Capital Board meets fortnightly and has senior membership from all key service areas	

Opportunity ID: CO1	Title: Strengths Based Working		Current Opp score: 15		Target Opp Score: 20
Opportunity Description Covid has been a catalyst for a number of positive changes to the way we work. Remote working has enabled people to adopt a more flexible approach to their work/life balance, we have embraced technology as a way of staying in touch with our teams and our service users and providers, we have used people's skills in a more flexible way and have trusted them to get on and do, we have spent far less time in planning and more time in doing, we have maintained 'light touch' governance and stuck to the decisions that we have made, and we have proved to ourselves and our partners that we can continue to provide high levels of customer service and response in a crisis. There are many 'lessons learned' with our partners including our health and district colleagues and we have demonstrated that spending time arguing about 'who pays' is unproductive and unhelpful for our citizens.	**Opportunity Consequences** The 'lessons learned' have provided a platform for future ways of working. We have made a significant number of changes that we will endeavour to maintain. We will build on the relationships that we have developed with our partners and will continue to take a 'system wide' approach to decision making. We will trust our staff to work at home, but we must be mindful not to disregard the disbenefits of home working and will seek to achieve a more balanced approach when we are able to. We are able to take advantage of technology to improve the way we work and also improve and enhance our service offer. We will pursue the 'joint funding' approach and seek to agree the use of pooled budgets where appropriate. We will maintain the level of engagement that we have achieved with our valued providers. We will move forward at pace our market shaping work and will involve providers and service users at the forefront of our thinking. We have used our staff flexibility. Many of them have stepped forward to take on new roles and have been very successful. We have recognised the huge amount of talent and commitment that we have across all of our teams.	**Opp Owner** **ASC leadership** **Target date** March 2023	**Current Likelihood** Certain **Target Likelihood** Certain **Target Opp Confidence**	**Current Impact** Moderate **Target Impact** Major	

Improved Partnership working – responding to the pandemic has highlighted the importance of partnership working and is proof of what can be achieved if we work together. We want to use this as a platform to build better alliances with our partners to deliver improved outcomes for the people of Lancashire.	Many of our lessons learned, new ways of working and innovative approaches to service delivery should enable financial savings to be achieved.			
Current Controls • ASC leadership team continue to seek best practice examples and share learning • Ongoing reviews of services will capture potential financial savings • Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money		**Control Owner** ASC Directors and HoS		
Progress: • ASC themed discussion on lessons learned/new ways of working. Seeking to build on the positives achieved through the pandemic. • Ongoing discussions with partners		**Mitigation Owner** As above		
Actions to realise: Partners4Change project will build on new ways of working Adult Social Care and Health Partnership Board continues to build on benefits of joint working				

Opportunity ID: CO2	Title: Environmental Improvements	Current Opportunity score: 6	Target Opportunity Score: 16

Opportunity Description	Opportunity Consequences	Risk Owner	Current Likelihood	Current Impact
Environmental Improvements (Air Quality, Noise and Safety) **Green Fleet** • Electric Vehicles (EV) • Ultra Low Emission Vehicles (ULEV) • Alternative Fuels (CNG and Hydrogen) • Lower Emission combustion engines	• Reduce Authorities Carbon Footprint • Reduce impact on air quality from LCC operations especially in urban areas by removing or reducing tailpipe emissions of noxious gases and particulates which impact adversely on heath.	HoS P&IT **Target date** Ongoing	3 **Target Likelihood** 4 **Target Confidence**	2 **Target Impact** 4

Progress to date

- Replacement of older significantly less environmentally friendly vehicles with newer lower emission vehicles and plant as part of Capital Fleet Replacement Programme (Note latest Euro specification vehicles emit exponentially less than earlier Euro standard vehicles).
- Looking at Electric Vehicles (EV's) but ranges and charging remain an issue
- Working group formed with Fleet, Property and D&C and proposals being completed for pilot for single dual point 22 KW charging facilities at Bamber Bridge and N65 to trial EV's in Fleet and inform the working group to enable further roll out of infrastructure and EV's within LCC.
- Three EV mid-sized vans now in Fleet Services (delivered April 21) which will inform further the feasibility and actions that may need to be considered with a larger roll out of EV and ULEV's; one of the vans will initially be used by user departments and teams on extended trials and to inform of possible changes to working practices and infrastructure requirements to achieve zero emission vehicles in practical operational use.
- Investigation and trialling of various EVs (vans and cars) with Parking Services re enabling the use of suitable EV's for the Parking Services operations moving in-house this year.

Control Owner

HoS P&IT Fleet Manager and Property Service

Actions to realise

- Corporate Charging infrastructure for Electric Vehicles

Opportunity Owner

Director of Highways & Transport

Opportunity ID CO3 – Sub Regional Place Leadership and Governance		**Current Opportunity score: 12**	**Target Opportunity Score: 16**	
Risk Description Failure of Lancashire to secure appropriate sub-regional governance, powers and resource to maximise shared outcomes and priorities (e.g. Combined Authority, Elected Mayor, County/Devolution Deal or other appropriate arrangement) through Central Government legislation, negotiation, Local Government Reorganisation or other mechanism.	**Risk Consequences** At a strategic level, in the absence of a Combined Authority, County/Devolution Deal or other arrangement for Lancashire, failure to secure devolved funding and powers impacts on the ability to achieve Lancashire's target outcomes and priorities to the detriment of residents and businesses. Furthermore, an amplified, stronger and unified voice for other sub-regions around the county, particularly those regions surrounding Lancashire, is likely to compromise Lancashire's ability to present its case and advocate for its residents and businesses with the same level of authority/influence.	**Risk Owner** Phil Green **Target date** Lancashire (collectively all 15 authorities) to adopt the 'Lancashire 2050' Strategy and further to Levelling Up White Paper agree a new governance model and commence negotiations with Gov't on County Deal by April 2023.	**Current Likelihood** Likely (4) **Target Likelihood** Possible (3) **Target Risk Confidence**	**Current Impact** Major (4) **Target Impact** Major (4)
Current Controls • (Previously) engaged specialised consultants advising on approach and submitted outline business case for change to Government. Leaders agreed principles of establishing a Lancashire strategic plan. • (2021/22) Aligned to introduction of County Deals, Lancashire councils agreed the principle of establishing a strategic plan, a governance model and the scope of a potential county deal to inform negotiations with Government. • (Feb/March 2022) Following publication of Levelling Up White Paper and devolution framework, Leaders have agreed to seek a dialogue with Government on county deal/governance and to commence work on Lancashire 2050.		**Control Owner** Director of Growth, Environment & Planning		

<table>
<tr>
<td>Mitigating Actions
Reviewing new Government policy and statements on levelling up, devolution/county deals and local government reorganisation and continued lobbying
Aligning to and responding to Levelling Up White Paper (including the twelve 'missions' and devolution framework)
Continue with preparation and development of the scope of a potential County Deal including through the application of the recently concluded evidence base and emerging evidence.
Support Lancashire Leaders to strengthen governance and engage with Government with a unified voice.
Building strategic capacity and resource to develop and deliver new strategic and policy framework including operational governance and theme groups.</td>
<td colspan="2">Mitigation Owner

Director of Growth, Environment & Planning</td>
</tr>
<tr>
<td>Progress: The Government has re-emphasised its commitment to devolution through the Levelling Up White Paper. Work on Lancashire 2050, governance and scope continues through regular meetings of Lancashire Leaders. Leaders await a response from Government with regard to further engagement on county deal.</td>
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Key to Scores

	CATASTROPHIC (for risk) OUTSTANDING (for opportunity)	5	10	15	20	25
	MAJOR	4	8	12	16	20
	MODERATE	3	6	9	12	15
IMPACT	MINOR	2	4	6	8	10
	INSIGNIFICANT	1	2	3	4	5
		RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
			LIKELIHOOD			

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected:
(All Divisions);

Chairman's Annual Report
(Appendix 'A' refers)

Contact for further information:
Paul Bond, Head of Legal, Governance & Registration Services, Tel: (01772) 534676, paul.bond@lancashire.gov.uk

Executive Summary

Previously the committee agreed several actions to enhance its effectiveness as an element of the council's governance framework. One of the actions agreed was that the Chairman should prepare an annual report of the committee's activity to facilitate assessments of its effectiveness.

The Annual Report 2021-22 is set out at Appendix A.

Recommendation

The Audit, Risk and Governance Committee is asked to note the Chairman's Annual Report for 2021-22.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Good governance enables an authority to pursue its priorities effectively as well as underpinning those priorities with sound arrangements for control and management of risk. An authority must ensure that it has a sound system of internal control which includes effective governance arrangements. The Chairman's Annual Report provides a means by which the committee can review its own effectiveness and inform the council of the work done on its behalf by the committee.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Annual Report 2021/22

Audit, Risk and Governance Committee

Lancashire County Council

www.lancashire.gov.uk

Contents

Chairman's Introduction

As the Chairman of the Audit, Risk and Governance Committee I am very pleased to present this annual report which sets out the role of the Audit, Risk and Governance Committee, and summarises the work we have undertaken during the financial year 2021/22.

The Committee operates in accordance with the good practice guidance produced by the Chartered Institute of Public Finance Accountancy (CIPFA) and continues to be well supported by officers, providing a high standard of reports and presentations. I should like to thank the Finance, Internal Audit and the External Audit teams.

I should like to take this opportunity to give my personal thanks to all the officers, my previous Deputy Chairman Rupert Swarbrick and without exception, all fellow Committee members who have contributed and supported the work of the Committee in such a meaningful and positive way throughout the past year.

County Councillor Alan Schofield
Chairman, Audit, Risk & Governance Committee

Role of the Audit, Risk and Governance Committee

The Audit, Risk and Governance Committee operates in accordance with the "Audit Committees, Practical Guidance for Local Authorities and Police" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018. The Guidance defines the purpose of an Audit Committee as follows:

1. Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

2. The purpose of an Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The key functions of the Audit, Risk and Governance Committee are defined within the Council's Constitution via the committee's Terms of Reference and are agreed each year at the first committee meeting following Full Council's Annual General Meeting. Any proposed changes recommended by the Committee would need to be ratified by Full Council.

In summary headings, the Committee's various Terms of Reference cover:

- Governance
- Risk Management and Control
- Internal Audit
- External Audit
- Financial reporting
- Accountability arrangements
- Treasury Management

Work Plan 2021/22

In July 2021, the committee agreed its work plan for 2021/22. The plan set out the standard reports which are expected to be brought to the committee during the municipal year.

It was expected that during the year, the committee would also identify other areas and issues to consider as appropriate.

Key Activities

In this section the activities of the Committee during 2021/22 are summarised under the headings of the key functions.

Internal Control

The Audit, Risk and Governance Committee approved the Annual Governance Statement (AGS) for 2021/22 in April 2022 for inclusion in the draft Statement of Accounts. This included actions for 2022/23, within the following areas, to improve existing governance arrangements:

- Reshaping the County Council
- Family Safeguarding Model
- Integration & Innovation
- Provision of ICT Services
- Covid-19 – Impact on Services and Communities
- Demand Impact on Community and Services

This year the AGS includes a Lancashire County Pension Fund (LCPF) governance compliance statement – a fuller version of which has been presented to the Pension Fund Committee meeting on 17 June 2022 by the Head of the Pension Fund (and for later inclusion in LCPF annual report).

The AGS also included governance arrangements because of the continued coronavirus pandemic. The temporary risk reporting arrangements that were put in place because of the pandemic ceased and the quarterly Corporate Risk and Opportunity Register recommenced being reported to Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee. However, following some constitutional changes agreed at Full Council on 26 May 2022 including the disestablishment of CCPI, the corporate register is now reported to Cabinet as a part of the Performance Report. This raises the profile of risk management within the organisation.

The Committee also received and considered updates in the following areas:

- Code of Conduct - Complaints
- Code of Conduct
- Assurance over the pension fund 2020/21
- Debt Management Policy
- Update on the Overpayment of Salaries

Code of Conduct Complaints

In January 2022, the Head of Legal, Governance and Registration Services and Deputy Monitoring Officer presented a report detailing a summary of all complaints received in 2021 against county councillors under the Code of Conduct. It was highlighted that it had not been necessary to escalate any of the complaints to the Conduct Committee.

Code of Conduct

In April 2022 the Democratic and Member Services Manager presented a report which outlined the outcome of a review of the Code of Conduct undertaken by the Political Governance Working Group. It was highlighted that Lancashire County Council did not have an issue with councillors' conduct or receive many complaints.

The Political Governance Working Group had not recommended adopting the Local Government Association's (LGA's) suggested code of conduct; however, the Working Group did suggest increasing the threshold at which members must declare gifts and hospitality received in their role as councillors from £25 to £50. It was noted that the thresholds at other authorities ranged from £25 to £100.

The committee resolved to retain the county council's existing Members' and Co-opted Members' Code of Conduct and voted to recommend to Full Council that the threshold be increased from £25 to £50.

Assurance over the Pension Fund 2020/21

In July 2021 the Head of Internal Audit presented a private and confidential report to give a summary of the assurance available over the Lancashire County Pension Fund for 2020/21.

Debt Management Policy

In October 2021 the Head of Corporate Finance presented a private and confidential report which set out a revised Debt Management Policy for invoiced debt owed to the county council.

The committee was reassured that the county council was generally successful at collecting debt and performed favourably compared to other local authorities.

Update on the Overpayment of Salaries

In January 2022 the Director of Finance, presented an item of Urgent Business to update the committee on improvements to the county council's payroll leavers controls, as requested by the committee at its meeting on 18 October 2021. A further report was provided at the next meeting of the committee that included information about the 2021/22 financial year and the amounts which had not been recovered to date.

Risk Management

As mentioned above, during 2021/22 the Corporate Risk and Opportunity Register was reintroduced. A training video setting out our approach to risk management had been produced for members.

Internal Audit

In April 2022 the Committee agreed the Internal Audit Plan 2022/23, which provided members with the opportunity to challenge and influence the plan where they had identified areas of concern.

The regular update reports of the Head of Internal Audit to the Audit, Risk and Governance Committee have enabled emerging issues arising from Internal Audit activity to be considered on a timely basis, including where appropriate working with the senior officers to seek assurance that matters are being dealt with promptly and effectively.

The Internal Audit Annual Report 2021/22 was also presented to the Committee in April 2022. The report summarised the work undertaken by the Internal Audit Service and the key themes arising in relation to internal control, governance, and risk management across the county council. Of the 31 audits completed during the year, only 2 had provided limited assurance. In addition to the audits completed, follow-up audit work and the success of management's actions to respond to the auditors' recommendations helped to inform the overall opinion.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report was that moderate assurance was given regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control for 2021/22.

The Internal Audit Service was looking at ways to improve capacity and efficiency, for example through a minor restructure and the introduction of 'lean auditing'. A new report format had also been introduced to improve communication with services.

As the Chairman of the Committee, I meet or communicate with the Head of Internal Audit without other officers present as and when necessary and I am satisfied Internal Audit are free to carry out their duties without restrictions.

External Audit

The council's external auditors, Grant Thornton LLP, attended all the committee meetings during 2021/22, providing regular updates on their work plan and any matters arising. In addition, they have provided the Committee with sector updates for consideration that highlight key themes, issues, and priorities for local government. These have been well received and are very helpful to the Committee.

The Committee received and reviewed the External Audit Annual Report for 2021/22. The Annual Report highlighted several improvement recommendations regarding governance and financial sustainability, but no statutory or key recommendations. Officers at the county council provided a response to these recommendations before the Annual Report was considered by the Full Council.

Fraud and Corruption

The Committee receive regular updates from the Head of Internal Audit on any reported matters of suspected fraud, including investigations. Outcomes of investigations are reported to and monitored by the Committee.

Annual Statement of Accounts

The Accounts and Audit (Amendment) Regulations 2021 required that the draft accounts for 2020/21 were published by 31 July 2021 and the audited accounts and opinion were published by 30 September 2021. The draft Statement of Accounts were certified by the Chief Finance Officer and published on the council's website on 26 May 2021, ahead of the statutory deadline.

The Pension Fund Committee at its meeting of 17 September 2021, reviewed the accounts of the Fund and subject to any audit adjustments agreed by the Head of Fund, recommended that the Audit, Risk and Governance Committee approve these accounts. Considering revised Government guidance in response to Covid-19, which indicated that holding an Extraordinary Meeting of the committee in December 2021 was inadvisable, the Urgent Business Procedure was used to seek approval for the council's Statement of Accounts instead.

A dedicated, informal session on the draft Statement of Accounts was held for the Committee.

Treasury Management

The Committee approved reports on Treasury Management throughout the year, exercising its stewardship role. The Committee reviewed:

- Treasury Management Activity 2020/21
- Treasury Management Activity 2021/22 Update
- Treasury Management Policy and Strategy 2022/23 for recommending to Full Council

A training session for the Committee has been held on Treasury Management.

Governance

As referred to under Key Activities above, the Committee agreed the draft AGS 2021/22 in April 2022. The AGS explains how the county council had complied with the Local Code of Corporate Governance. The Committee reviewed the Local Code of Corporate Governance 2022/23 at the same meeting and recommended it to Full Council for approval.

The Committee has not received any reports in respect of investigations into allegations of misconduct under Members' and Co-opted Members' Code of Conduct. The Committee has not granted any dispensations from requirements relating to interests as set out in the Code of Conduct.

Membership, Meetings and Attendance

Audit, Risk and Governance Committee

The Audit, Risk and Governance Committee comprises eight elected members representing the two main political parties.

Officers

The Audit, Risk and Governance Committee continues to be well supported by officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee.

In 2021/22 the Chief Executive / Section 151 Officer, Director of Finance, Director of Corporate Services (and Monitoring Officer), Head of Legal, Governance and Registration Services (and Deputy Monitoring Officer), Head of Internal Audit and Head of Corporate Finance routinely attended Committee meetings.

External Audit

The External Auditors, Grant Thornton, have attended all the Audit, Risk and Governance Committee meetings.

Meetings

The Audit, Risk and Governance Committee met four times in 2021/22. The Committee also held one informal meeting in December 2021 in relation to the Statement of Accounts.

A work programme has been agreed by the Audit, Risk and Governance Committee. The programme will be reviewed when setting the agenda for each meeting and added to when appropriate to ensure ad-hoc requests instigated by the Committee are reported.

Agenda Item 14

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 July 2022

Electoral Division affected: (All Divisions);

Draft Work Plan 2022/23
(Appendix 'A' refers)

Contact for further information:
Paul Bond, Tel: 01772 534676, Head of Legal, Governance and Registration Services, paul.bond@lancashire.gov.uk

Executive Summary

This report sets out the draft work plan for the Audit, Risk and Governance Committee for 2022/23.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and note the draft work plan for 2022/23, as set out at Appendix A.

Background and Advice

Appendix A sets out a draft work plan for the committee for the 2022/23 municipal year. The work plan sets out standard reports which are expected to be brought to the committee during 2022/23 from the following service areas:

- Internal Audit
- Legal and Democratic Services
- Corporate Finance
- External Audit - Grant Thornton LLP

It is expected that, during the year, the committee will also identify other areas and issues for consideration as appropriate.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Audit, Risk and Governance Committee - Work Plan 2022-23

Meeting	**Internal Audit** Andy Dalecki	**Legal and Governance** Laura Sales, Paul Bond, Josh Mynott	**Corporate Finance** Khadija Saeed, Neil Kissock, Mike Jensen	**Grant Thornton LLP** Stuart Basnett, Sarah Ironmonger
25 July 2022	- Internal Audit Progress Report - Internal Audit Charter - Counter Fraud, Special Investigations and Whistleblowing Annual Report	- Committee Constitution, Terms of Reference and Membership 2022/23 - Chairman's Annual Report - Committee Work Plan 2022/23 - Corporate Risk and Opportunity Register	- Approval of the council's statement of accounts 2021/22 - Treasury Management Activity 2021/22 - Response to the Information Request from the External Auditor - Update on Management's Responses to the Recommendations of the External Auditor (RE: Auditor's Annual Report 2020/21)	- External Audit: Audit Progress Report and Sector Update
17 October 2022	- Internal Audit Progress Report	- Corporate Risk and Opportunity Register - Annual RIPA report	- Update on the Overpayment of Salaries	- External Audit: Lancashire County Council Audit Findings Report 2021/22 - External Audit: Lancashire County Pension Fund Audit Findings Report 2021/22

Appendix A

Audit, Risk and Governance Committee - Work Plan 2022-23

Meeting	**Internal Audit** Andy Dalecki	**Legal and Governance** Laura Sales, Paul Bond, Josh Mynott	**Corporate Finance** Khadija Saeed, Neil Kissock, Mike Jensen	**Grant Thornton LLP** Stuart Basnett, Sarah Ironmonger
30 January 2023	- Internal Audit Progress Report	- Code of Conduct – Summary of Complaints - Corporate Risk and Opportunity Register	- Accounting Policies used in the Preparation of the Statement of Accounts 2022/23 - Treasury Management Activity 2022/23 - Treasury Management Strategy and Investment Strategy 2023/24	- External Audit: Auditor's Annual Report - External Audit Progress Report and Sector Update 2022/23
24 April 2023	- Internal Audit Annual Plan - Internal Audit Charter (if amendments are required)	- Corporate Risk and Opportunity Register - Draft Annual Governance Statement 2022/23 - Code of Corporate Governance 2023/24 - Local Member Grant Scheme 2021/22 and 2022/23	- Update on the Overpayment of Salaries	- External Audit - Lancashire County Council Audit Plan 2022/23 - External Audit: Lancashire County Pension Fund Audit Plan 2022/23

Agenda Item 18

(NOT FOR PUBLICATION: By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

(NOT FOR PUBLICATION: By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3,7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix A

(NOT FOR PUBLICATION: By virtue of paragraph(s) 2,3,7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted