Lancashire County Council

Audit, Risk and Governance Committee

Monday 30th January 2023 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.	
3.	**Minutes of the Meeting held on 17 October 2022** To be confirmed, and signed by the chair.	(Pages 1 - 8)
4.	**Treasury Management Activity 2022/23**	(Pages 9 - 16)
5.	**Treasury Management Strategy 2023/24**	(Pages 17 - 46)
6.	**The Council's Statement of Accounts for 2021/22 and Accounting Policies for 2022/23**	(Pages 47 - 326)
7.	**Appointment of External Auditor**	(Pages 327 - 330)
8.	**External Audit - Lancashire County Council Audit Findings Report 2021/22**	(Pages 331 - 372)
9.	**External Audit - Lancashire County Pension Fund Audit Findings Report 2021/22**	(Pages 373 - 402)
10.	**External Audit - Audit Progress Report and Sector Update - January 2023**	(Pages 403 - 416)

14. 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.

15. Date of Next Meeting

The next meeting of the committee will be held on Monday 24 April 2023 at 2.00 pm at County Hall, Preston.

16. 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)

(Not for Publication – Exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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).

18. Review of Arrangements for the Oversight of Council Controlled Companies (Pages 509 - 528)

(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 interests in disclosing the information).

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday 17th October 2022 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

R Bailey	J Couperthwaite
J Berry	J Shedwick
M Clifford	J R Singleton JP

1. Apologies

The Chair welcomed everyone to the meeting.

No apologies were received.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 25 July 2022

Resolved: That the minutes of the Audit, Risk and Governance Committee meeting held on 25 July 2022 be confirmed as an accurate record.

4. External Audit: Lancashire County Council Audit Findings Report 2021/22

Sarah Ironmonger, Partner at Grant Thornton UK presented the Lancashire County Council Audit Findings Report for 2021/22.

The external auditors expressed their thanks to colleagues in the council's finance team for their cooperation.

It was noted that two matters needed resolution before the auditors could finalise their opinion: the valuation of land and buildings; and a national issue regarding infrastructure assets. A statutory instrument was expected to resolve the latter by the end of 2022.

Therefore, it was expected that the auditors' final opinion would be provided at the committee meeting on 30 January 2023. Committee members expressed disappointment that the final audit opinion would not meet the statutory deadline of 30 November 2022 but were reassured that the auditors had every intention of presenting their final opinion in January.

In response to questions, the committee was informed that:

- The valuation of land and buildings was a technical piece of work. The auditors were assessing whether the value of land and buildings had changed materially since the valuation on 1 April 2021 and the accounts dated 31 March 2022. In years with less market volatility, this element of the audit had not been significant.

- The auditors were required to issue their annual report within three months of the final audit opinion. Lancashire County Council was in a good position, having produced accounts and completed audits for all previous years to date. The two key issues outlined above were currently the only factors that might prevent the auditors from issuing a final opinion, but they were expected to be resolved in due course.

- The auditors were not aware of any financial implications facing the county council as a result of the late audit opinion. All upper tier authorities in England were likely to be facing the same issue regarding infrastructure assets.

- An additional piece of work was being carried out on subsequent events to establish whether, as a result of recent market activity, additional disclosures were required. The auditors were not currently aware of anything that would change the figures in the council's accounts.

- Regarding minimum revenue provision, the rises in interest rates would increase the council's costs. Interest rate risks were included in the treasury management updates to the committee.

The committee expressed its thanks to the council's finance team for working with the external auditors and providing the council's statement of accounts in a timely manner.

Resolved: That the following be noted:

i) The Lancashire County Council Audit Findings Report 2021/22; and

ii) That an updated Audit Findings Report would be presented to the next Audit, Risk and Governance Committee meeting on 30 January 2023.

5. External Audit: Lancashire County Pension Fund Audit Findings Report 2021/22

Stuart Basnett, Audit Manager, Grant Thornton UK presented the Lancashire County Pension Fund Audit Findings Report for 2021/22.

It was highlighted that most of the outstanding elements listed in the report were close to completion, and at this stage the auditors were expecting to provide an unqualified opinion.

The auditors' assessment of the valuation of Level 3 investments had identified a circa £33m difference between the value provided in the Pension Fund's accounts (based on valuations from December 2021) and the investment confirmations at 31 March 2022, but this was not unusual. The difference was not material and therefore was not expected to change the accounts.

Resolved: That the following be noted:

iii) The Lancashire County Pension Fund Audit Findings Report 2021/22; and

iv) That an updated Audit Findings Report would be presented to the next Audit, Risk and Governance Committee meeting on 30 January 2023.

6. Anti-Fraud and Anti-Corruption Policy Documents

Andy Dalecki, Head of Internal Audit presented an updated suite of anti-fraud and anti-corruption policies for the committee's approval.

In response to questions, the committee was informed that:

- The service would work on awareness raising and training relating to these policies, to be delivered across the organisation to councillors and officers. Training would need to be tailored to services to ensure it was applicable to their roles. Staff were not currently tested on their awareness of the council's anti-fraud policies. Consideration would be given to hosting a Bite Size Briefing for councillors.

- The policies had not been lacking before these updates, but it was necessary to continue strengthening them. Combatting the risk of fraud relied on a two-pronged approach: the Internal Audit Service's work to assess the council's fraud controls; and the work of fraud investigators to investigate, seek prosecutions, and recover monies in cases where fraud has taken place, which both acted as a deterrent and helped to strengthen the council's controls.

- An ongoing concern was that fraud was generally underreported and increasing. The Internal Audit Service worked closely with senior officers, including the Director of Finance and the Chief Executive and Director of Resources, to ensure the service had sufficient resource to deal with complex investigations when needed.

Resolved: That

i) The updated Anti-Fraud, Bribery and Corruption Policy, as presented, be approved;

ii) The new Fraud Sanction and Prosecution Policy, as presented, be approved;

iii) The updated Whistleblowing Policy, as presented, be approved; and

iv) The updated Anti-Money Laundering Policy Statement and Strategy, as presented, be approved.

7. Internal Audit Progress Report

Andy Dalecki, Head of Internal Audit presented a report which provided an update on the Internal Audit Service's work and outcomes for 2021/22, for the period to 26 September 2022.

In response to questions, the committee was informed that:

- The external quality assessment was now likely to start in January 2023 and it was possible the independent assessor would want to speak with some committee members.

- The audit of payroll and overpayments had reviewed the service as a whole, rather than just the issue of salary overpayments. The substantial assurance given therefore covered the whole payroll system.

- Regarding the audit of transport provision for children, moderate was a positive assurance level and reflected the fact that potential risks to the service were well controlled. It had not received a substantial assurance rating largely due to the number of management actions agreed, most of which related to process. The auditors had not identified any safeguarding concerns, rather some inconsistency in the application of the service's processes, such as driving licence checks. Clarification on whether an audit of the integrated school transport service had been carried out in the past would be provided after the meeting.

- It was possible that work from this year's audit plan would be carried over to 2023/24, but the service aimed to complete as much as possible this year and did not currently have concerns about delays.

- The government increasingly included a requirement for grant allocations that the Internal Audit Service must provide assurance over the council's use of grant funding. Grant certification work would be factored into subsequent years' audit plans.

Resolved: That the Internal Audit Progress Report be noted.

8. Corporate Risk and Opportunity Register - Quarter 2 Update

Paul Bond, Head of Legal, Governance and Registrars presented the updated Corporate Risk and Opportunity Register for Quarter 2 of 2022/23.

It was highlighted that the risk entry relating to cyber security contained exempt information and was included in Part II of the agenda, and that any risks that had been removed from the Corporate Register would continue to be monitored on directorate risk registers.

In response the questions, the committee was informed that:

- The target risk confidence provided an indication of whether the council expected to achieve the target risk score by the target date. Regarding Financial Sustainability, the number of unknowns facing the whole public sector contributed to the red confidence level. Measures were in place to mitigate this risk.

- The Executive Management Team decided whether risks with a rating of 12 or above should be added to the Corporate Register. Risks that received a rating of 12 or above at directorate level would not always be added to the Corporate Register, depending on how wide the risk impact could be from a corporate perspective. Risks not included on the Corporate Register would be managed at a directorate level.

- Despite the current risk score remaining the same as Quarter 1 for the risk relating to School Places, it had received a green target risk confidence level because the council expected to achieve the target risk score (8) by the target date (March 2023). Members' concerns about the insufficiency of school places would be shared with the risk owner as part of the Quarter 3 review.

The committee was reassured that the directorate risk registers were carefully considered by the Executive Management Team. Members agreed that, once a final risk rating has been agreed by directorates and the Executive Management Team, all risks with a rating of 12 or above should be reported to the committee.

Resolved: That

i) The updated Corporate Risk and Opportunity Register be noted; and

ii) All risks with a rating of 12 or above, once the final score has been agreed between individual directorates and the Executive Management Team, be included in future Corporate Risk and Opportunity Register update reports to the committee.

9. Urgent Business

None.

10. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 30 January 2023 at 2.00 pm at County Hall, Preston.

11. 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.

12. Appendix 'B' to Item 8 - Corporate Risk and Opportunity Register - Quarter 2 Update

(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 interest in disclosing the information.)

The committee considered the private and confidential Appendix B to Item 8 – Corporate Risk and Opportunity Register – Quarter 2 Update.

Resolved: That Appendix B to Item 8 – Corporate Risk and Opportunity Register – Quarter 2 Update, be noted.

13. 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 the requested twice-yearly update on the overpayment salaries.

It was noted that a further update would be provided at the committee meeting on 24 April 2023.

Resolved: That the report on the overpayment of salaries be noted.

14. RIPA Policy - Annual Review

(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 interest in disclosing the information.)

Chris Wilkinson, Trading Standards Manager presented a private and confidential annual report on the Regulation of Investigatory Powers Act 2000 (RIPA), including an update on the council's use of RIPA and the council's RIPA policies for the committee's approval.

It was noted that the results of the upcoming inspection by the Investigatory Powers Commissioner's Office would be reported to the committee.

Resolved: That

i) The Corporate Policy and Guidance on the Regulation of Investigatory Powers Act 2000, as presented, be approved;

ii) The Shadow RIPA Surveillance Policy, as presented, be approved; and

iii) The Covert Social Networking Checks and Surveillance Policy, as presented, be approved.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected: N/A;

Treasury Management Activity 2022/23
(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 information on the treasury management activity in 2022/23 for the period April to November 2022.

Recommendation

The Audit, Risk and Governance Committee is asked to note the review of treasury management activities.

Detail

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 code recommends that a treasury management report for members is produced after the end of each financial year and on activities during the year. Part of the remit of the Audit, Risk and Governance Committee is to oversee treasury management activities.

The report at Appendix A provides information on the activity in 2022/23 for the period April to November 2022.

The report also highlights that the year has seen increasing inflation and interest rates. It is noted that the current forecast for the 2022/23 treasury management year-end position is in line with budget. However, the final outturn may be significantly different from the current forecast, due to recent and expected continued market volatility.

Consultations

Arlingclose are the council's external treasury management advisers. Their advice and analysis have been considered in undertaking treasury management activity.

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	2017	Paul Dobson 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Activity 2022/23: April to November 2022

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management ("the Code"). The Code recommends that members are informed of treasury management activities. This report provides an update on treasury management activity between 1 April and 30 November 2022 and a brief commentary on the economic context in which treasury management decisions were taken.

Economic context

The key themes during the period were the continuing increase in inflation, the resultant increase in interest rates and the anticipation that the economy will enter recession.

Consumer Price Index (CPI) inflation rose to 11.1% at the end of October, compared to a rate of 7.0% in March. It is forecast by the Bank of England that this will be near the peak. It is then anticipated that inflation will fall. The Bank of England Monetary Policy Committee reported in November a forecast that CPI inflation will fall to around 5% by the end of 2023 before falling to the 2% target by the start of 2024.

In response to the increasing inflation the period has seen interest rates increasing as the Bank of England took action to try and reduce inflation. The Bank of England increased the Bank Rate by 0.75% to 3.0% in November 2022. This was the eighth successive rise since December 2021. The council's treasury management adviser Arlingclose in its latest forecast expects the Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

The UK economy grew by 0.2% between April and June 2022, and the first estimates for July to September 2022 show that the headline growth indicator (GDP) fell by 0.2% due to the squeeze on household income from higher energy costs and goods prices. The November quarterly Monetary Policy Report (MPR) forecasts a prolonged but shallow recession in the UK with the economic outlook remaining weak, with unemployment projected to start rising.

Investment activity

Investments at 30 November 2022 totalled £995m and consisted of £78m in bank and local authority deposits and £917m in corporate and government bonds. The following table shows the investment activity between 1 April and 30 November 2022.

Bank and Local Authority	Call	Fixed	Total
Deposits	**£m**	**£m**	**£m**
Balance 1 April 2022	**51.0**	**30.0**	**81.0**
Maturities	-151.8	-20.0	-171.8
New Investments	168.7	0.0	168.7
Balance 30 November 2022	**67.9**	**10.0**	**77.9**

Bonds	Local Authority Bonds £m	Gilts £m	Liquidity £m	Corporate £m	Total £m
Balance 1 April 2022*	**32.5**	**237.1**	**326.1**	**206.6**	**802.3**
Maturities/sales	-1.2	-379.5	-873.5	-1.9	**-1,256.1**
New Investments	0.0	464.6	904.6	1.1	**1,370.3**
Balance 30 November 2022	**31.3**	**322.2**	**357.2**	**205.8**	**916.5**

*The opening balances include bonds that formed part of the Non-Treasury Management investments portfolio in the last financial year.

Total investments, including the bank and local authority deposits, have increased by £111m during the period however it is anticipated that these will now gradually reduce over the remainder of the financial year so as at 31 March 2023 they will be more in line with the opening balances position.

The current rate of return on the investment portfolio measured by Arlingclose is 2.52% which compares favourably with the Sterling Overnight Rate (SONIA) which averaged 1.57% over the same period.

Borrowing activity

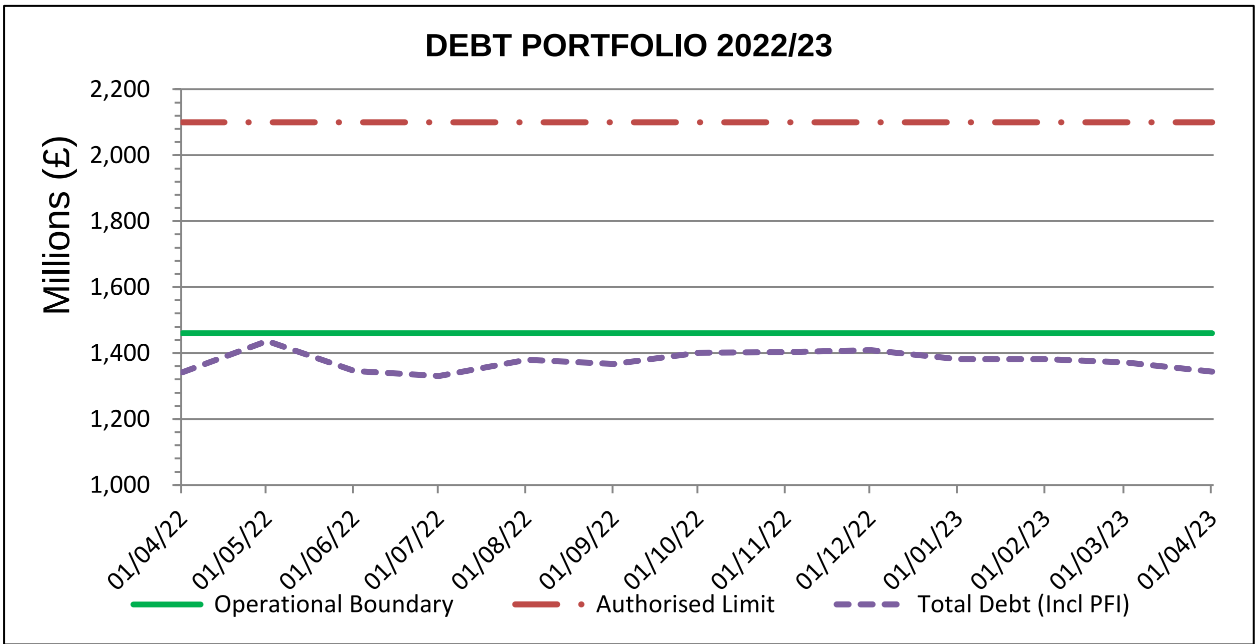
The council's capital programme includes a requirement to borrow to fund new capital investment. The table below summarises the borrowing activity which has taken place between 1 April and 30 November 2022.

Borrowing	PWLB Fixed £m	PWLB Variable £m	Long Term Bond £m	Other Local Authorities £m	Police, Fire & Lancashire District Councils £m	Total £m
Balance 1 April 2022	**284.6**	**0.0**	**600.0**	**247.0**	**71.8**	**1,203.4**
New Borrowing	0.0	0.0	0.0	356.0	415.0	771.0
Maturities	0.0	0.0	0.0	-327.0	-368.8	-695.8

Balance 30 November 2022	**284.6**	**0.0**	**600.0**	**276.0**	**118.0**	**1,278.6**
Public Finance Initiative (PFI) Liability	-	-		-	-	133.0
Total Borrowing & PFI						**1,411.6**

Total borrowing at the end of November was £1,412m including the financing of £133m of assets through remaining Private Finance Initiative schemes. The outstanding borrowing has increased by £75m in the period, which is largely due to the increased levels deposited by district councils into their shared investment schemes. It is expected that the borrowing levels will now reduce over the remainder of the financial year, as borrowings mature, so at 31 March 2023 they will be at a similar level to the opening balance.

The borrowing is undertaken within the framework set by the 'Authorised' and 'Operational' limits. The following graph shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. It is expected that the debt may exceed the operational limit on occasions, but it should not exceed the authorised limit. The debt shown from 30 November represents the debt position if no maturing debt was replaced rather than an estimate of the expected position.



Total debt during the year has remained below both the authorised and the operational limits. It is anticipated that the debt will be below the operational boundary at the financial year end.

The council's current interest rate payable on debt as measured by Arlingclose is 2.87%.

Budget monitoring

It was reported to the council's Cabinet in September 2022 that the current forecast treasury management outturn to the end of the financial year is in line with budget. However, the final outturn may be significantly different from the current forecast, due to the impact of expected continuing market volatility. Any changes to fair value that need to be charged in year will be taken to/from reserves to prevent unrealised transactions impacting on the council's revenue account.

The financial position is kept under regular review and discussed with the Director of Finance on a monthly basis.

Prudential Indicators

The Treasury Management Strategy included some prudential indicators which provide a framework for the operation and risk management of treasury management activities. These are shown as follows for 2022/23 with the latest available actual position.

Authorised and Operational Limits for debt

The 'authorised limit' is a prudent estimate of external debt but allows sufficient headroom for unusual cash flow movements. During the year the Director of Finance approved the re-allocation of the 'authorised limit' between the borrowing and 'other long-term liabilities' to provide some additional flexibility in undertaking long-term borrowing. This approval is in accordance with the Prudential Code.

	Limit	Actual
	£m	£m
Borrowing	1,700	1,279
Other long-term liabilities (PFI schemes)	400	133
TOTAL	**2,100**	**1,412**

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit has been monitored during the year.

	Limit	Actual
	£m	£m
Borrowing	1,300	1,279
Other long-term liabilities (PFI schemes)	160	133
TOTAL	**1,460**	**1,412**

Gross debt and the capital financing requirement (CFR)

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast capital financing requirement over the next three years. The county council's borrowing initially appears in excess of the capital financing requirement however, in making this comparison certain borrowing is included in the total borrowing but does not count against the capital financing requirement. These include the premiums paid and debt held on behalf of other authorities. The current level of debt also includes an element of borrowing in advance to cover new expenditure or maturing debt. In summary the position is:

	£m
Total debt at 30 November 2022	1,412
Capital Financing Requirement estimated at 31 March 2022	1,206
Debt in excess of Capital Financing Requirement	206
Due to:	
Debt held on behalf other authorities	35
Premiums	38
Borrowing in advance	133

Therefore, the Director of Finance confirms that the level of borrowing over the three years is within the capital financing requirement conditions.

Interest rate exposure

In order to control interest rate risk the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. This covers the impact of the additional cost of borrowing and the income from investments. 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
One-year revenue impact of a 1% rise in interest rates	£50m	-£2.1m

The actual is a negative. This arises as a significant proportion of the debt is at fixed rates and are therefore not exposed to changes in interest rates while overall investments are attracting greater interest.

The indicator excludes the impact on fair values of an interest rate rise as these values are affected by various factors.

Maturity structure of debt

Limits on the maturity structure of debt help control refinancing risk.

	Upper Limit	Actual
Under 12 months	75%	15%
12 months and within 2 years	75%	15%
2 years and within 5 years	75%	31%
5 years and within 10 years	75%	4%
10 years and above	75%	35%

Investments over 1 year

Limit on the level of long-term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end. The level of investments is managed to be in line with the estimated reserves and balances and cash flow at 31 March 2023 (deemed an operational limit which will be reviewed during the year). However, it is anticipated that the level of reserves will fall gradually during the year and there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes.

	Upper limit	Actual
Total invested over 1 year	£1,100m	£896m

The level of investments is not anticipated to fall to the £700m limit by the year-end due to reserves and balances remaining higher than initially anticipated.

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

Liquidity Risk Indicator

The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

	Limit	**Actual**
Total sum borrowed in past 3 months without prior notice	£50m	£29m

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected: N/A;

Treasury Management Strategy 2023/24
(Appendices 'A' – 'C' refer)

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

Brief Summary

The council is required to produce a Treasury Management Strategy before the beginning of each financial year. The proposed Treasury Management Strategy for 2023/24 is at Appendix A, the Investment Strategy at Appendix B, and the associated Minimum Revenue Provision Policy Statement at Appendix C.

Recommendation

The Audit, Risk and Governance Committee is asked to recommend that Full Council approves the Treasury Management and Investment Strategies, and the Minimum Revenue Provision Policy Statement for 2023/24, as set out in this report.

Detail

Treasury management is the management of the council's investments and cash flows, its banking, money market and capital market transactions. It also includes the effective control and management of the risks associated with these activities, ensuring that the council gets the best performance within acceptable risk parameters. Although the impact of treasury management decisions is considered over the long term, there is a requirement through regulations for the strategies to be approved annually.

Treasury Management Strategy

The Treasury Management Strategy at Appendix A sets out the council's approach for both its borrowing and investment activity. The borrowing strategy is determined by the need for the council to borrow in accordance with the Prudential Code and the impact of the economic climate on the prevailing cost and availability of borrowing. The report identifies a likely need to borrow and notes that the council has fixed a higher proportion of debt for a long term having taken advantage of historically low interest rates. The balance between long- and short-term debt will continue to be kept under review. It should be noted that the figures in the strategy will be subject to minor changes as the capital programme is developed and approved.

Investment Strategy

The then Ministry of Housing, Communities and Local Government's statutory guidance on local government investments includes provisions relating to investments that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). These investments held for service purposes or for commercial profit are considered in the Investment Strategy at Appendix B. The Investment Strategy, whilst having regard to yield, has the key drivers continuing to be security and liquidity.

Minimum Revenue Provision Policy Statement

The Minimum Revenue Provision (MRP) Policy Statement for 2023/24 is also presented for approval at Appendix C. During the year the government has been consulting on changes to the approach to Minimum Revenue Provision, with the outcome of this consultation still due; any changes are not anticipated to come into effect until 1 April 2024. One of the matters raised in the government consultation relates to the practice of some local authorities not charging Minimum Revenue Provision on specific schemes on the basis that the resultant borrowing will be financed by future income receipts. Whilst the county council is compliant with these new proposals, the wording in the council's Minimum Revenue Provision Policy Statement has been clarified to reflect this.

Changes from prior year

Aside from minor wording changes, updated context and commentary, the policies set out in the appendices are broadly in line with those approved for 2022/23 with the only significant change being within the Treasury Management Strategy where there is a proposal to limit the percentage of total investments held as long-term bonds. This has been introduced to provide some measure of balance in the term length of investments.

Consultations

Arlingclose, the county council's external treasury management advisers, have provided advice in the formulation of the proposals in this report.

Implications:

This item has the following implications, as indicated:

Risk management

The council, having adopted the 'Prudential Code', is required to prudently manage its investments and borrowing. A failure to do so could expose the council to undue financial risks.

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

Paper	Date	Contact/Tel
Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice	2021	Paul Dobson (01771) 534725
Ministry of Housing, Communities and Local Government statutory guidance on local authority investments		Paul Dobson (01771) 534725

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Strategy 2023/24

Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management activities. In effect this means the council must adhere to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for capital finance in local authorities, CIPFA's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code), and the then Ministry of Homes, Communities and Local Government guidance on local authority investments.

The CIPFA code requires the treasury management strategy to be produced and approved annually before the start of each financial year. In addition, the then Ministry of Homes, Communities and Local Government has issued updated statutory guidance on local government investments. This now covers a wider definition of investments and includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). Investments held for service purposes or for commercial profit are considered in the separate investment strategy.

In conjunction with the detailed treasury management practices approved by the Director of Finance, the strategy provides the policy framework for the engagement of the council with financial markets in order to fund its capital investment programme, to maintain the security of its cash balances and protect them from credit, liquidity, inflation and interest rate risk.

The strategy includes provisions for borrowing, treasury investments, financial derivatives and the indicators that will be used for monitoring purposes throughout the year. It is designed to achieve the following objectives:

- To ensure the security of the principal sums invested which represent the council's various reserves and balances.
- To ensure that the council has access to cash resources as and when required.
- To minimise the cost of the borrowing required to finance the council's capital investment programme, and to manage interest and inflation rate risks appropriately.
- To maximise investment returns commensurate with the council's policy of minimising risks to the security of capital and its liquidity position.

In setting the treasury management strategy, the following factors have a strong influence:

- the economic position
- the council's current investment and borrowing portfolio
- estimates of future borrowing and investment requirements

Economic position

<u>Economic background:</u>

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook are the major influences on the council's treasury management strategy for 2023/24.

The Bank of England (BoE) increased the Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate increase since 1989 and the eighth successive rise since December 2021. This was followed by a further 0.5% increase in December to a Base Rate of 3.5%.

The UK economy grew by 0.2% between April and June 2022 but fell by 0.2% in the following three months with the BoE Monetary Policy Committee report of December expecting a further decline in quarter four of 2022.

The November BoE report forecast a prolonged but shallow recession in the UK with Consumer Price Index (CPI) inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

At its November meeting the Bank of England's central case was that CPI inflation was expected to peak at around 11% in the last quarter of 2022 and then fall sharply to below the 2% target, in two years' time. The CPI decreased from 11.1% in October to 10.7% in November but at the December meeting it was noted that while it appeared that CPI inflation was reaching a turning point, there was more evidence that price and wage pressures will persist for a longer period of time than anticipated and considerable uncertainties remain.

Arlingclose Forecast

The council's treasury management adviser Arlingclose forecasts that the Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite a looming recession. Arlingclose expects the Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher. The central case sees rates being cut in the first half of 2024.

Arlingclose expects gilt yields to remain broadly steady over the 3-year period to December 2025, although with continued volatility across shorter time periods. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Current portfolio

The council's treasury portfolio as at 30 November 2022 was as follows.

	£m
Call accounts	67
Local authority deposits	10
Corporate Bonds	563
Government, local government and supra-national bonds	354
Total Investments	**994**
Short term loans	276
Shared investment scheme	118
Long term loans – local authorities	5
Long Term Bonds	600
Long term loans - PWLB	280
Total Borrowing	**1,279**
Net Borrowing	**285**

Estimates of future borrowing and investment requirements

In the medium term CIPFA's Prudential Code requires that the council's borrowing adjusted for transferred debt is for capital purposes only. The underlying need to borrow for capital purposes is measured by the capital financing requirement, while usable reserves and working capital are the underlying resources available for investment. The following table compares the estimated capital financing requirement to the borrowing at 30 November 2022. This gives an indication of the borrowing required and the resources available for investment.

The capital financing requirement forecast assumes a capital programme which includes borrowing of £98m in 2022/23, £64m in 2023/24, £61m in 2024/25 and then £50m in each of years 2025/26 to 2026/27. Clearly, this will be subject to change as the capital programme develops.

	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital financing requirement	1,206	1,232	1,253	1,261
Other long term liabilities	-126	-119	-110	-102
Borrowing capital financing requirement	1,080	1,113	1,143	1,159
External borrowing	-1,107	-885	-515	-505
Borrowing requirement for capital	-27	228	628	654

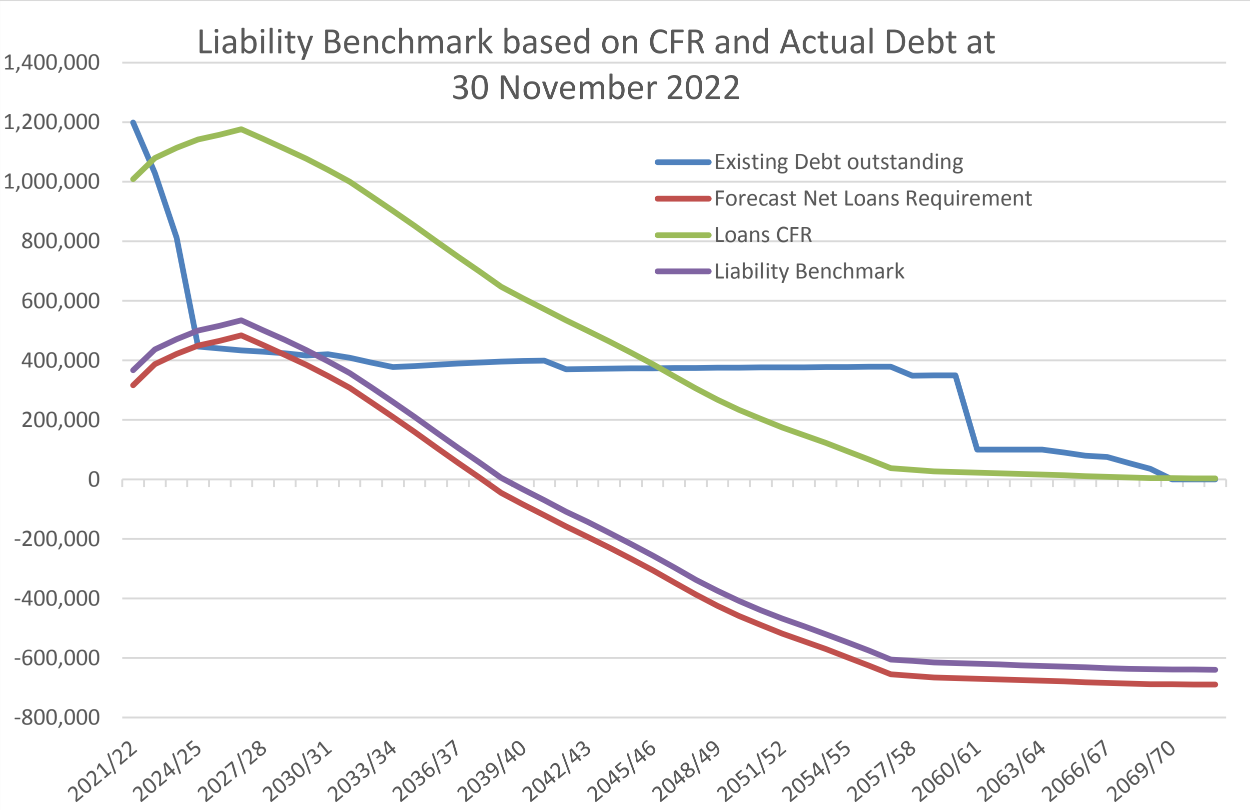
Other borrowing requirements*	77	73	69	64
Reserves and working capital	-550	-550	-550	-550
Borrowing/ - Investment need	-500	-249	147	168

* debt held on behalf other local authorities and premiums

The table shows that there is an identified need for borrowing from 2023/24 if all reserves are cash backed which is the general policy adopted by the county council. However, an alternative would be to use internal reserves which is demonstrated by the liability benchmark which is a proposed indicator in the Prudential Code.

Liability benchmark

To compare the council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest level of borrowing with cash and investment balances kept to a minimum level at each year-end to maintain sufficient liquidity. The liability benchmark is illustrated in the following graph:



The liability benchmark graph shows that although the existing debt falls below the Capital Financing Requirement (CFR) it would be above the liability benchmark until 2024/25. This suggests that that there is actually no need to undertake borrowing in 2023/24 but instead investments could be reduced to meet the cash flow requirements. Even when the debt falls below the benchmark it is for a relatively short period (up to 10 years) and that in the longer-term current debt is already above the benchmark which implies that any new borrowing in line with the liability benchmark should be of a fairly short duration. No estimate of future capital programme borrowing beyond the next three years has been included in this analysis.

Borrowing Strategy

The council held borrowing of £1,279m at the end of November 2022. It has been noted that under the liability benchmark model there is likely no need to borrow in 2023/24 to meet the capital needs in the year. However, this is only one model for reviewing the borrowing and investment needs. Alternatively, the council can maintain a level of investments and look to borrow to cover its capital needs. With the impact of new capital schemes in the programme and the need to replace maturing debt there would therefore be an estimated borrowing requirement of approximately £302m in 2023/24.

The borrowing strategy is determined by the impact of the economic climate on the prevailing cost and availability of borrowing and the level at which it is considered appropriate to maintain investments. The council will continue to ensure the borrowing needs are met while balancing the aims to keep net costs as low as possible in the short term and providing certainty of cost over the long term.

With short-term interest rates currently lower than long-term rates, it has been more cost effective to borrow short-term. Given the economic outlook it is anticipated that short term borrowing will still form a significant part of the debt portfolio. However, there is significant economic uncertainty and rates have been at historically low levels. Therefore, in the last couple of years the council has moved to secure greater certainty of costs and reduce the re-financing risk in its debt portfolio by taking some long-term debt including the issuance of a 40-year bond. This has resulted in the long-term debt exceeding the estimated CFR. It is anticipated that there will be new borrowing to fund capital programmes beyond that currently approved which will increase the overall need and therefore the apparent borrowing above need is not considered to be an issue to address. However, it does mean that any longer-term debt taken is likely to be for maturity in 10-20 years.

There are a range of options available for borrowing in 2023/24:

- Variable rate borrowing is expected to be cheaper than fixed rate long-term borrowing and will be attractive during the financial year, particularly as variable rates are closely linked to Bank Rate.

- Under 10 years loan duration rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities.

- Issuance of a 'commercial paper (an unsecured, short-term debt instrument issued by a corporation) - euro medium term note. This is a flexible debt instrument that facilitates direct issuance into the public or private markets in a range of formats, with fixed or floating payments across a range of maturities from 1-50 years. The UK Municipal Bonds Agency euro medium term note documentation allows for "Non-Guaranteed" single council bond issuance under UK Municipal Bonds Agency documentation provided the council has its own long term credit rating. This would represent a cheaper route to market than a stand-alone bond issue and it is this method that the council has used to issue two bonds and if a third bond was considered beneficial then it is the likely route to be chosen by the council.

- The UK Municipal Bonds Agency is proposing a product which does not include a joint and several guarantee. Instead, a council's liability will be proportional to its share of the outstanding borrowing. Consideration as to whether or not this would be an appropriate form of borrowing will be given when the full details are available.

- There is a rapidly developing new market in debt finance for 'ESG bonds'. The term ESG stands for Environmental, Social and Governance and in bond markets the label is being used where the issuer has identified specific ESG or green criteria for the use of the bond proceeds. Local Government activities are naturally aligned with ESG criteria and as the concept and practice of socially responsible investing becomes more widespread there may be the opportunity for issuers to access lower interest rates as a result of increased demand. There are currently no available vehicles for the council to access ESG funding but market developments will be closely monitored for possible future access.

- The possibility of using Fixed/Floating rate swap will be examined to see if it is a beneficial method of borrowing.

Against this background, the Director of Finance will in conjunction with the council's advisers monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances. All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need, namely whether a borrowing requirement to fund the capital programme or previous capital investment exist
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance
c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost
d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route
e) To consider whether to use cash balances as a form of internal borrowing, but this will reduce the level of investments that can be made

All long-term decisions will be documented reflecting the assessment of these criteria.

Sources of borrowing

Traditionally the Public Works Loan Board (PWLB) has been the main source of long-term borrowing for local authorities. The interest rate charged on Public Works Loan Board loans is linked to the gilt yield. Currently the council can obtain a Public Works Loan Board loan at 0.8% higher than the gilts yield (this rate is referred to as the margin). Recently the council has used the issuance of bonds to meet its requirements at rates lower than those available from the PWLB.

The approved sources of long-term and short-term borrowing will be:
- Public Works Loan Board
- UK Local Authorities

- Any institution approved for investments including high quality supranational banks such as the European Central Bank
- UK public and private sector pension funds
- Any other financial institution approved by the Prudential Regulation Authority, (this is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms)
- Municipal Bond Agency
- Capital market bond investors either over the counter or through electronic trading platforms

Borrowing instruments

The council may only borrow money by use of the following instruments:

- Bank overdrafts
- Fixed term loans
- Callable loans or revolving credit facilities where the council may repay at any time (with or without notice)
- Callable loans where the lender may repay at any time, but subject to a maximum of £150m in total
- Bonds, notes, bills, commercial paper and other marketable instruments
- Sale and repurchase (repo) agreements

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market benchmark interest rate, such as the Sterling Overnight Index Average (often referred to as SONIA) which is administered by the Bank of England. The balance between fixed and variable rates will be subject to the limits on interest rate risk approved in this treasury management strategy.

Debt restructuring

The council will regularly monitor both its debt portfolio and market conditions to evaluate potential savings from debt restructuring.

Other borrowing

The council may borrow for short periods of time to cover unexpected cash flow shortages and to take deposits on the shared investment scheme. Also, to provide cash flow support for the Preston, South Ribble and Lancashire City Deal project. This is to cover the gap between the cost of construction of infrastructure and the payment of contributions from other organisations including the government and developers. This borrowing is temporary but will be reflected within the prudential limits.

Policy on Borrowing in Advance of Need

The council will not borrow more than or in advance of need with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is permitted to pre-fund future years' capital requirements, providing this does not exceed the authorised limit for borrowing. Therefore, the council may look to borrow in advance if the need to finance the future capital investment will materialise in two years or less; and

a) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
b) Where in the view of the section 151 officer, based on independent advice, the achievement of value for money would be prejudiced by delaying borrowing.

Having satisfied the criteria above, any proposal to borrow in advance of need would be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, with the value for money of the proposal fully evaluated.
b) The merits and demerits of alternative forms of funding.
c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

All decisions will be documented reflecting the assessment of these circumstances and criteria.

Treasury Management Investments Strategy

The council holds reserves and other cash items on its balance sheet which if not used to reduce borrowing requirements are invested. In investing these cash balances the council follows guidance issued by CIPFA and the government.

The guidance requires treasury management investments to prioritise security, liquidity and yield in that order of importance. The council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The council has in recent years pursued a policy to hold as investments a sum as close as possible to the cash value of its reserves and balances. This policy will continue but it will be regularly reviewed to ensure value for money is achieved especially in a low interest rate environment.

Business model for holding investments

Under the IFRS 9 (International Financial Reporting Standard), the accounting for certain investments depends on the council's "business model" for managing them. In general, the authority holds investments to either collect the contractual cash-flows or a mixture of holding for the contractual cash-flows and sale proceeds. Neither of these would result in changes in market value requiring to be charged against council tax at the year end. However, if investment assets are held for the purpose of trading any changes in the asset value is charged to the accounts. The business model for the main treasury management investments are as follows:

Local authority investments - these are principally investments for a fixed term which are held to maturity. In addition, the authority holds some long-term bonds issued by local authorities which are also held to maturity. In both cases interest is received on agreed dates and are held for the contractual cash-flows therefore they will be valued at amortised cost.

Gilts - the holding of gilts represent a key part of the strategy for holding investments to back up the reserves and balances while maintaining a low credit risk portfolio. They are also a liquid asset and periodic sales will be incurred in reaction to market movements to enhance the overall yield of the holdings but this is not the primary aim of the holding and therefore gilts will be held at fair value through 'other comprehensive income' which means that market value changes will not be charged against council tax.

Other bonds - the council also holds other high credit quality corporate bonds. These are held primarily for the purposes of liquidity providing a low credit risk holding. These are bought and sold in relation to cash needs and therefore the valuation will be such that the market value changes will not be charged against council tax.

Approved counterparties

The counterparty credit matrix is an important part of the council's treasury management strategy and has always been conservatively constructed to protect the council against credit risk whilst allowing for efficient and prudent investment activity.

However, the council does not rely solely on credit ratings in assessing counterparties. Other market information is also monitored such as information from the credit default swap market and any press releases in general. In this way ensuring the council transacts with only the highest quality counterparties.

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes however the policy reflects the downgrading of the UK sovereign rating from Aa2 to Aa3 in October 2020 (as measured by Moody's). The required credit ratings are as follows:

For short term lending of up to one year, the short-term ratings from the ratings agencies will be used and that a counterparty must have a minimum of the following:

Moody's	P1
S&P	A1
Fitch	F1

Short term ratings were specifically created by the agencies for money market investors as they reflect specifically the liquidity positions of the institutions concerned.

For medium term investments in the form of tradeable bonds or certificates of deposit (1 to 5 years, where immediate liquidation can be demonstrated), a blended average of the ratings will be taken (averaging across all available ratings), with a minimum of:

Long term	A2/A
Short term	P1/F1+/A1+

For longer term investments (five years and above) in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

Long term	A1/A+
Short term	P1/A1+/F1+

The detailed calculation methodology of the blended average will be agreed with the council's advisers and set out in the treasury management practices document.

If the counterparty of an existing investment falls outside the policy due to a change in credit rating, full consideration will be made, taking into account all relevant information, as to whether a premature settlement of the investment should be negotiated.

The minimum sovereign rating for investment as issued by Moody's is A1 which is one notch below the UK and the same as Lancashire County Council's rating. The UK's latest rating issued by Moody's is a long-term rating of Aa3 which is the fourth highest grade.

Although the rating still falls within the current strategy it is possible if there is an economic downturn that there will be further downgrades and the UK is currently on negative watch with all the main rating agencies for both short and long-term ratings. This could result in investments in UK government gilts, treasury bonds and bodies guaranteed by the UK government falling outside the treasury management strategy credit rating requirement. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution by printing money may prevent insolvency. Therefore, it is proposed that the minimum sovereign rating is not applied to the UK.

Long-term government and corporate bonds are subject to changes in market value. In the 2022/23 investment strategy the investment in UK government including gilts was unlimited whilst long term corporate and other government bonds had a limit of £600m. With the financial uncertainty facing local government and the possible impact this will have on reserves and cash flow to minimise the risk of having to sell such bonds at a loss it is proposed that the total holding of gilts and long term bonds (with more than 5 years to maturity) is limited to 50% of total value of the investments held, reducing to 35% if market circumstances allow over the next 3 years.

The council also holds corporate bonds which mature in 5 years or less. These are often floating rates notes where the interest payment is adjusted quarterly. Although the market value of these do fluctuate the prices are fairly stable.

The counterparty limit of the UK government will remain as unlimited as the county council has the ability to invest with the Debt Management Office for periods from overnight and up to 6 months.

The following table shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills, Debt Management Office & bodies guaranteed by UK Government	UK Government	unlimited	Unlimited subject to limit on Gilts	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1 year to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Corporate Bonds - government owned/backed companies	A3	200	400	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	500	500	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date
Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts and unsecured bank deposits up to 7 days with UK and Overseas Banks	P1/A1/F1 Long term A Government support	100	250	Overnight in line with clearing system guarantee (currently 4 years)
Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date
Local authority fixed term deposits	Government	30	450	50 years
Local authority bonds	Government	50	300	60 years

Local Housing Associations	1st lien on sufficient collateral	100	300	50 years

Note: if the credit rating of assets already held fall below the relevant limit action to address this will be taken at an appropriate time considering the financial impact of any decision to disinvest.

The UK is subject to credit rating reviews and is currently on negative outlook. If the UK's rating changes some of the ratings in the council's required credit matrix may need to be revisited.

Local Housing Associations have been added to the list of approved counterparties. This allows the council to invest in unsecured loans and bonds issued by or guaranteed by registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they have the likelihood of receiving government support if needed. The policy does limit these investment activities to instruments having first lien on the housing associations assets. A lien is the legal right of a creditor to seize property from a borrower that has failed to repay the creditor. The creditor may exercise the lien by selling the property if the loan is not paid back.

A category of bonds in companies which are owned by governments has been included in the approved counterparties. This will include the council's holdings of EDF bonds.

UK bank bail-in legislation provides that should a bank fail the authorities can impose losses on the bank's creditors which includes local authority deposits. Although the council's policy does allow unsecured bank deposits for up to one year, to reduce risk exposure to bank credit and 'bail-in legislation', deposits are used as call accounts and usually placed as overnight deals. However occasionally they may have to be placed for a few days at a time, therefore for clarification unsecured bank deposits up to one week have been included alongside call accounts in the policy matrix. The other unsecured deposits used relate to the operational bank accounts which are used for day to day and overnight business and by virtue of being operational rather than investment accounts, fall outside the stated investment limits in this policy.

Regarding investments with other local authorities, Arlingclose state that they are comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting the approved strategy. For periods longer than two years they recommend that additional due diligence is undertaken prior to a loan being made. On this basis it is proposed that the nominal value of investments to local authorities are limited as follows:

	Maximum individual investment	Maximum total investment	Maximum period
	£m	£m	
Up to 2 years	30	450	2 years
Over 2-10 years	25	300	10 years

Over 10 years	25	100	50 years

In addition to fixed term deposits, occasionally local authorities issue bonds. The investment policy allows the county council to purchase such bonds as an investment which are generally held to maturity. For the purpose of risk management the total of the bonds plus fixed term deposits with any one authority should not exceed £50m.

The council's day to day transactional bank, National Westminster, lies outside the investment credit matrix but overnight deposits may be placed with them. In practice the balances are considered on a daily basis. If there was a failure of National Westminster it is anticipated that they would be subject to bank bail-in rather than made insolvent. This increases the chance of the council maintaining operational continuity but any monies in the bank would be at risk of at least a partial loss.

Long term investments

The treasury management code requires where an authority invests, or plans to invest, for periods longer than one year then an upper limit for investments maturing in excess of one year is set. The authority does have fixed term deposits which are for longer than a year and the bonds usually purchased have a maturity date which is in excess of one year and these could be held to maturity.

Investments held in government and supranational securities are highly liquid. In addition, the council holds a secondary liquidity investment book of very high quality covered floating rate notes which are typically issued for a three to seven-year term. Because these instruments have their rates re-fixed, at current market rates every three months, their price shows a very low sensitivity to changes in market rates, so that although they are classified as long-term instruments, in practice they operate as fixed instruments with a maximum of three months to maturity and can be liquidated with one or two-days' notice. Therefore the 'long term investments' total contains instruments which operate with a short-term horizon and which are central to achieving the council's security and liquidity objectives.

As a result of the nature of the assets held it is considered appropriate to have a high limit which is related to the forecast of reserves and balances held (currently forecast to be £700m at 31 March 2023). However, it is anticipated that during the year cash-flow will be positive requiring a higher level of investments to be held. In particular if borrowing is taken before the debt it is replacing matures or the capital expenditure incurred, and this cash will be invested. Therefore, the proposed limit for 2023/24 is £1,000m.

In recent times, a wider range of investment instruments within the area of sterling deposits have been developed by financial institutions. All of these afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns. The Director of Finance will in liaison with the council’s advisers consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the council. Decisions on whether to utilise such instruments will be taken after an assessment of whether their use achieves the council's treasury management objectives.

Policy on the Use of Financial Derivatives

The council will only use financial derivatives (such as swaps, forwards, futures and options) on a standalone basis, where it can clearly be demonstrated that as part of the prudent management of the council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Many embedded derivatives are already used by local authorities across England and Wales including Lancashire, although unlike the government, commercial sector and other public service areas stand-alone derivatives have not generally been used.

A derivative is a financial instrument with three main features:

- The value changes in response to an underlying variable.
- The transaction requires no initial investment, or an initial net investment smaller than would be required for other types of contract with a similar expected response to market changes.
- The contract is settled at a predetermined future date.

The underlying variable represents an existing external risk for which the hedge is required. Examples are a specified interest rate, a commodity price, a credit rating, a foreign exchange rate or any other variable, however as the council's treasury activity is not directly exposed to all of these risks, for example foreign exchange or commodity prices, the council's use of derivatives would be restricted to the management and hedging of interest and inflation rate risk only.

The embedded and standalone derivatives which can be used by the council to manage interest rate risk are summarised as follows:

Class	**Use**	**Standalone**	**Embedded**
Forwards	To fix an interest or inflation rate for a single period in the future	Forward Rate Agreement, gilt lock, interest rate or gilt futures	Forward Deal
Swaps	To exchange interest or inflation rate exposures (e.g. fixed to floating)	Interest or inflation rate swap (IRS), basis swap.	Variable rate deposit, Floating rate note
Purchased Options	The right but no obligation to fix an interest or inflation rate in exchange for paying a premium	Caps, floors, collars, swaptions, puts, calls	Callable loan Collared deposit

The council will not sell interest rate or inflation rate options, (i.e. give another party the right to fix a rate) since these cannot reduce the council's risk. The only exception is where a sold option is combined with a purchased option of equal or higher premium to create a collar or other structured outcome where maximum is the total premium.

There are two methods of engaging in derivative contracts, exchange traded or settled derivatives and over the counter derivatives. The former are available in public markets and trade over a physical exchange with a clearing house acting as an intermediary and include futures and options. Over the counter contracts are privately negotiated and traded between two counterparties and can include swaps and forwards.

In a derivative contract both parties are often required to provide collateral (i.e. pools of valuable and liquid assets set aside specifically to back liabilities arising from the contract) to reduce credit risk. The method of assessing counterparty quality and suitability of collateral within the structure of the contracts is shown as follows:

Product	**Counterparty Quality**	**Security**	**Method**
Exchange traded or cleared product	Credit rating of exchange	Credit rating of clearing agent	Margin netting
Bilateral Forward rate agreements and swaps assuming netting	Credit rating of counterparty	Full 2-way collateral arrangements	Types of collateral agreed and any haircuts
Over The Counter options	Credit rating of counterparty	Agreed full 2-way collateral	Types of collateral and haircuts
Intra Local Authority swaps	Assumed Credit rating	2-way collateral (cash)	No haircut

The credit quality of the collateral acceptable to the county council will be determined by the credit rating of the counterparty or exchange, along with credit default swap prices which react much quicker than credit rating agencies and can be used as early indicators of credit or liquidity problems.

The following table defines the appropriate limits for collateral quality:

Counterparty type	**Documentation**	**Collateral types**	**Credit Default Swap levels**	**Rating**
Exchange	MIFCA	Cash margins	<75bp	AA
Bank	International Swaps and Derivatives Association/Credit Support Annex	Cash and Government bonds	<100bp	A3
Insurer and Pension Fund	International Swaps and Derivatives Association/ Credit Support Annex	Cash and Government bonds	<100 (Insurers)	A3 (Insurers)
Local Authority	Contract	Cash and Government bonds	England/Wales None	England and Wales None

The council will only use derivative contracts to hedge existing risks. This is reflected in the following limits. The 100% upper limit means that the council has the option to hedge all of, but not more than, its interest rate risk if felt appropriate.

Exposure Metric	**Min Hedge**	**Max Hedge**	**Granularity**	**Tool**
Interest rate	0%	100%	0-3 months 3-6 months, 6-12m months, 1 to 2 years, 2-5 years and 5 year blocks	Forward rate agreements, Futures, Options, Swaps Swaption
Inflation rate	0%	100%	1 to 2 years, 2-5 years and 5+ years blocks	Swap, Swaption, Option

The council is now able to transact in Exchange Traded Futures and Options and has opened a Derivative Clearing Account with Royal Bank of Canada. The specific instruments appropriate for the council's treasury management are 3-month SONIA Futures and options (SONIA is the replacement for Sterling Libor 3-month interest rate index). These instruments allow the mitigation of the effects of interest rate shocks out to 5 years maturity. Having analysed the risk profile of the council treasury management it was considered appropriate only to establish positions to mitigate “unusual risk” in any specific period rather than the more regular risks. Effectively the council will look, where appropriate, to “insure” against specific risk for a specific upfront premium.

Where appropriate and if advised necessary by the council's advisers, hedge accounting will be used to periodically test the effectiveness of the hedge. It is expected the hedge will work with between 80% and 125% effectiveness in accordance with accounting standards. If the effectiveness is measured as falling outside these parameters, the structure of the hedge will be changed in response.

The calculation method of interest rate risk to be hedged and hedge effectiveness will be set out in the treasury management practices document.

At all times the council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management. However, the council may need to seek its own legal advice.

It is anticipated that there may be occasions when it is appropriate to undertake transactions which seek to reduce the council's specific exposure to interest rate risk. A standard market technique involves selling gilts to be paid for at an agreed date in the future rather than the normal next working day. It is proposed that the advance date is restricted to one month and the limit on the transaction(s) outstanding is £250m in total.

Impact on the council's revenue budget

With base rates at low levels, investment returns are likely to continue to be far lower than has previously been the case. However, in the knowledge that a portion of cash invested will not be required in the short term and to protect against continued low investment rates, investments may be made for longer time periods, depending on cash flow considerations and the prevailing market conditions.

The performance target on investments is a return above the average rate for seven-day notice money.

The following table outlines the budget for the financing charges element of the council's revenue budget as reflected in the medium-term financial strategy. However, the budgets will continue to be revised in light of changes in the capital programme and interest rates.

	Revenue Budget 2022/23 £m	Revenue Budget 2023/24 £m	Revenue Budget 2024/25 £m	Revenue Budget 2025/26 £m
Minimum Revenue Provision	24	30	32	34
Interest paid	25	60	57	60
Interest and other income earned	-19	-49	-43	-44
Total	30	41	46	50

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to Cabinet.

Treasury Management Indicators

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice (2021) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year prudential indicators which provide a framework for the prudent management of its treasury management including limits with regard to certain types of activity such as borrowing. The indicators below are a consequence of the activities set out within the treasury management strategy.

Authorised and operational Limits for debt

The 'authorised limit' is a prudent estimate of external debt but allows sufficient headroom for unusual cash flow movements. Taking into account the capital plans and estimates of cash flow and its risks, the authorised limits for external debt are as follows:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Borrowing	1,700	1,700	1,700	1,700
Other long term liabilities	400	400	400	400

TOTAL	2,100	2,100	2,100	2,100

Changes to accounting standards in relation to recording leases are due to be implemented from 1 April 2024. As a result, more leases will be included on the council's balance sheet and therefore will be included against the 'other long term liabilities' indicators.

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational limits for external debt are:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Borrowing	1,300	1,300	1,300	1,300
Other long-term liabilities	160	160	160	160
TOTAL	1,460	1,460	1,460	1,460

Gross debt and the capital financing requirement (CFR)

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the authority’s total debt should be lower than its highest forecast capital financing requirement over the next three years. The county council's borrowing initially appears in excess of the capital financing requirement however, in making this comparison certain borrowing is included in the total borrowing but does not count against the capital financing requirement. These include the premiums paid and the transferred debt. The following table shows the current forecast but will be updated as the capital programme develops.

	31/3/2023	31/3/2024	31/3/2025	31/3/2026
	£m	£m	£m	£m
Borrowing capital financing requirement	1,080	1,114	1,143	1,159
Estimated total borrowing	1,157	1,187	1,211	1,223
Borrowing in excess of capital financing requirement	77	73	68	64
Represented by:				
Premiums	38	35	33	31
Borrowing relating to other authorities	39	38	35	33

The indicators and limits relating to specific treasury management activities are set out as follows.

Interest rate exposure

In order to control interest rate risk the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. 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. The indicator excludes the impact of any estimated fair value movements.

	Upper Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50m

Maturity structure of debt

Limits on the maturity structure of debt help control refinancing risk.

	Upper Limit	Lower limit
Under 12 months	75%	0%
12 months and within 2 years	75%	0%
2 years and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and above	75%	25%

Investments over 1 year

Limit on the level of long-term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end, 31 March 2024. However, it is anticipated that there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes. Therefore, it is proposed that the limit for maturities in excess of one year is £1,200m for each of the years.

	Upper limit
Total invested over 1 year	£1,200m

Minimum average credit rating

To control credit risk the council requires a very high credit rating from its treasury counterparties.

	Benchmark
Average counterparty credit rating	A

Liquidity Risk Indicator

	Target
Total sum borrowed in past 3 months without prior notice	£50m

The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Investment Strategy 2023/24

The council can make or hold investments for the following purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- support local public services by lending to or buying shares in other organisations (service investments), and
- earn investment income (commercial investments)

In making investments the council will take into consideration guidance issued by Chartered institute of Public Finance and Accountancy (CIPFA) and government departments. The Prudential Code issued by CIPFA states that local authorities should avoid exposing public funds to inappropriate or unquantified risk. The prime policy objective of their treasury management investment activities is the security of funds. Investments for ‘commercial purposes’, which are taken primarily for financial return, are likely to be higher risk, and local authorities must not borrow to invest primarily for financial return. Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the then Ministry for Housing, Communities and Local Government (MHCLG) also state local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The guidance makes it clear that it extends to borrowing taken on to finance the acquisition of non-financial as well as financial investments.

Treasury Management Investments

The authority holds reserves and in general the authority has positive cash flows with grants and other income often being received prior to the expenditure, such as payroll, being incurred. These along with the potential for borrowing being raised before the capital expenditure is incurred leads to positive cash balances which need investing. These investments are made in line with the guidance on treasury management issued by the Chartered institute of Public Finance and Accountancy.

The contribution that these investments make to the objectives of the council is to support effective treasury management activities.

Full details of the council’s policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments

The council provides loans as part of its service delivery and not primarily to generate income. The authority has made loans to Lancashire County Development Ltd which is an owned company that promotes economic development within the county, an arrangement with Blackpool Council with respect to the waste service and schools. The council also has an employee loan scheme to promote alternatives to travelling by car.

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and it is proposed that this continues in 2023/24. The table below provides details of the loans outstanding at 31 March 2022 and proposed limits for 2023/24.

Category of borrower	Outstanding at 31 March 2022 £m	Proposed Limit 2023/24 £m
Subsidiaries	7.1	15.0
Other councils	26.9	40.0
Employees	0.1	1.0
Schools	0.2	5.0
Total	**34.3**	**61.0**

Service Investments: shares

The county council holds shares in the Municipal Bond Agency for specific service delivery objectives**.** It is not expected that any significant return will be made on these shares.

Commercial Activities

The relevant government guidance defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met is in relation to smallholdings and Lancashire County Development Limited In 2021/22 the income generated from smallholdings was less than £0.1m while Lancashire County Developments Limited made a contribution to costs of around £2m.

Other investment proposals may arise during the year. The proposals could involve changes to current services or changing the use of existing assets. These will be examined by officers and approval sought from the appropriate council committee.

Total investment exposure	**31/03/2022 Actual**	**31/03/2023 Forecast**	**31/03/2024 Forecast**
	£m	**£m**	**£m**
Treasury management investments	883	830	800
Service investments: Loans	34	34	34
Total Investments	**917**	**864**	**834**

It is anticipated that borrowing will remain within the capital requirements and therefore none of these investments are funded from borrowing. The income derived from service and commercial activities is not material to the funding of the council's revenue budget.

Minimum Revenue Provision Statement 2023/24

1. Introduction

This annual statement required to be approved by the county council arises from statutory guidance initially issued by the then Department of Communities and Local Government in 2008. This has been updated with the latest guidance issued by the Ministry for Housing, Communities and Local Government in 2018.

Local authorities are required each year to make a charge to the revenue account in respect of provision to repay capital expenditure financed by borrowing or credit arrangements (mainly finance leases or Private Finance Initiative contracts). The charge to revenue is one that the authority considers to be prudent and is referred to as the Minimum Revenue Provision.

Guidance issued by the previous Ministry for Housing Communities and Local Government identifies four options which can be used for the purpose of calculating the Minimum Revenue Provision. However, the legal requirement is to set a prudent charge and therefore authorities are free to move away from the guidance if they feel it is appropriate.

2. The Four Options Explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

Regulatory Method

Before the Prudential Code system of capital finance was introduced in 2004 the Minimum Revenue Provision was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of Capital Financing Requirement, which is derived from the Balance Sheet and broadly represents the outstanding debt used to finance the fixed assets. However, to avoid changes in the charge to revenue in 2004/05 an adjustment figure was calculated which would then remain constant over time. For technical accounting reasons this methodology would have led to an increase in the charge to revenue and would therefore have had an impact upon the county council's budget, so this method has not been used and is not recommended for future use.

Capital Financing Requirement (CFR) method

This option allows for the Minimum Revenue Provision to be calculated as 4% of the Capital Financing Requirement. This is derived from the Balance Sheet and represents the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the county council since the introduction of the Minimum Revenue Provision in 2004.

Asset Life Method

Guidelines for this method allow for the charge to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways, namely:

a) A calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset.
b) An annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

The latest guidance states that the asset lives to be used should not usually exceed 50 years. This maximum can be exceeded if the authority has received an opinion from an appropriately qualified valuer or the asset is leased or acquired under a Private Finance Initiative which is for a duration in excess of 50 years.

Depreciation method

This requires a charge to be made of depreciation in line with normal accounting purposes. This could include the impact of any revaluations and would be calculated until the debt has been repaid.

3. Leases* and Private Finance Initiative
(*Now includes all leases not just finance leases)

Assets held under a Private Finance Initiative contract and leases form part of the Balance Sheet. This has increased the capital financing requirement and, on a 4% basis, the potential charge to revenue. To prevent the increase the guidance permits a prudent charge to equate to the amount charged to revenue under the contract to repay the liability.

4. Application at Lancashire County Council

The relevant regulations require that the council make "prudent provision" for the repayment of debt, and departure from the options outlined is permissible if an alternative option is considered more appropriate.

Supported borrowing

From 2008/09 to 2014/15 the Capital Financing Requirement option has been applied to all supported borrowing incurred before 1 April 2007. This charge was based on 4% of the outstanding capital financing. However, the charge was based on a 4% reducing balance which never effectively repays the debt. It was also considered that the 4% charge over-estimated the level of support within the revenue support grant. From 2015/16 the charge was made with reference to the capital financing requirement based upon a 50-year life rather than a reducing balance. In 2017/18 it was considered that there had been an over-payment of Minimum Revenue Provision in earlier years and therefore the Minimum Revenue Provision for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2023/24 and therefore the Minimum Revenue Provision charge for the supported debt will be £1. In summary the overpayment position is:

MRP Overpayments	£m
Actual balance 31/03/2022	85.1
Drawdown 2022/23	8.9
Expected balance 31/03/2023	76.2
Drawdown 2023/24	8.9
Expected balance 31/03/2024	67.3

Unsupported borrowing

The Minimum Revenue Provision for capital expenditure financed from unsupported borrowing has been calculated using the Asset Life Method on an annuity basis. It is proposed that this continues for calculating the Minimum Revenue Provision for 2023/24. This includes expenditure incurred in 2008/09 to 2014/15, when the Minimum Revenue Provision was initially calculated using the Asset Life method (Equal Charge approach).

Private Finance Initiative and any leases payments will be made in line with the amounts due to repay the liability under the contract.

Minimum Revenue Provision will not be made in relation to new assets until the financial year after which the project is deemed to be operational.

Overpayments

The guidance does allow for charges in excess of the minimum to be made. It is not proposed that any overpayments will be made in 2023/24.

5. Recommendations

In respect of the methodology for applying the Minimum Revenue Provision for the repayment of debt, it is recommended that the Full Council:

a) Approves the Capital Financing Requirement method and the Asset Life method for expenditure as outlined in section four.
b) Charges to revenue a sum equal to the repayment of any credit liability.
c) Approve the policy of not starting to charge to revenue until the financial year after the capital project is operational.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected:
(All Divisions);

The Council's Statement of Accounts for 2021/22 and Accounting Policies for 2022/23
(Appendices 'A' – 'D' refer)

Contact for further information:
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khadija.saeed@lancashire.gov.uk

Brief Summary

At its meeting held 25 July 2022, the Audit, Risk and Governance Committee approved the council's statement of accounts for 2021/22. At that time, the external audit of the accounts had not yet been concluded. The external audit is now complete and the council's statement of accounts for 2021/22, with any relevant amendments, is provided at Appendix A.

In order to enable the conclusion of the audit, as required by the auditor, the committee must provide written representations from those charged with governance and management of the council on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist. The council's management representation letter is attached at Appendix B and the pension fund management representation letter is attached at Appendix C.

For the 2022/23 financial year, the committee is asked to review the accounting policies to be used in preparing the council's 2022/23 statement of accounts and these are set out at Appendix D.

Recommendation

The Audit, Risk and Governance Committee is asked to:

(i) **Approve** the council's statement of accounts for 2021/22, as set out at Appendix A;

(ii) **Agree** for the management representation letters at Appendices B and C to be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee, prior to them being made available to the external auditor; and

(iii) **Approve** the accounting policies for 2022/23, as set out at Appendix D.

Detail

External Audit of the Council's Statement of Accounts 2021/22

At its meeting held 25 July 2022, the Audit, Risk and Governance Committee approved the council's statement of accounts for 2021/22. At that time, the council's external audit of the accounts had not yet been concluded.

The delay in receiving the audit report beyond the statutory deadline was mainly due to a national issue in respect of accounting for infrastructure assets.

The statutory deadline for publishing the audited accounts was 30 November 2022. In line with the requirements of the Accounts and Audit Regulations 2015, the council published a notice on its website stating that the audited accounts would be published as soon as reasonably practicable after the receipt of the report from the auditor which contains the auditor's findings from their audit.

The external audit is now complete, and the council's final accounts are provided at Appendix A. Alongside some minor wording changes, the following amendments have been made to the accounts since the last review by the committee.

<u>Infrastructure Assets</u>

An accounting issue affecting all councils with highways responsibilities was raised by auditors in early 2022. This related to how the impairment of road surfaces was accounted for. The Department of Levelling Up, Housing and Communities (DLUHC) issued an amendment to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to change reporting requirements on infrastructure assets, which clarified the accounting approach that should be taken. This came into force with effect from 25 December 2022. The council has amended its presentation in the accounts to reflect the new guidance, however this has not changed the previously reported financial position (page 67).

<u>Property Valuations</u>

The council values its property assets at 1 April in line with its approach in previous years. As a result of recent market volatility, the valuation of the council's land and buildings has increased in value from the point of valuation (1 April 2021) and the end of the financial year (31 March 2022). The council has revalued its land and buildings at 31 March 2022, which has resulted in an increase in the net book value of £76.8 million (page 65).

<u>Pension Fund - Financial Instruments</u>

The categorisation of assets within the fair value hierarchy (note 16) for both the previous and current year have been restated as a result of further information becoming available on the underlying assets. There is no impact on the main financial statements through this change (page 188).

Letters of Representation

Each year, in order to enable the conclusion of the audit, as required by the auditor, the committee must provide written representations from those charged with governance and management of the council on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist. The council's management representation letter for 2021/22 is provided at Appendix B and the pension fund management representation letter is provided at Appendix C.

2022/23 Accounting Policies

For the 2022/23 financial year, the committee is asked to review the accounting policies to be used in preparing the council's 2022/23 statement of accounts and these are set out at Appendix D. These accounting policies have been updated to reflect the changes in relation to accounting for infrastructure assets and clarification included regards the methodology for the sale of investment assets (pages 9 and 10) The accounting policies otherwise remain unchanged from the previous financial year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Failure to complete the statement of accounts in line with the Chartered Institute of Public Finance and Accountancy Code of Practice may result in an adverse opinion from the council's external auditors.

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

Appendix A

Lancashire County Council

Contents

Front cover: Stocks Reservoir
Photo: Catherine Broadley

Contents

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 the 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.

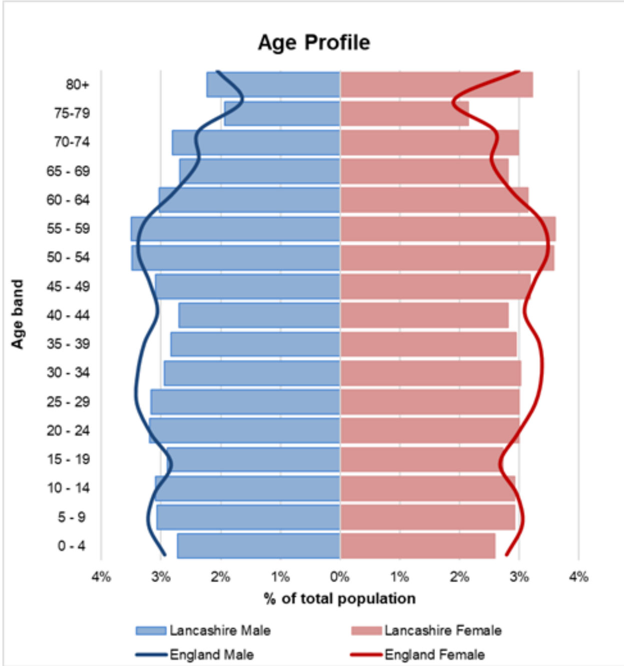
Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. At £27 billion, it is one of the largest economies in the north of England, with around 44,000 businesses.

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.

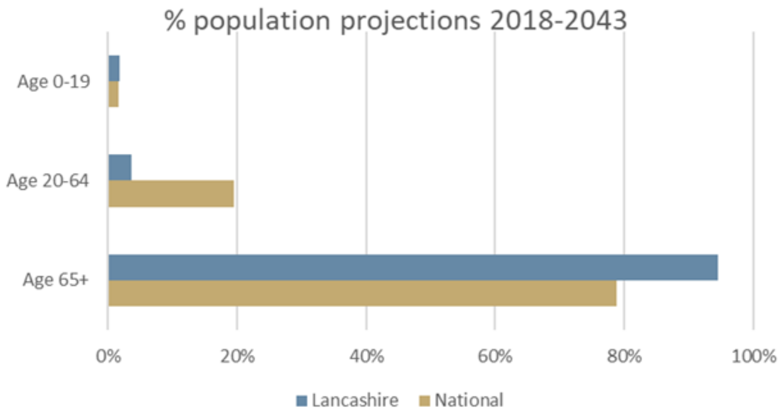
Demographic profile of Lancashire

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.

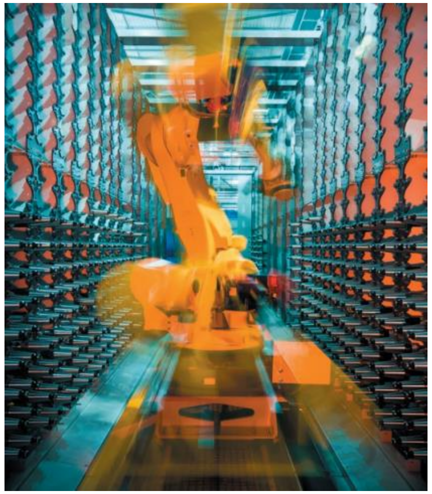
It will be a county where:

- 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:

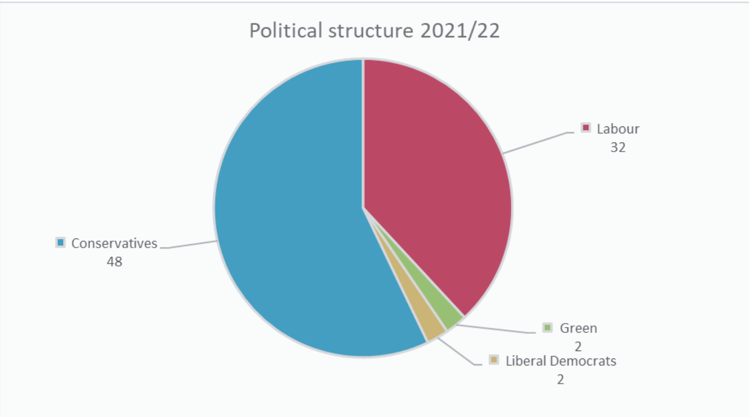
- Develop and build effective infrastructure and transport networks, to help people and businesses connect and grow
- Secure inward investment, to boost and level up the county
- Invest in skills and innovation, to secure economic growth and maximise Lancashire's potential

Our governance structure

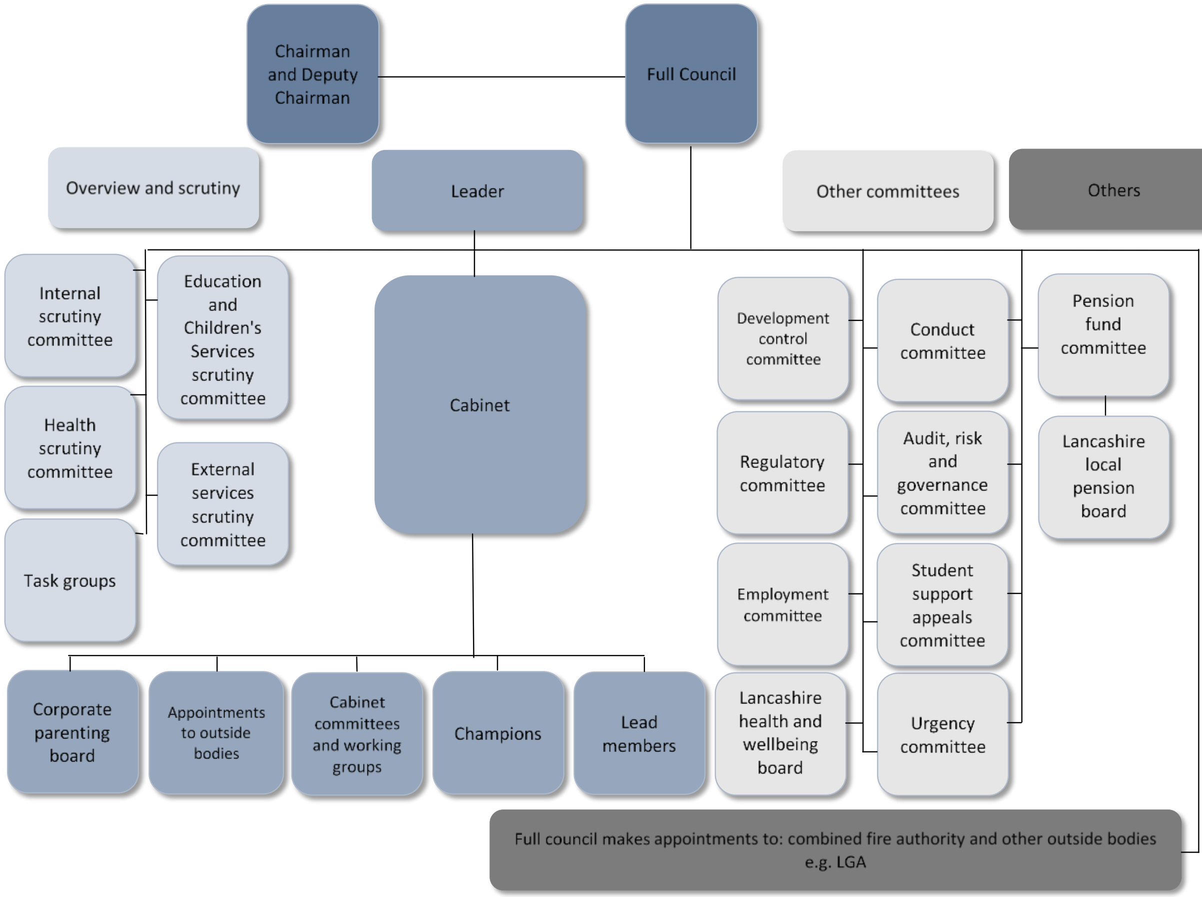
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities in the council's decision-making processes.

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.

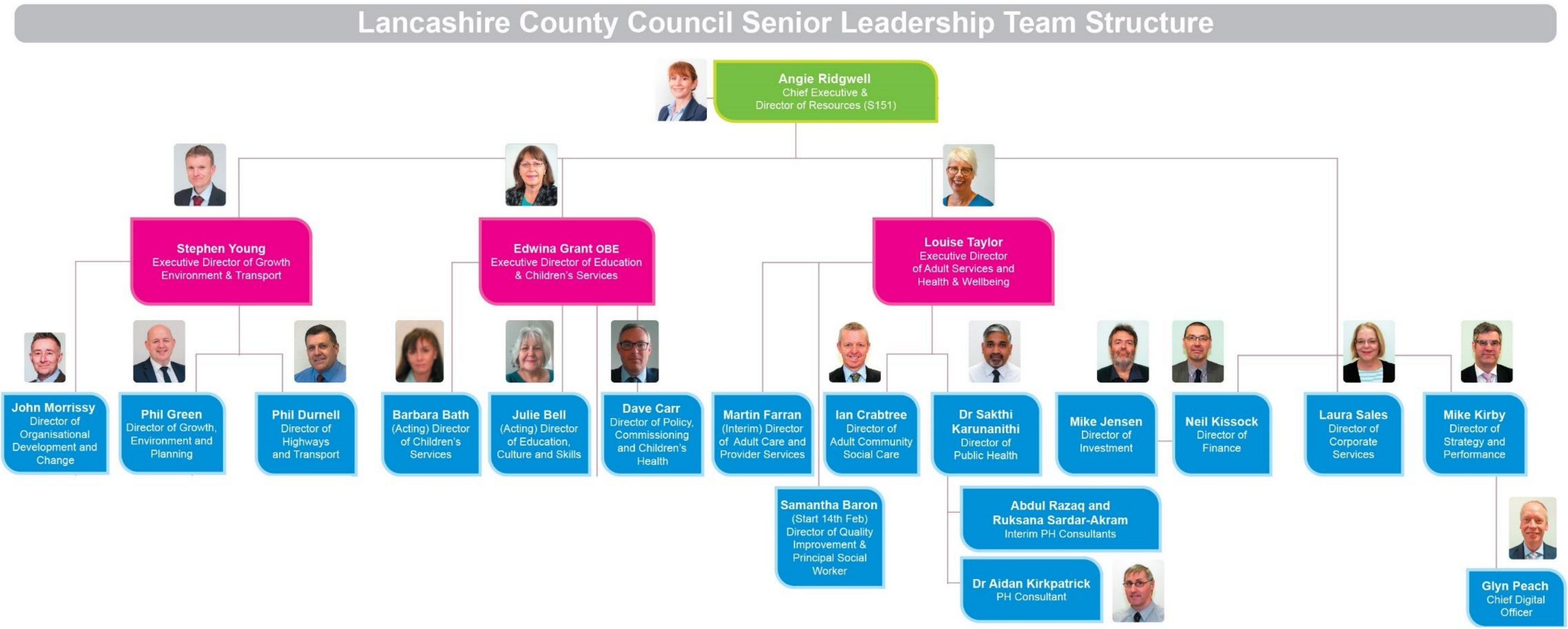


Further details of the council's governance arrangements are provided in the Annual Governance Statement.

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.

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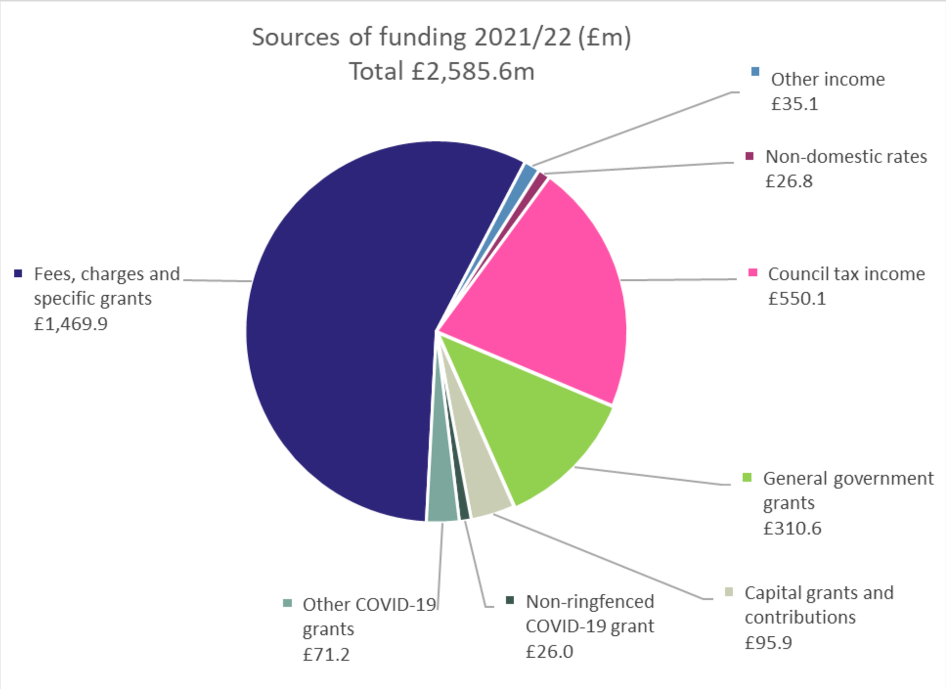
Our financial performance

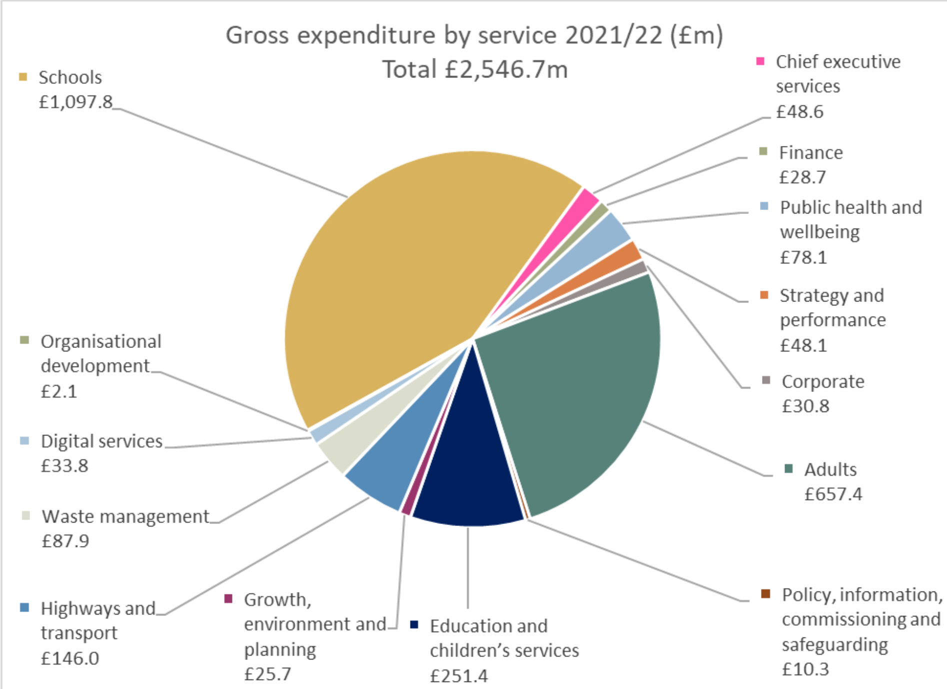
Revenue summary

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.





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.

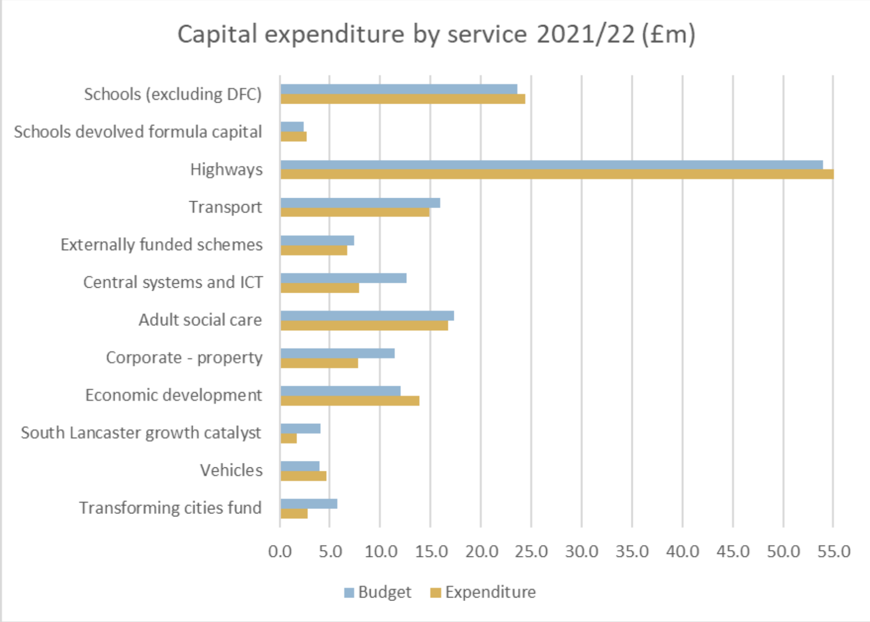
The outturn position is reconciled to the figures shown in the comprehensive income and expenditure statement in Note 5 - expenditure and funding analysis.

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 £544.3 million from £943.6 million at 31 March 2021 to £1,487.9 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	4,450.1	14.0
What we owe (liabilities)	(3,492.5)	(2,962.2)	530.3
Net financial position (assets less liabilities)	**943.6**	**1,487.9**	**544.3**
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)	(774.1)	(473.9)
Total reserves	**(943.6)**	**(1,487.9)**	**(544.3)**

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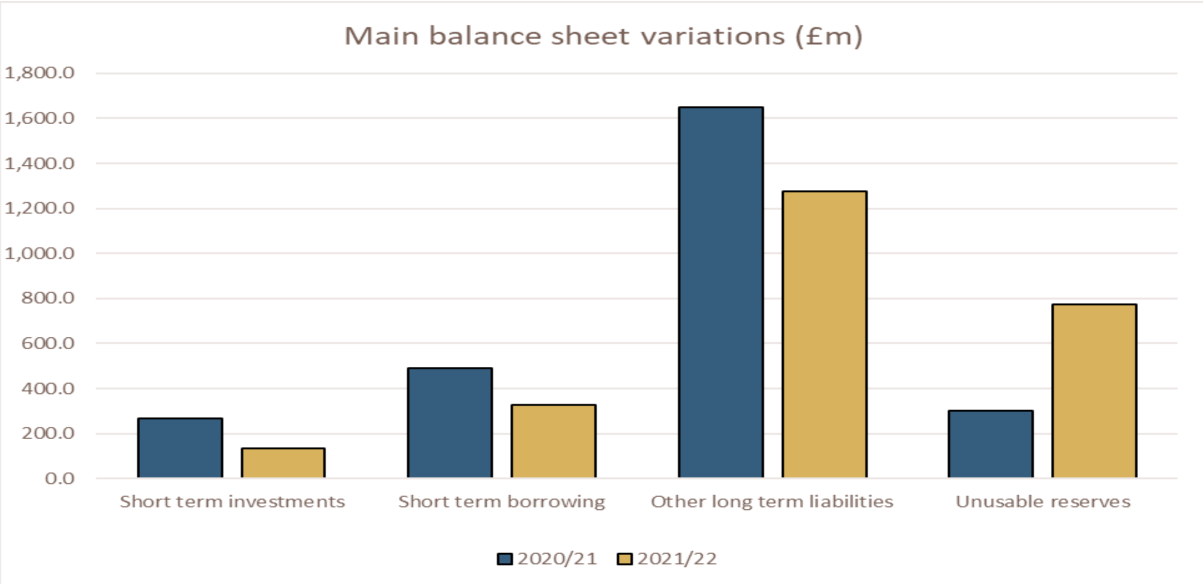


Borrowing and investments

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 £1,148.2 million (£1,516.2 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.

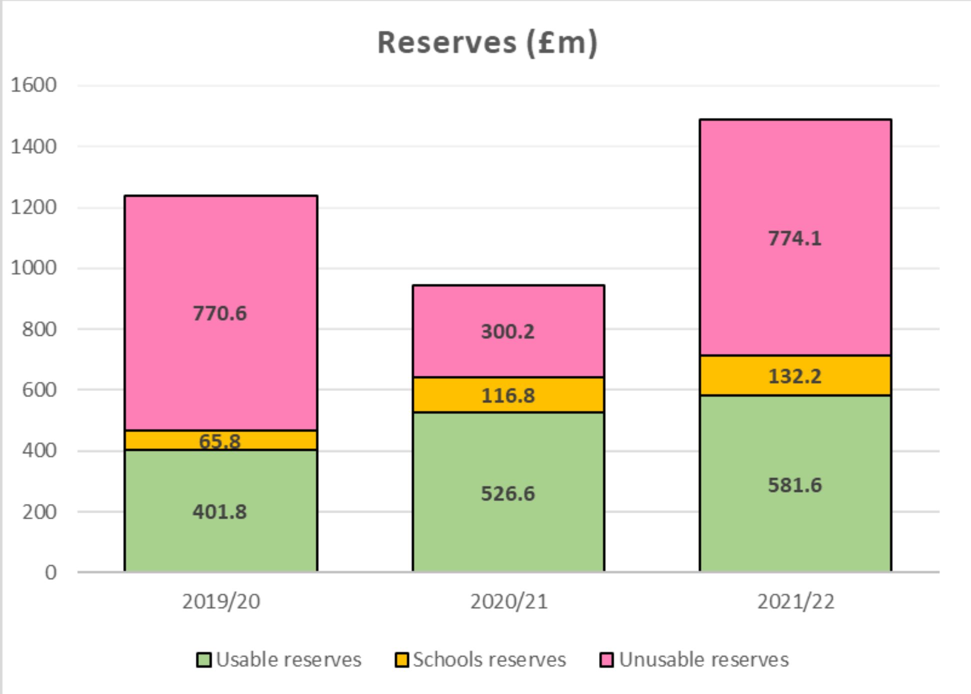
Whilst the pension liability figure is substantial, it should be noted that it does not need to be met immediately. The amount is an assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment 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	4,534.8	30.0
What we owe (liabilities)	(3,499.3)	(2,967.0)	532.3
Net financial position (assets less liabilities)	**1,005.5**	**1,567.8**	**562.3**
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)	(774.1)	(473.9)
Subsidiary reserves	(61.9)	(79.9)	(18.0)
Total reserves	**(1,005.5)**	**(1,567.8)**	**(562.3)**

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
30 January 2023

Approval of accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 30 January 2023.

A Schofield
Chair of Audit, Risk and Governance Committee
30 January 2023

Financial statements

Parlick

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	657.4	(255.2)	402.2
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	251.4	(27.4)	224.0
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	1,097.8	(1,029.4)	68.4
0	0	0	Digital services	33.8	(2.4)	31.4
2,349.2	**(1,466.1)**	**883.1**	**Cost of services**	**2,546.7**	**(1,535.1)**	**1,011.6**
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**	**2,627.8**	**(2,585.6)**	**42.2**
		(48.9)	(Surplus)/deficit on revaluation of non-current assets (Note 31)			(85.6)
		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**			**(586.5)**
		294.6	**Total comprehensive (income) and expenditure**			**(544.3)**

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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)	42.2	0	0	42.2	(586.5)	(544.3)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(112.5)	(1.9)	1.8	(112.6)	112.6	0
(Increase)/decrease in year	**(70.3)**	**(1.9)**	**1.8**	**(70.4)**	**(473.9)**	**(544.3)**
Balance at 31 March 2022	**(563.2)**	**(10.3)**	**(140.3)**	**(713.8)**	**(774.1)**	**(1,487.9)**

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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	3,231.1
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**		**3,922.1**
266.3	Short term investments	26	132.4
3.2	Inventories		4.0
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**		**528.0**
(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**		**1,487.9**
(643.4)	Usable reserves	31	(713.8)
(300.2)	Unusable reserves	31	(774.1)
(943.6)	**Total reserves**		**(1,487.9)**

2020/21 £m		Note	2021/22 £m
64.0	Net surplus/(deficit) on the provision of services		(42.2)
74.6	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	351.8
(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.

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 £172.7 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 £885.9 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 31 March 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 £210 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 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. Additional information is provided in the financial instruments disclosure notes section. The group investment properties are valued using level 3 inputs. Further information is provided in the group accounts section. All valuations are undertaken by expert valuers in accordance with the methodologies and bases for estimation set out in the professional standards.

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	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.	

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 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. These are not reflected in the council's accounts.

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

Accounting for infrastructure assets

An accounting issue affecting all councils with highways responsibilities was raised by auditors in early 2022. This related to how the impairment of road surfaces was accounted for. The Department of Levelling Up, Housing and Communities (DLUHC) issued an amendment to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to change reporting requirements on infrastructure assets, which clarified the accounting approach that should be taken. This came into force with effect from 25 December 2022. The council has amended its presentation in the accounts to reflect the new guidance, however this has not changed the previously reported financial position.

Property valuations

The council values its property assets at 1 April in line with its approach in previous years. As a result of recent market volatility the valuation of the council's land and buildings have increased in value from the point of valuation (1 April 2021) and the end of the financial year (31 March 2022). Where appropriate, land and buildings have been revalued at 31 March 2022, and the appropriate changes made to the council's accounts.

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.

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	21.1	402.2
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	16.3	224.0
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)	84.4	68.4
Digital services	27.1	(2.4)	24.7	6.7	31.4
Net cost of services	**835.5**	**(39.0)**	**796.5**	**215.1**	**1,011.6**
Other income and expenditure	(881.4)	14.6	(866.8)	(102.6)	(969.4)
(Surplus)/deficit	**(45.9)**	**(24.4)**	**(70.3)**	**112.5**	**42.2**
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.

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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)**

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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.

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	5.1	16.0	0	21.1
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	5.2	11.0	0.1	16.3
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	45.5	39.6	(0.7)	84.4
Digital services	3.3	3.5	(0.1)	6.7
Net cost of services	**115.8**	**100.0**	**(0.7)**	**215.1**
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	**7.2**	**130.3**	**(25.0)**	**112.5**

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	86.7
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**	**2,627.8**
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**	**42.2**

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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)**

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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	**(149.4)**	**(744.4)**	**(893.8)**
In-year adjustments	0	0.5	0.5
Final budget distribution for 2021/22	**(149.4)**	**(743.9)**	**(893.3)**
Actual central expenditure relating to DSG	142.9		142.9
Actual ISB deployed to schools		743.9	743.9
Local authority contribution for 2021/22	(1.9)	0	(1.9)
In-year carry forward to 2022/23	**(8.4)**	**0**	**(8.4)**
Carry forward to 2022/23 agreed in advance			(16.1)
Carry forward to 2022/23			**(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 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

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**	**1,293**	**1,652**	**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 £1.22 million (2020/21: £1.8 million). Of the £1.22 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**

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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)	(81.8)	0	46.1	(35.7)	35.7
Total adjustments to revenue resources	**(187.1)**	**0**	**46.1**	**(141.0)**	**141.0**
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	**(112.5)**	**(1.9)**	**1.8**	**(112.6)**	**112.6**

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)**

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.

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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	**0.7**	**67.6**	**1,323.6**	**13.9**	**0**	**1,405.8**
Valued at current value as at:						
31 March 2022	1,316.9				27.0	**1,343.9**
31 March 2021	472.6					**472.6**
31 March 2020	371.6					**371.6**
Total cost or valuation	**2,161.8**	**67.6**	**1,323.6**	**13.9**	**27.0**	**3,593.9**

Property, plant and equipment - movements in 2021/22

	Land and buildings	Vehicles, plant, furniture, equipment	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2021	**2,149.0**	**80.2**	**9.6**	**24.7**	**2,263.5**	**160.8**
Additions	20.5	5.9	11.9	0.8	**39.1**	0
De-recognition – disposals	(20.0)	(19.4)	0	(1.4)	**(40.8)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	21.5	0	0	2.5	**24.0**	12.2
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(13.0)	0	0	(2.5)	**(15.5)**	2.2
Assets reclassified	3.8	0.9	(7.6)	2.9	0	0
At 31 March 2022	**2,161.8**	**67.6**	**13.9**	**27.0**	**2,270.3**	**175.2**
At 1 April 2021	**(122.9)**	**(53.1)**	**0**	**(0.3)**	**(176.3)**	**(5.1)**
Depreciation charge	(44.4)	(5.2)	0	(0.1)	**(49.7)**	(3.7)
Depreciation written out to revaluation reserve	61.5	0	0	0.1	**61.6**	4.1
Depreciation written out to the surplus/deficit on provision of services	6.6	0	0	0	**6.6**	2.2
De-recognition	1.1	19.4	0	0	**20.5**	0
At 31 March 2022	**(98.1)**	**(38.9)**	**0**	**(0.3)**	**(137.3)**	**(2.5)**
Net book value at 1 April 2021	**2,026.1**	**27.1**	**9.6**	**24.4**	**2,087.2**	**155.7**
Net book value at 31 March 2022	**2,063.7**	**28.7**	**13.9**	**26.7**	**2,133.0**	**172.7**

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Property, plant and equipment - movements in 2020/21

	Land and buildings	Vehicles, plant, furniture, equipment	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2020	**2,128.5**	**79.0**	**2.5**	**26.8**	**2,236.8**	**173.3**
Additions *	27.3	4.9	7.1	0.3	**39.6**	0.3
De-recognition – disposals	(28.2)	(3.7)	0	(2.8)	**(34.7)**	(18.9)
Revaluation increases/(decreases) recognised in the revaluation reserve	26.2	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	0.2	**(4.5)**	2.0
Assets reclassified	(0.1)	0	0	0.1	0	0
At 31 March 2021	**2,149.0**	**80.2**	**9.6**	**24.7**	**2,263.5**	**160.8**
At 1 April 2020	**(106.3)**	**(50.7)**	**0**	**(0.2)**	**(157.2)**	**(4.8)**
Depreciation charge	(42.9)	(6.0)	0	(0.1)	**(49.0)**	(4.1)
Depreciation written out to revaluation reserve	22.6	0	0	0	**22.6**	1.9
Depreciation written out to the surplus/deficit on provision of services	3.1	0	0	0	**3.1**	1.5
De-recognition	0.6	3.6	0	0	**4.2**	0.4
At 31 March 2021	**(122.9)**	**(53.1)**	**0**	**(0.3)**	**(176.3)**	**(5.1)**
Net book value at 1 April 2020	**2,022.2**	**28.3**	**2.5**	**26.6**	**2,079.6**	**168.5**
Net book value at 31 March 2021	**2,026.1**	**27.1**	**9.6**	**24.4**	**2,087.2**	**155.7**

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

Reconciliation of property, plant and equipment

31 March 2021		31 March 2022
£m		**£m**
1,035.1	Infrastructure assets	1,098.1
2,087.2	Other property, plant and equipment assets	2,133.0
3,122.3	**Total property, plant and equipment assets**	**3,231.1**

Infrastructure assets movements on balances

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

31 March 2021		31 March 2022
£m		**£m**
991.6	**Net book value at 1 April**	**1,035.1**
65.3	Additions	87.7
(21.8)	Depreciation	(24.7)
1,035.1	**Net book value at 31 March**	**1,098.1**

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	795.7
11	123.0	Foundation schools	11	127.5
260	621.5	Voluntary aided schools	257	637.5
50	120.0	Voluntary controlled schools	50	120.9
568	**1,645.0**	**Total**	**562**	**1,681.6**
13	155.7	Schools subject to PFI contracts	13	172.70

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 restated		31 March 2022
£m		£m
0.3	Cash held by the council	0.7
42.7	Bank current accounts *	49.2
141.5	Short term deposits under 3 months *	94.8
184.5	**Total**	**144.7**

* The analysis between bank current accounts and short term deposits has been amended.

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)**

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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			Category	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*

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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.

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

31 March 2021				31 March 2022		
Long term	**Short term**	**Total**	**Category**	**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.

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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	(1,075.4)
(1,031.6)	Capital adjustment account	(1,059.5)
1,598.1	Pensions reserve	1,190.0
20.2	Collection fund adjustment account	(0.6)
29.1	Accumulated absences adjustment account	28.4
(300.2)	**Total**	**(774.1)**

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**
(26.9)	Amounts recycled to the surplus/deficit on the provision of services	(45.7)
63.4	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	83.2
64.2	**Balance at 31 March**	**101.7**

The financial instruments revaluation reserve contains the gains or losses arising from changes in the value of investments that are measured at fair value through other comprehensive income.

Revaluation reserve

2020/21 £m		2021/22 £m
(1,004.9)	**Balance at 1 April**	**(1,024.9)**
(65.8)	Upward revaluation of assets	(128.9)
16.9	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	43.3
(48.9)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(85.6)**
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**	**(1,075.4)**

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	8.9
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**	**(934.7)**
	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**	**(1,059.5)**

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.

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	8.9
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	4.1
74.6	**Total**	**351.8**

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 37.

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)

Lancashire County Developments Limited

Lancashire County Developments Limited (LCDL) is an economic development agency for the County. It is classed as a subsidiary of the county council.

2020/21		2021/22
£m		£m
0.5	Payments made during the year to LCDL	7.8
(4.2)	Income received during the year from LCDL	(2.8)
0.6	Amounts owed at the year end from LCDL	0.1
(0.2)	Amounts owed at the year end to LCDL	(0.3)

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		2021/22
£m	**Funding provided to the pooled budget**	**£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 – Significant 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.

School	**Value**
	£m
St Joseph's 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)	(20.9)	(16.6)	(39.5)
Interest and investment income	**0**	**(7.3)**	**(4.8)**	**(26.5)**	**(14.0)**	**(52.6)**
Net impact on the surplus or deficit on provision of services	**36.3**	**(0.8)**	**(14.3)**	**(26.4)**	**(3.1)**	**(8.3)**
Amounts recycled to the surplus/deficit on the provision of services	0	0	0	(45.7)	0	(45.7)
Loss on revaluation	0	0	0	83.2	0	83.2
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)**	**11.1**	**(3.1)**	**29.2**

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)**
Amounts recycled to the surplus/deficit on the provision of services	0	0	0	(26.9)	0	(26.9)
Loss on revaluation	0	0	0	63.4	0	63.4
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	Corporate, covered and government bonds	1	580.9	580.9
			Financial assets held at fair value through profit and loss			
79.5	79.5	1	Corporate bonds	1	56.4	56.4
129.7	129.7	2	LOBO loan investment	2	24.1	24.1
209.2	**209.2**		**Total**		**80.5**	**80.5**
			Financial assets held at amortised cost			
10.2	11.0	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.

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.

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

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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/(liabilities) *	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.

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 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.

Where a number of identical assets, e.g bonds, are held but the cost differs on de-recognition the gain or loss will be determined by the principal of first in/first out. There will an exception to this where there is a clearly linked transaction.

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.

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.

Highways network infrastructure

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably.

Measurement

Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost.

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
Community assets and 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 31 March 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
Carriageways	20-50 years
Footways and cycletracks	40-50 years
Structures (e.g. bridges)	120 years
Street lighting	40 years
Street furniture	20-50 years
Buildings	5-50 years
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years

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.

Where a part of the highways network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

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.

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	657.4	(255.2)	402.2
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	251.4	(27.4)	224.0
17.8	(11.4)	6.4	Growth, environment and planning	20.5	(5.8)	14.7
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	1,097.8	(1,029.4)	68.4
0	0	0	Digital services	33.8	(2.4)	31.4
2,350.4	**(1,467.6)**	**882.8**	**Cost of services**	**2,541.5**	**(1,531.2)**	**1,010.3**
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**	**2,622.6**	**(2,596.8)**	**25.8**
3.9	0	3.9	Taxation on profit on ordinary activities	5.4	0	5.4
2,452.1	**(2,531.2)**	**(79.1)**	**Group (surplus)/deficit**	**2,628.0**	**(2,596.8)**	**31.2**
		(48.9)	(Surplus)/deficit on revaluation of non-current assets			(85.6)
		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**			**(586.5)**
		279.5	**Total comprehensive (income) and expenditure**			**(555.3)**

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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	49.2	0	0	49.2	(586.5)	(537.3)	(18.0)	(555.3)
Adjustment between accounting basis and funding basis under regulations	(112.5)	(1.9)	1.8	(112.6)	112.6	0	0	0
Adjustments between the group accounts and the council accounts	(7.0)	0	0	(7.0)	0	(7.0)	0	(7.0)
(Increase)/decrease in year	**(70.3)**	**(1.9)**	**1.8**	**(70.4)**	**(473.9)**	**(544.3)**	**(18.0)**	**(562.3)**
Balance at 31 March 2022	**(563.2)**	**(10.3)**	**(140.3)**	**(713.8)**	**(774.1)**	**(1,487.9)**	**(79.9)**	**(1,567.8)**

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		3,231.1
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		**4,003.2**
267.7	Short term investments		133.5
3.2	Inventories		4.0
155.0	Short term debtors		229.5
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		**531.6**
(487.6)	Short term borrowing		(315.6)
(215.2)	Short term creditors		(292.1)
(33.0)	Receipts in advance		(68.0)
(13.4)	Short term provisions		(15.7)
(169.0)	Other current liabilities		(71.4)
(918.2)	Current liabilities		**(762.8)**
(26.8)	Long term provisions		(35.6)
(6.4)	Deferred tax liability	9	(11.8)
(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		**(2,204.2)**
1,005.5	Net assets		**1,567.8**
(643.4)	Usable reserves	10	(713.8)
(300.2)	Unusable reserves	10	(774.1)
(61.9)	Subsidiary reserves	10	(79.9)
(1,005.5)	Total reserves		**(1,567.8)**

2020/21		Note	2021/22
£m			**£m**
79.1	Net surplus/(deficit) on the provision of services		(31.2)
65.1	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	11	336.9
(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**

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	0.4
3.6	Capital gains	5.0
3.9	**Total deferred tax**	**5.4**
3.9	**Taxation on profit on ordinary activities**	**5.4**

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				31 March 2022		
Balance sheet value	**Fair value**	**Fair value level**	**Property type**	**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**	**(6.4)**
(3.9)	Charge for the year	(5.4)
(6.4)	**Balance as at 31 March**	**(11.8)**

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	(38.3)
(671.0)	**Total usable reserves of the group**	**(752.1)**

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	(1,075.4)
(1,031.6)	Capital adjustment account	(1,059.5)
1,598.1	Pensions reserve	1,190.0
20.2	Collection fund adjustment account	(0.6)
29.1	Accumulated absences adjustment account	28.4
(300.2)	**Total unusable reserves of the council**	**(774.1)**
(34.3)	Revaluation reserve for subsidiary	(41.6)
(334.5)	**Total unusable reserves of the group**	**(815.7)**

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	5.4
(15.1)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(7.3)**
(34.3)	**Balance as at 31 March**	**(41.6)**

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	8.9
3.5	Amortisation of intangible assets	3.3
(2.3)	Increase/(decrease) in provision for bad debts	(2.4)
13.6	Increase/(decrease) in creditors	77.2
(19.4)	(Increase)/decrease in debtors	(5.7)
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	(10.8)
65.1	**Total**	**336.9**

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

2020/21 £m		2021/22 £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)/deficit on the provision of services	(95.9)
(140.6)	**Total**	**(130.4)**

Note 12 - Group cash flows from investing activities

2020/21 £m		2021/22 £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

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.

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.

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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.

Restatements

The fair value figures within Note 16 - Financial instruments – fair value hierarchy for the previous year have been restated for changes in the classification of assets, there is no impact on any of the main financial statements, this is a disclosure amendment only.

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.

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.

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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.

Financial assets at amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's financial assets 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 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]	5.0
6.4	Augmentation contributions [2]	1.9
351.8	Total employers contributions	93.8
416.3	**Total contributions receivable**	**161.5**
	By type of employer	
175.8	County Council [1]	59.9
220.5	Scheduled bodies [1]	80.9
20.0	Admitted bodies	20.7
416.3		**161.5**

[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 £37,423 (2020/21: £39,300). Additional fees of £23,000 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	-	-
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	0.7				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 value during the year[1]	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)	-	-
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**	**9,435.2**
Cash deposits	108.8				108.4
Loan investments	3.0				55.0
Investment income due	8.8				0.7
Net investment assets	**8,429.4**				**9,599.3**

Investments analysed by fund manager

31 March 2021			31 March 2022	
£m	% of net investment assets		£m	% 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				

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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/decrease 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	Financial assets 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	Financial assets 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	0.7		
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 £1,206.3m. 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: £1,022.2m 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 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	5,240.3	398.6	4,783.0	10,421.9
Financial assets at amortised cost	55.4	50.0	-	105.4
Non-financial assets at fair value through profit and loss (property holdings)	-	-	172.1	172.1
Net investment assets	**5,295.7**	**448.6**	**4,955.1**	**10,699.4**

31 March 2021 (Restated)

	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	4,550.8	309.6	4,415.8	9,276.2
Financial assets at amortised cost	108.4	55.0	-	163.4
Non-financial assets at fair value through profit and loss (property holdings)	-	-	159.7	159.7
Net investment assets	**4,659.2**	**364.6**	**4,575.5**	**9,599.3**

The fair value figures for the previous year have been restated for changes in the classification of assets, there is no impact on any of the main financial statements, this is a disclosure amendment only.

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 2	Unadjusted market values based on current yields.	Comparable recent arm's length transactions, reference to other instruments that are substantially the same.	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 3	Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Equivalent yield and ERV (Estimated Rental Value).	Significant increases and decreases in any of those inputs in isolation could result in significantly lower or higher fair value measurements.
Pooled property investments - core property	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Equivalent yield and ERV (Estimated Rental Value).	Ability to exit fund; market opinion; general market movements. Significant increases and decreases in any of those inputs in isolation could result in significantly lower or higher fair value measurements.
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
Property/Property funds	4.2%	1,116.8	1,163.9	1,069.6
Level 3 investments		**4,955.1**		

[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 and 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**	**1,321.5**	**94.8**	**4,575.5**
Purchases during the year and derivative payments	0.1	130.8	257.8	100.4	0.9	-	490.0
Sales during the year and derivative receipts	(17.9)	(378.3)	(62.0)	(41.1)	353.7	(3.2)	(856.2)
Unrealised gains / (losses)	(5.1)	211.8	35.7	40.9	134.7	10.3	428.3
Realised gains	6.4	169.2	56.4	72.2	13.3	-	317.5
Market value 31 March 2022	**68.8**	**932.3**	**1,386.5**	**1,348.8**	**1,116.7**[1]	**101.9**	**4,955.1**

[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 2022	Potential movement in equivalent yield			
		-0.5%	+0.5%	-1.0%	+1.0%
	£m	£m	£m	£m	£m
Direct property	172.1	186.2	164.7	200.2	156.2

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:

		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**

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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 2021: £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 and the financial year 1 April 2021 to 31 March 2022 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.*

31 March 2022

	Utmost Life and Pensions	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.6**	**34.6**	**35.2**
Income (incl. contributions, bonuses, interest and transfers in)	-	9.7	9.7
Expenditure (incl. benefits, transfers out and change in market value)	-	(6.6)	(6.6)
Value at the end of the year	**0.6**	**37.7**	**38.3**

31 March 2021

	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**

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 1 April 2020 totalling £120.5m, of which, £40.1m 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 20/10/20 – 01/03/21, the total cost of this appointment was £58,500 and is in addition to the costs outlined above.

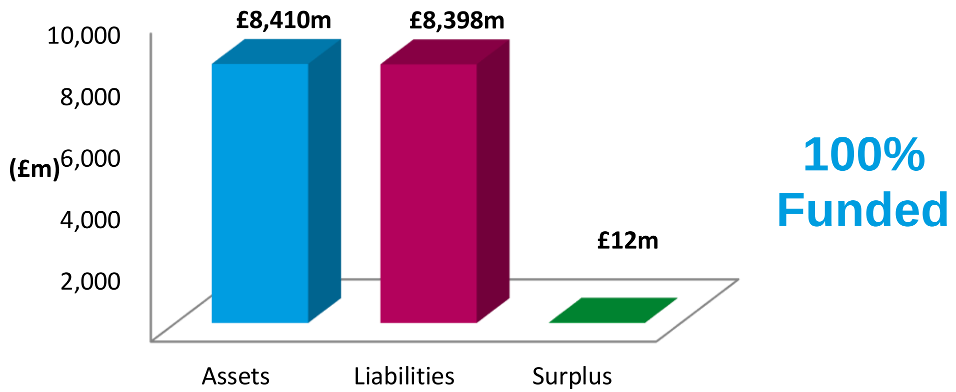
Note 24 - Funding arrangements

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.
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

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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 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.

Investment and Administration Services

Pensions administration and investment functions have since 2016 been delivered on behalf of LCPF by the Local Pension Partnership Ltd. (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 Ltd., which is called Local Pensions Partnership Administration Ltd. (LPPA), with investment services being undertaken by the investment arm, Local Pensions Partnership Investments Ltd. (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	
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
Annual Events and Aggregation - 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.

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<table>
<tr><th>What action was to be addressed?</th><th>Governance actions taken</th></tr>
<tr><td>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:</td><td>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:</td></tr>
</table>

• 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	○ 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
• Inability to deliver a balanced budget post 2023/24	**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

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

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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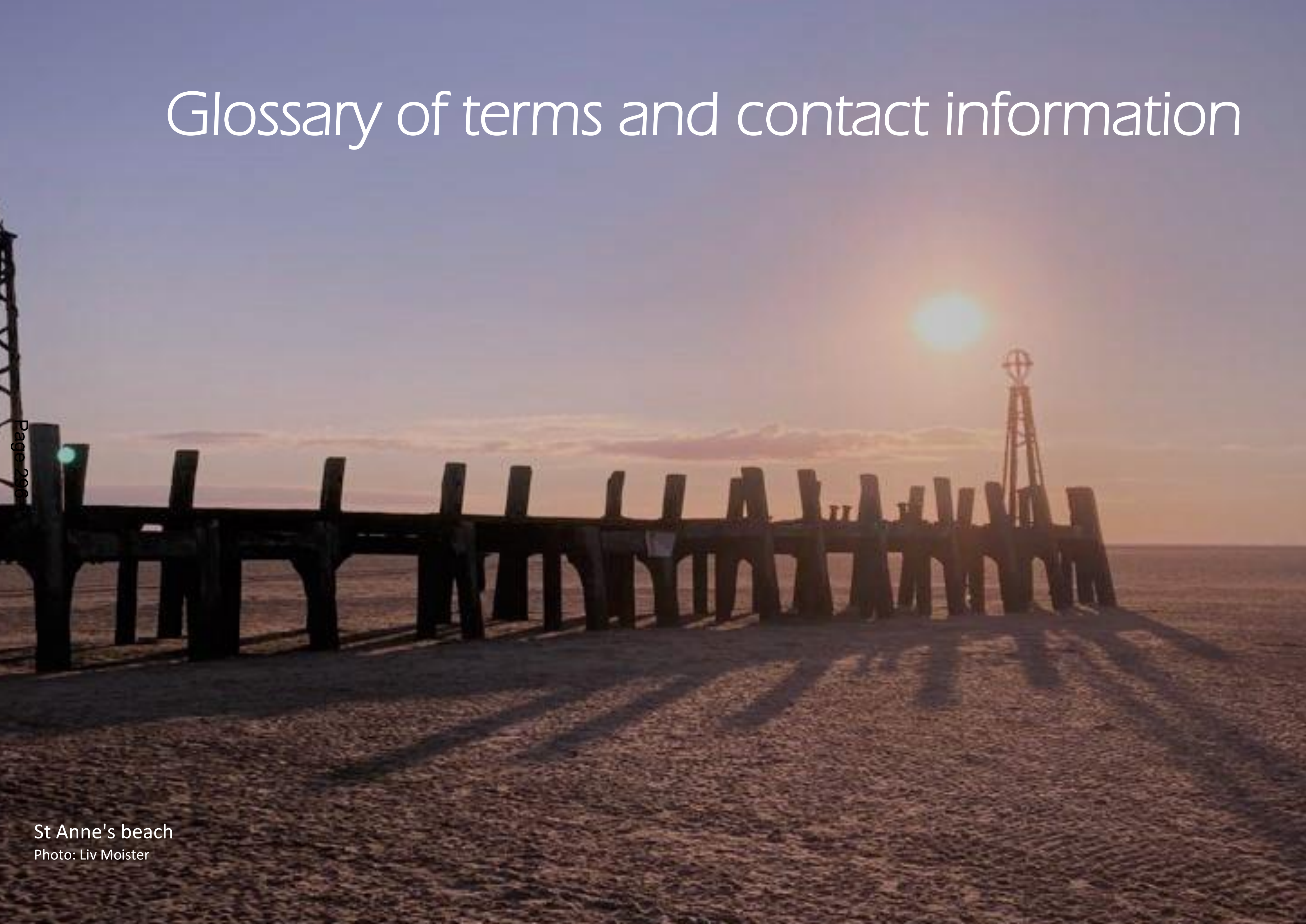
Glossary of terms and contact information



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.

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

Lancashire County Council

Grant Thornton UK LLP
11th Floor,
Landmark St Peter's Square,
1 Oxford St,
Manchester,
M1 4PB

Phone:
Email:

Your ref:
Our ref:
Date: 30 January 2023

Dear Sirs

Lancashire County Council - Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Lancashire County Council and its subsidiary undertaking, Lancashire County Developments Limited, for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

Lancashire County Council
PO Box 100, County Hall, Preston, PR1 0LD

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of property plant and equipment and investment property, the valuation of the net defined pension liability, the valuation of PFI liabilities, fair value estimates, accruals and provisions. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

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

vii. Except as disclosed in the group and Council financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the [group and] Council has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

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

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

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

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

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

xiv. The prior period adjustments disclosed in Note 23 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
   a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
   c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

   We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. The group and Council have complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:
   a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

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

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

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

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
   a. management;
   b. employees who have significant roles in internal control; or
   c. others where the fraud could have a material effect on the financial statements.

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

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

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

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

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit, Risk & Governance Committee at its meeting on 30 January 2023.

Yours faithfully

Angie Ridgwell	County Councillor Alan Schofield
Chief Executive and Director of Resources	Chair of the Audit, Risk and Governance Committee
30 January 2023	30 January 2023

Signed on behalf of the Council

Lancashire County Council

Grant Thornton UK LLP
11th Floor,
Landmark St Peter's Square,
1 Oxford St,
Manchester,
M1 4PB

Phone:
Email:

Your ref:
Our ref:
Date: 30 January 2023

Dear Sirs

Lancashire County Pension Fund - Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Lancashire County Pension Fund for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of level 2 and 3 investments, including the valuation of directly held investment properties. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Fund has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

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

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

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

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

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

xiii. The prior period adjustments disclosed in Note 2 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xiv. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
   a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
   c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:
   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.

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

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

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

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
   a. management;
   b. employees who have significant roles in internal control; or
   c. others where the fraud could have a material effect on the financial statements.

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

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

xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

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

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

Approval
The approval of this letter of representation was minuted by the Fund's Audit, Risk & Governance Committee at its meeting on 30 January 2023.

Yours faithfully

Angie Ridgwell	County Councillor Alan Schofield
Chief Executive and Director of Resources	Chair of the Audit, Risk and Governance Committee
30 January 2023	30 January 2023

Signed on behalf of the Fund

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 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.

Where a number of identical assets, e.g. bonds, are held but the cost differs on de-recognition the gain or loss will be determined by the principal of first in/first out. There will be an exception to this where there is a linked transaction/s, in which case the gain or loss will be determined on the related transaction/s.

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.

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.

Highways network infrastructure

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably.

Measurement

Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost.

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
Community assets and 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 31 March 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
Carriageways	20-50 years
Footways and cycletracks	40-50 years
Structures (e.g. bridges)	120 years
Street lighting	40 years
Street furniture	20-50 years
Buildings	5-50 years
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years

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.

Where a part of the highways network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

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.

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.

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected:
(All Divisions);

Appointment of External Auditor

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

Brief Summary

The council's current external audit appointment covers the period up to and including the audit of the 2022/23 accounts. The county council (including the pension fund) has opted into the national scheme, led by Public Sector Audit Appointments Limited (PSAA), to appoint its external auditor for the following five-year appointing period.

In December 2022, PSAA appointed Grant Thornton UK LLP as external auditor of Lancashire County Council for the five years from 2023/24 to 2027/28.

Recommendation

The Audit, Risk and Governance Committee is asked to note that Grant Thornton UK LLP have been appointed as the council's external auditor for the appointing period from 2023/24 to 2027/28.

Detail

The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that an authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.

In 2017, the council (including the pension fund) opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. Grant Thornton UK LLP has been the council's external auditor under this appointment.

The council has since agreed for PSAA to appoint its external auditor for the appointing period spanning the audits from 2023/24 to 2027/28. In December 2022 PSAA notified the council of the appointment of Grant Thornton UK LLP as external auditor of Lancashire County Council and the Lancashire County Pension Fund for the five years from 2023/24 to 2027/28. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015.

Consultations

Under regulation 13 of the Appointing Persons Regulations, PSAA must appoint an external auditor to each opted-in body having consulted on their proposal.

PSAA sent consultation emails to Section 151 Officers and copied in the Audit Committee Chair and Chief Executive from 17 October 2022, with responses requested by 14 November 2022.

Through this consultation, the council was able to make representations to PSAA about the proposed auditor appointment including any reasons why the proposed appointment should not be made, for example:

- There is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified

- There are formal and joint working arrangements relevant to the auditor's responsibilities which had not previously been notified

The Director of Finance was satisfied with the appointment of Grant Thornton UK LLP to continue as the external auditor for the council and the pension fund, given there are no such circumstances of concern.

Implications:

This item has the following implications, as indicated:

Risk management

Financial

PSAA received bid prices in their procurement reflecting a significant increase compared to their previous procurement in 2017. PSAA explain that this is due to the audit industry having faced major challenges in the intervening period. In addition, local audit faces several distinctive difficulties which have resulted in a less competitive market.

In Autumn 2023 PSAA will consult on the proposed scale of audit fees payable by bodies in respect of the audit of 2023/24 accounts. At this stage their advice to bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required.

The council's baseline audit fee for 2022/23 is £103,069, and £28,185 for the pension fund. This excludes any charges for additional works. For the 2021/22 audit, these additional costs represented a circa 70% increase from the total baseline audit fee.

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, 30 January 2023

Electoral Division affected:
N/A

Corporate Priorities:
N/A

External Audit – Lancashire County Council Audit Findings Report 2021/22
(Appendix 'A' refers)

Contact for further information: Sarah Ironmonger, Tel: 0161 953 6499, Partner, Grant Thornton UK LLP, Sarah.L.Ironmonger@uk.gt.com

Brief Summary

The external auditor is required to report, to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to:

- The audit of the annual accounts of Lancashire County Council; and
- The value for money approach and findings.

Recommendation

The Audit, Risk and Governance Committee is asked to take note of the findings in the report, the updates made to the financial statements, and the other issues raised by the auditor which are set out in the report.

Detail

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Council for the 2021/22 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Sarah Ironmonger, Partner, and Stuart Basnett, Engagement Manager, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the county council's management.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

List of Background Papers

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

The Audit Findings for Lancashire County Council

Year ended 31 March 2022

18 January 2023

Appendix A

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Key Audit Partner
E Sarah.L.Ironmonger@uk.gt.com

Stuart Basnett
Senior Manager
E Stuart.H.Basnett@uk.gt.com

Daniel Buck
Assistant Manager
E Dan.J.Buck@uk.gt.com

The Key Audit Partner(s) for Authority's Material Subsidiary is:
Key Audit Partner – Mark Bradley
Firm : Beever & Struthers LLP

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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Sarah Ironmonger
For Grant Thornton UK LLP
Date : 18 January 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit was completed remotely during July to January. Our findings are summarised on pages 4 to 27. Whilst our audit work remains ongoing, to date, the Council has made one adjustment to the financial statements that has resulted in an adjustment to the Group's Comprehensive Income and Expenditure Statement. This adjustment is due to information not being available at the time the draft accounts were prepared. There is no impact on the "single entity" accounts of the Council. As a result of the additional valuations performed on Land and Buildings, detailed below, there has been significant amendments to the accounts to reflect the updated valuations – see Appendix B.

All misclassification & disclosure amendments to the accounts are detailed in Appendix B. We have not raised any new recommendations for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our work is almost complete, we are in the finalisation and review stage which we are aiming to have been completed by the time of the Audit, Risk & Governance Committee on 30 January 2023. We will provide a verbal update at the Committee. Our timetable for completion is subject to the remaining information being provided to us by management. The capacity of the finance team has been reduced as a result of the implementation of the new financial system.

We are still finalising the required work in response to the national issue on the accounting for infrastructure assets, with the statutory override coming into effect from 25 December 2022 this issue is expected to be resolved.

In response to the Valuation of land and buildings, management have requested the valuer perform additional valuations as at 31 March 2022 and have prepared an updated indexation analysis which now shows the valuation of assets not revalued is not materially different. We have reviewed and challenged management on this updated assessment and reviewed and tested a sample of assets which have been revalued. We are still finalising this work at the time of submission of papers. Based on the work performed to date, there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, however our final opinion issued is subject to the satisfactory completion of the following outstanding matters;

- Finalisation of the challenge to management over the additional land and building valuations undertaken and the assessment that the valuation of the remaining assets not valued is not material.
- Finalisation of the work performed on the revised Infrastructure disclosures
- Final resolution of sample testing for a small number of items
- Final reviews of the audit file by the Engagement Leader and Review Partner;
- Finalisation and agreement of responses to the "hot review" of the accounts
- Updating our post balance sheet review to the date of the audit opinion.
- Receipt of management representation letter; and
- Review of the final set of financial statements

Subject to the resolution of the final few matters above, we intend to issue and unqualified audit report.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have nearly completed our VFM work. A summary of the work is included on page 23 of this report, and our detailed commentary is set out in the separate Auditor's Annual Report, which is being drafted and is in the final review stage. Our findings to date have not identified any risks of significant weakness within the Council's arrangements.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We intend to delay the certification of the closure of the 2021/22 audit of Lancashire County Council in the audit report, as detailed in Appendix D. We can not certify the closure of the audit until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.
Significant Matters	We have not encountered any significant difficulties or identified any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that assurance was required over specific group risks of management override of controls and the valuation of investment properties. These procedures were performed by the component auditor, Beever & Struthers, and reviewed by us as the group auditor.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 25 April 2022.

Conclusion

Our work is almost complete, we are in the finalisation and review stage which we are aiming to have been completed by the time of the Audit, Risk & Governance Committee on 30 January 2023. We will provide a verbal update at the Committee. Our timetable for completion is subject to the remaining information being provided to us by management. The capacity of the finance team has been reduced as a result of the implementation of the new financial system.

Acknowledgements

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

2. Financial Statements

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 25 April 2022.

We detail in the table to the right our determination of materiality for audit of Lancashire County Council and the group audit.

	Group Amount (£m)	Council Amount (£m)	Qualitative factors considered
Materiality for the financial statements	34.081	34.063	The threshold above which could reasonably be expected to influence the economic decisions of the reader of the financial statements. We have set this at 1.45% of prior year gross expenditure
Performance materiality	25.560	25.547	The amount set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. We have set this at 75% of materiality
Trivial matters	1.703	1.703	Based upon 5% of materiality for the financial statements.
Materiality for Senior Officer Remuneration	We will apply heightened auditor focus in this area and will request amendments be made if any errors would alter the bandings reported for any officer.		

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls (Group & Council) Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group and the Council, which was one of the most significant assessed risks of material misstatement.	We have: - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our substantive testing of the journals posted by management, based upon a risk-scoring method is complete and we have not identified any evidence of inappropriate management override of controls. As with previous years, the Council does not have authorisation controls in place over journals – refer to page 30 for further details.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA 240 revenue improper recognition risk (Group & Council) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Lancashire County Council. Since the value of income for LCDL is below the group materiality level this is also not considered a risk for the Group audit.	As detailed in our Audit Plan, which was communicated to the Audit, Risk & Governance Committee on 25 April 2022, we have rebutted this risk. Our procedures which we have performed on the Group and Council's financial statements have not identified any issues which would cause us to alter this assessment.
Risk of fraud related to expenditure recognition - Practice Note 10 (Group & Council) In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). We have considered this risk for both the Council and the Group and have determined it to be appropriate to rebut this risk based upon the limited incentive and opportunity to manipulate expenditure within the Council and due to the immaterial expenditure streams within Lancashire County Developments Limited.	As detailed in our Audit Plan, which was communicated to the Audit, Risk & Governance Committee on 25 April 2022, we have rebutted this risk. Our procedures which we have performed on the Group and Council's financial statements have not identified any issues which would cause us to alter this assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation assumptions of the pension fund net liability (Council Only) The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,148m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2022 and, if so, assessed the impact on disclosures in the financial statements and on our audit opinion; and • obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **We have not identified any significant issues in relation to the valuation of the net pension liability which require reporting to Those Charged with Governance.**

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings – specifically for assets where valuation movements are not in line with expectations (Council Only) The Council revalues its land and buildings on a rolling three-yearly basis. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer and discussed with them the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation. We have confirmed that the external valuer appointed is independent of ourselves and the Council • tested a sample of valuations at 31 March 2022 to understand the information and assumptions used in arriving at any revised valuations • tested a sample of revaluations made during the year to see if they had been input correctly into the Council's fixed asset system • evaluated the assumptions made by management for those assets not revalued during the year and assessed how management has satisfied themselves that these are not materially different to current value at year end. In relation to challenging whether the carrying value of assets is not materially different to the current value as at 31 March 2022, we have compared the Gerald Eve (valuation specialists) report indices to those used by management and challenged management on the resulting difference to the assessment of the valuation of the assets not formally valued in year. Our initial work assessing the valuation of assets within the Council's accounts compared to the valuation had all assets had been valued as at 31 March 2022 identified a significant material difference. As such management engaged the internal valuer to undertake additional valuations as at 31 March 2022. As a result of the additional valuations performed, the net book value of Land & Buildings as at 31 March 2022 increased by £76.8m to £2,063.8m. This has been included as an adjusted misstatement in Appendix B. Management also updated their assessment of the remaining assets which have not been revalued. Management's assessment is that the difference between the carrying value and potential current value as at the balance sheet date for these assets is £22.2m. This is below our materiality threshold. We are currently finalising our challenge and testing over the revised valuations and assessment of the assets not revalued – however we have not identified any significant issues to date. We have raised a recommendation to management in relation to the valuation date and processes to identify material differences - See Appendix A. Also see Appendix B for the additional audit fees charged in relation to addressing this issue.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties (Group Only) Investment properties are revalued annually and are held within the LCDL subsidiary. The valuations are conducted such that they are co-terminus with the group's year end reporting date. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of investment property as a significant risk for the Group, which was one of the most significant assessed risks of material misstatement.	As detailed on page 12, we communicated our group instructions to the auditor of Lancashire County Developments Limited to provide us with sufficient assurance over the valuation of investment properties. We requested the component auditor to perform the following responses to this risk: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • Evaluate the competence, capabilities and objectivity of the valuation expert • Write out to them and discuss with the valuer the basis on which the valuation was carried out, any changes from prior year and any significant aspects of the valuation approach • Challenge the information and assumptions used by the valuer to assess completeness and consistency with your understanding. Challenge and corroborate the key assumptions applied (such as yield rates etc) in the valuation calculations. Ensure the completeness and accuracy of the information relied upon by the valuer; such as rental income, floor spaces etc. • Assess the instructions to the valuer, the valuer report and the assumptions that underpin the valuation • Test revaluations made during the year to see if they had been input correctly into the asset register • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. We have reviewed the work performed by the component auditor to gain assurance over the valuation of these assets and considered the size of the investment property portfolio. The total value of investment properties at £86.2m would need to be misstated by 40% for there to be material error in the group accounts. All investment properties held by the Group were valued as at 31 March 2022, and so are not affected by the issues identified in relation to the valuation of land and buildings detailed on page 10. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lancashire County Developments Limited	Beever & Struthers LLP	We have reviewed the consolidation undertaken by the Council and are reviewing the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group which includes work performed on the significant risks of management override of controls and the valuation of investment properties. Further detail on specific work performed against these risks can be found on pages 7 and 11.	The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts. We have received confirmation from the component auditor that there are no further issues that should be reflected in the group accounts. The component auditor has provided us with sufficient assurance from their procedures performed in relation to the risk of management override of controls. We have reviewed the work performed by the component auditor to gain assurance over the valuation of these assets and considered the size of the investment property portfolio. The total value of investment properties at £86.2m would need to be misstated by 40% for there to be material error in the group accounts. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.

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2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Valuation of Infrastructure Assets • The Code requires infrastructure assets to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Lancashire County Council has material infrastructure assets, at both a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	CIPFA established a Task and Finish Group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. CIPFA worked with the government on the possibility of statutory prescription regarding the transaction for the derecognition of parts of infrastructure assets that have been replaced or restored. The statutory instrument gained royal assent on 25 December 2022. CIPFA has also approved an update to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) following the outcomes of the consultation on the removal of the need to report gross cost and accumulated depreciation.	We have reviewed the changes which have been implemented in the CIPFA Code as a result of the statutory instrument. Management are amending the accounts to reflect the necessary disclosures required in the Code. We have challenged management on the useful economic lives applied to componentised infrastructure assets. Whilst we are currently still finalising our review of this area we have not identified any evidence to date to suggest that the depreciation charge for 2021-22 is materially not correct. We still need to finalise our review of the useful lives proposed and review the amended disclosures in relation to the accounting for infrastructure however we are not anticipating there to be any further issues.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,986.9m (draft accounts) £2,063.8 (revised accounts)	Other land and buildings comprises £1,626m (per draft accounts) of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its internal valuation team to complete the valuation of the majority of properties as at 1 April 2021 on a three yearly cyclical basis. To determine that the carrying value of those assets valued at 1 April 2021 (and also assets not valued in 21/22) is not materially different to their current value, management perform an indexation analysis to project the asset values and assess whether there is a material difference. The assessment is supported by market commentary and indices provided by the internal valuation team. Circa 50% of total assets (by value) were revalued during 2021/22. The valuation of properties valued by the valuer has resulted in a net decrease of £38m in value. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2021, based on the market review provided by the valuer as at 31 March 2022, to determine whether there has been a material change in the total value of these properties. The total year end valuation of other land and buildings was £1,986.9m (2019/20 £2,026.1m).	• We have assessed the Council's internal valuer, to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. • Valuation methods remain consistent with the prior year • In relation to challenging whether the carrying value of assets is not materially different to the current value as at 31 March 2022, we have compared the Gerald Eve (valuation specialists) report indices to those used by management and challenged management on the resulting difference to the assessment of the valuation of the assets not formally valued in year. Our initial work assessing the valuation of assets within the Council's accounts compared to the valuation had all assets had been valued as at 31 March 2022 identified a significant material difference. • As such management engaged the internal valuer to undertake additional valuations as at 31 March 2022. • As a result of the additional valuations performed, the net book value of Land & Buildings as at 31 March 2022 increased by £76.8m to £2,063.8m. • Management also updated their assessment of the remaining assets which have not been revalued. Management's assessment is that the difference between the carrying value and potential current value as at the balance sheet date for these assets is £22.2m. This is below our materiality threshold. • We are currently finalising our challenge and testing over the revised valuations and assessment of the assets not revalued – however we have not identified any significant issues to date.	Light Purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £86.2m	The Council's subsidiary company, Lancashire County Developments Limited, has engaged Cushman & Wakefield to complete the valuation of properties as at 31 March 2022. Only two properties make up the portfolio and both were revalued as at 31/3/22. 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. The total year end valuation of investment property was £86.2m, a net increase of £16.1m from 2020/21 (£70.1m).	As part of our group audit we have communicated our group instructions with the auditor of LCDL, Beever & Struthers LLP. We have discussed the programme of work required for us to gain assurance over the valuation of the investment properties. As outlined on page 11, we have reviewed the work performed by the component auditor to gain assurance over the valuation of these assets and considered the size of the investment property portfolio. The total value of investment properties at £86.2m would need to be misstated by 40% for there to be material error in the group accounts. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.	Light Purple
Provisions - £50.8m	The Council has a range of provisions on its balance sheet which totalled £50.8m at 31 March 2022. The largest provisions held relate to Insurance which total £34.1m. Management engage the assistance of an expert to determine the appropriate level of provision to recognise. The expert was commissioned in September 2021 and their estimated value of the provision as at 31 March 2022 was £47m. The Council agree to the sufficiency of the provision but noted that not all claims will be settled in one financial year and that of c.800 claims they reviewed, 35% were settled for less than the original estimate and so agreed to increase the provision incrementally. As such management believe it prudent to provide for circa 70% of the estimate made by Gallaghers now and increase the provision value year-on-year.	Per CIPFA Code 8.2.2.15 "The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision." Based on the above extract from the CIFPA code, it is our judgment that the provision is currently under provided for. Whilst we understand management's position in terms of the timing of the settlement of claims and that claims are being settled for less than provided, an expert was engaged to assist in valuing the liability as at 31/3/22 and currently the value provided for is £13m less than the expected obligation as at 31/3/22 - this difference however is not material so we have assurance that the estimate is materially correct.	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,148.2m	The Council's total net pension liability at 31 March 2022 is £1,148.2m (PY £1,516.2m) comprising the Lancashire County Local Government pension scheme and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The Council has seen a £368m net decrease in Net Liability Related to Defined Benefit Pension Scheme during 2021-22.	• We have assessed the Council's actuary, Mercers, to be competent, capable and objective • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2021/22 roll forward calculation carried out by the actuary and have no issues to raise. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7 - 2.8%	●
Pension increase rate	3.3%	3% - 3.5%	●
Salary growth	4.8%	4.25% - 5%	●
Life expectancy – Males currently aged 45/65	Pensioners: 22.3 years Non-pensioners: 23.7 years	20.7 - 23.3 22.2 - 24.8	●
Life expectancy – Females currently aged 45/65	Pensioners: 25.0 years Non-pensioners: 26.8 years	23.8 – 25.5 25.7 – 27.5	●

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate
- We have confirmed there were no significant changes in 2021/22 to the valuation method

We are satisfied with the reasonableness of estimate of the net pension liability

Assessment

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

2. Financial Statements - key judgements and estimates

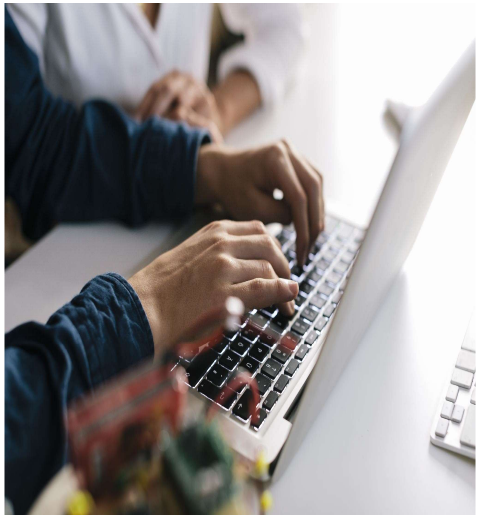
Significant judgement/ estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £21.8m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £21.8m, a net increase of £4.1m from 2020/21.	• MRP has been calculated in line with the statutory guidance and the Council's policy on MRP complies with statutory guidance. • Annually the Council presents its MRP policy for approval from Full Council • The basis of calculating MRP is reasonable, however our own benchmarking of MRP as a % of external borrowing (1.81%) and MRP as a % of the Capital Financing Requirement (1.91%) is less than we would normally expect in order for a prudent provision to be made (circa 2%). The principal reason for the lower than expected MRP level is due to the Council's policy currently allowing for a reduction in MRP due for overpayments calculated on supported borrowing from 2008-2014. • The level of MRP to be charged to the General Fund will increase significantly when the reduction for the previous overpayment ends during 2031/32. Members should be aware that this will create an additional funding pressure for the Council. The additional cost is estimated to be £3.8m in 2031/32, £11.3m in 2032/33 and then increasing yearly up to 2056/57.	Blue
LOBO Investments held at FVTPL - £24.1m	In 2018/19 and 2019/20 the Council bought LOBO loans from banks relating to other Councils. The motivation for this was due to the Council having just bought out their own LOBOs and saw an investment opportunity, as well as being able to help their local government authorities. These investments are classified as being held at Fair Value through Profit and Loss (FVTPL) under IFRS 9 as they were held for trading and the Council has the intention to sell them in the short term. As such any gains or losses on these investments are recognised in the General Fund. Management use their Treasury Management advisor to assist with determining the key inputs and assumptions to calculate their value as at 31 March 20212 Five of the six investments were sold during the year for £92m. This sale generated a realised loss of £1.1m, after adjustments for revaluations in fair values transferred to reserves etc.	• We reviewed the basis of the classification of the investments in detail in the 2019-20 audit and were satisfied that they were appropriately held at Fair Value Through Profit and Loss. There has been no change to this assessment for 2021-22. • We engaged our own internal valuations team to review the key appropriateness of the key assumptions as well as to perform their own valuation of the investments. Management did not make any amendments to the key assumption, the "investment spread" assumption for 2021-22 . The spread applied in 2021-22 was 115bps (115bps in 2020-21). Our valuation expert considered that a spread of up to 165bps may be appropriate due to the impact of the Russian invasion of Ukraine and a review of market data for other comparable bonds. Management indicated that they would not expect a movement as much as 50bps as some of the increase of comparable bonds is due to entity-specific factors which do not apply to the LOBO counterparty, which we considered to be reasonable. • Our valuations team produced their calculations based on two different "investment spreads" to assess the sensitivity of the valuation. Using the same spread as applied by management (115bps) resulted in a potential valuation difference of between -£1.1m and £0.55m, which is below our triviality level. Using 165bps resulted in valuation difference of between -£3.2m and -£1.2m. All of these valuation differences are below our materially threshold so we have sufficient assurance that the valuation is materially correct. • The overall findings were that the key assumptions applied in the valuation calculation were reasonable and that the valuation of the LOBO investments was materially correct.	Light Purple

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk & Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	As noted in Appendix B there have been some additional disclosures made in respect of the Council's subsidiary organisations, which are required to be recognised as related parties.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group. It will be included as a separate item in the Audit, Risk & Governance Committee papers at the January 2023 Meeting.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. All expected responses were received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management have provided by management to date with no issues. The financial statements were published on 8 June 2022, more than two months in advance of the statutory deadline. The financial statements were prepared to a good standard and working papers were detailed and clear to understand. The complexity, volume of data held and nature of the reporting available within the Council's financial system means that the audit takes longer to complete and adds to the resource inputs required as it is not possible to obtain a full General Ledger and transaction level detail. This means that we need to request numerous breakdowns of ledger codes in order to obtain data at a single transaction line level of data in order to then select a sample of transactions to substantively test. It is understood that the Council's new (Oracle Fusion) ledger, due to go live in November 2022, will be capable of providing reports at transaction level. However, since the new ledger is due to go live part way through the 2022-23 financial year, the above process will still be required for all 22/23 transactions posted to the current general ledger.

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2. Financial Statements - other communication requirements

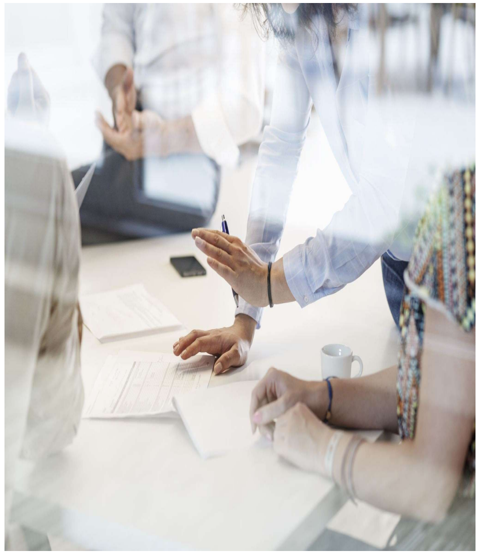
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified to date from our reviews of other information. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will commence on the completion of the financial statements audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Lancashire County Council in the audit report. We can not certify the closure of the audit until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have nearly completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is currently being finalised before it will be published.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions to date.

Risk of significant weakness	Procedures undertaken	Conclusion
Governance arrangements over key capital projects with partners where the Council is the accountable body Lancashire County Council is the accountable body for a number of very large capital projects in which it works with partners to deliver improved outcomes. The largest of these projects is the Preston, South Ribble and Lancashire City Deal, signed in 2013, with expected investment of over £400m. Partners in this deal include Lancashire County Council, Lancashire Enterprise Partnership, Homes England, Preston City Council and South Ribble Borough Council. Where the Council is the accountable body, there is an increased need to ensure appropriate arrangements are in place to assess, plan, monitor, implement and review the ongoing projects. If there are budget overruns, shortfalls in funding or benefits expected are not realised then there is a financial risk which the Council is exposed to. Whilst the Council has significant reserves which may be able to absorb some of these shortfalls currently, the Medium-Term financial Strategy predicts a significant call on reserves over the next few years to 2024/25, and so it is crucial to minimise any further budget shortfalls or other risks to the Council. Due to the complexity of these large projects, and the potential impact on the Council's finances where they are the accountable body, we have identified this area as a potential risk of significant weakness. We will review the arrangements in place at the Council to manage the risks associated with large capital projects when working with partners and assess if there are any weaknesses in the arrangements. We will report our findings in our Auditor's Annual Report.	- Held discussions with management to discuss the current governance and monitoring arrangements in place - Reviewed the latest financial modelling for the Preston, South Ribble and Lancashire City Deal - Reviewed Cabinet Committee Meeting papers and LEP Board Meeting Papers relating to the governance and financial monitoring of the scheme	We are still finalising our work on this risk area. To date we have not identified any significant weaknesses. Further information on our conclusions will be included in our Auditor's Annual Report.

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4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £145,994 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit fieldwork has been completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-Audit Related			
CFO Insights Subscription	£10,000	Self-Interest (because this is a recurring fee)	This is an on-line software service that enables users to rapidly analyse data sets. CFO Insights is a Grant Thornton and CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities. It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £145,994 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk & Governance Committee. None of the services provided are subject to contingent fees.

4. Independence and ethics

Other services – Local Pensions Partnership

We also disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each with a 50% equity holding of the ordinary shares of the company. Details of the work performed and our assessment of our independence, are shown below. We are satisfied that this work has no impact on our independence for the audit of Lancashire County Council.

Service	Threats	Safeguards
Audit related		
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	Self-Review Self Interest	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. There are different Engagement Leaders in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work. All of the work performed by Grant Thornton is for audit related services. LPP is not consolidated into the Group Accounts on which we are issuing an opinion due to an assessment of the 50% share of the Assets, Liabilities, Income & Expenditure of the Company not being material to the Group.

Appendices

A. Action Plan

We have identified one recommendation for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	**Material difference identified between the carrying value and current value of Land & Buildings** As detailed on page 10 of our report we are required to perform audit procedures in relation to challenging whether the carrying value of assets is materially different to the current value as at 31 March 2022. Our initial work assessing the valuation of assets within the Council's accounts compared to the valuation had all assets had been valued as at 31 March 2022 identified a significant material difference. This was in part due to the large movement in market indices during the year affecting all land and building assets, since the valuation date of assets valued in 2021-22 was 1 April 2021. As such management engaged the internal valuer to undertake additional valuations as at 31 March 2022. As a result of the additional valuations performed, the net book value of Land & Buildings as at 31 March 2022 increased by £76.8m to £2,063.8m. This has been included as an adjusted misstatement in Appendix B. Management also updated their assessment of the remaining assets which have not been revalued. Management's assessment is that the difference between the carrying value and potential current value as at the balance sheet date for these assets is £22.2m. This is below our materiality threshold.	The valuation of Land & Buildings is a significant risk for the audit as a result of the assumptions applied in the valuation calculation and the value of the assets held. Current economic conditions of high inflation could lead sustained, or even increased, Build Cost indices which are a key component in the valuation of a large proportion of the Council's Land & Buildings, further increasing the risk of significant movements in asset valuations. The Council also currently revalues its asset base (except for Group Investment Properties) as at 1 April, which increases its exposure to movements in Build Cost Indices during the year. These two factors combined increase the risk of the carrying value of assets differing significantly to their current value. We recommend that management reassess the decision to value Land & building assets as at 1 April as opposed to the 31 March, and we recommend that management increase the scope of their own internal assessment of the difference between the carrying value and current value of assets as part of their financial statements' preparation procedures. This will mitigate the risk of significant differences between the carrying value compared to the current value of assets and hopefully ensure that any material differences are identified early in the account preparation process. **Management Response** The council will look to implement these recommendations.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

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A. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings Report. These findings were also reported in our 2020/21 Audit Findings report as the items remains open.

We have followed up on the implementation of our recommendations and note that some items remain outstanding, however work is ongoing at the Council to address these matters.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Oracle security and access controls** Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were: • IT users self-assigning Oracle responsibilities without approval or subsequent timely removal. • Limited evidence of appropriate restriction of Oracle database administration The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2020-21 financial statements.	We have performed a similar review of the IT General Controls within the Council as part of our 2021-22 audit and the two items detailed in the prior year have now been remediated and are no longer considered significant deficiencies.
X	**Payroll Leavers Controls** As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BTLS who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis.	Our procedures during the 2021-22 audit have found similar issues still remain and that there can be a significant time lag in leavers being removed from the payroll system, with the time lag consistently appears to be around 3-6 months. **Management Response** Performance in this area continues to be monitored and reports provided to the Audit, Risk and Governance committee on progress.

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Assessment

✓ Action completed

X Not yet addressed

A. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journal Authorisation • Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. We recommended management review the authorisation procedures in place over journal input.	Management reviewed the processes in place in the prior year and commented that the there are personnel controls in place whereby only finance staff can post journals, with little incentive for manipulation. Along with this being part of a centralised finance function having established financial monitoring processes that allows the review of all transactions means the risk for manipulation or uncorrected errors is considered very low. Whilst formal journal authorisation requirements are not built into the system, management consider that suitable alternative arrangements are in place. Audit Response As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency. In response to this deficiency, we increased the overall risk rating for the Fund within our Journal risk assessment from low risk to medium. The impact of this is that it increased the minimum number of journals posted by management which we are required to test. The results of this testing are detailed on page 7.

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Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Valuation of Land & Buildings As detailed on page 10, additional valuations of land and buildings were undertaken to ensure the carrying value of these assets was not materially different to their current value as at 31 March 2022. As a result of the additional work, there have been significant amendments to the disclosures within the accounts to reflect the updated workings, along with the net impact of the increased valuations increasing the overall Property Plant & Equipment balance on the Balance Sheet.	Cost of Services - £4.5m Other Comprehensive Income - £72.3m	£76.8m	£76.8m
Overall impact	£76.8m	**£76.8**	**£76.8**

Detail	Group Comprehensive Income and Expenditure Statement £m	Group Statement of Financial Position £m	Group Impact on total net expenditure £m
Group Accounts Tax Expense* The taxation expense in the LCDL accounts for 2022 is £5.4m. The draft group financial statements did not account for this expense as the figure wasn't known when the Council published the draft accounts. The deferred taxation figure in the Group SoFP has also increased by this amount to £11.8m. There is no impact on the Council, single entity, accounts.	-£5.4m	-£5.4m	-£5.4m
Overall impact	-£5.4m	-£5.4m	-£5.4m

* This amendment only impacts the Group Financial Statements and not the Council "single entity" accounts.

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B. Audit Adjustments

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

Disclosure omission	Auditor recommendations	Adjusted?
Note 36 – Related Party Transactions From review of the draft accounts it was noted that related party disclosures in the single entity accounts could be enhanced. The related party transactions with Lancashire County Developments Limited are required to be disclosed in the single entity accounts, even though they are consolidated in the Group Accounts. We also identified related party transactions with Lancashire Environmental Fund Limited (LEF) which appear material to LEF (though immaterial to the Council) and so should be disclosed per the Code para 3.1.9.3,	Management are amending the accounts for the matter identified	TBC
Note 23 - Cash & Cash Equivalents The Council provide accounting support for the Lancashire Local Enterprise Partnership (LEP) which includes processing their transactions and managing their cash balances. As such the Council removes the cash balances relating to the LEP from their Balance Sheet on the basis that they are acting as an agent. In the draft accounts this adjustment was creating a negative balance on the Cash Held by the Council line in Note 23 (and a negative balance in the prior year comparator for Bank Current Accounts). Since there is no negative cash balance held the Council have amended the accounts to offset the LEP balance from the short term deposits line so that all disclosure lines within the note are positive. There is no impact on total Cash balances held per the Balance Sheet.	We are still discussing the adjustment required with management and our technical team.	TBC
Presentation & disclosure amendments As a result of our manager/EL/Review partner and technical team hot review of the accounts, a number of amendments have been made to improve the disclosures within the accounts. All of these amendments relate to minor improvements of the disclosure notes to improve the accuracy and readability of the accounts.	Management has amended the accounts for the issues we identified.	✓

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B. Audit Adjustments

Impact of unadjusted misstatements

To date, there have been no adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Land & Buildings Valuation Errors Our audit procedures identified two assets, both relating, to land where there had been a significant change in value (£3.8m increase). On further investigation this was due to human error when inputting the updated asset values into the asset register and as such the value of these two items was overstated by £3.8m. We requested management conduct further analysis to determine if there were any further assets impacted by this error. Management's analysis concluded that the error impacted upon 7 assets with two land assets being overstated by £3.8m and five buildings assets being understated by £4.4m. As a result the overall quantification actually reduced the total impact on the Statement of Financial Position due to the errors 'netting off' against each other to create a net error of £0.563m. Since the error is not material, and the net impact is in fact trivial, the accounts have not been updated to reflect these valuation errors. Management has stated that this error would usually have been identified through the "large valuation movement" exceptions review they perform on all assets with valuation movements in excess of £200k and/or 50%. However, the formula was overwritten for these items and they were not identified. Management has confirmed that this has been addressed for future periods with the formula column now being protected.	£0	£0.563m	£0	Error is not material
Overall impact	£0	£0.563m	£0	

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C. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£145,994	*£160,994
Total audit fees (excluding VAT)	£145,994	*£160,994

*Additional audit fees will be charged for the additional work performed on the valuation of land and buildings (£10k), and the valuation of derivative investments and liabilities held (£5k). As a result of these matters significant additional resources have been required to complete the additional work. All additional fees are required to be approved by PSAA.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers Pension Return	£7,500	TBC
CFO Insights Subscription	£10,000	£10,000
Total non-audit fees (excluding VAT)	£17,500	TBC

Audit Fee per Note 13 of the financial statements is £161k. The audit fee has been calculated based upon:

- £93k in respect of the PSAA scale fee for 2021-22
- £7k in respect of Teachers Pensions
- £10k in respect of CFO insights
- £68k in respect of prior year additional fees, which have now been approved by PSAA and paid.
- £17k reduction as result of an audit fee reimbursement from PSAA

The non-scale fee element of the 2021-22 proposed fee (£53k) along with the additional fees (£15k) will be included in the 2022-23 accounts once it has been approved by PSAA.

C. Fees

Detailed below is the reconciliation of the scale fee, set by PSAA in 2018, and the final audit fee to be charged for the financial year which reflects the increased scope and challenge required to be performed in our 2021/22 audit.

Scale fee published by PSAA (2020-21 scale fee used for consistency)	£87,006
Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA	
Raising the bar – increased FRC Challenge	£6,250
Additional work in respect of the Group Audit	£3,000
Reduced Materiality	£3,125
Enhanced audit procedures for Property, Plant and Equipment	£5,438
Property Plant and Equipment – External Auditor Expert	£2,500
Enhanced audit procedures for Pensions	£4,375
Additional work on Value for Money (VfM) under new NAO Code	£19,000
Increased audit requirements of revised ISAs 540	£3,800
Additional work on journals/grants	£5,000
FRC Response – Additional review, EQCR Review, Hot review	£1,500
Additional work in respect of national issue on accounting for Infrastructure assets	£5,000
Proposed Audit Fee	£145,994
Additional work in relation to the valuation of Land & Buildings	£10,000
Engagement, and review, of the GT internal valuations team work in valuing derivative investments and liabilities held	£5,000
Final Audit Fee	£160,994

D. Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the group with an unmodified audit report.

Independent auditor's report to the members of Lancashire County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Technical Annex and notes to the financial statements, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Executive and Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the

group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Executive and Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

D. Audit opinion

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive and Director of Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit, Risk & Governance Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;

  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Authority s financial position, as well as any journals made by senior management personnel or those with a blank description
  - The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant, equipment and investment property, the valuation of the net pension liability, the completeness and accuracy of provisions and accruals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Executive and Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manual journals, posted after the year end date which have an impact on the Authority s financial position, as well as any journals made senior management personnel or with a blank description.
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, accruals, provisions, and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property, accruals, provisions, and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.

D. Audit opinion

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Lancashire County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.
- We are also unable to issue our certificate of completion of the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Ironmonger, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

Date:

grantthornton.co.uk

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected: N/A

Corporate Priorities: N/A

External Audit – Lancashire County Pension Fund Audit Findings Report 2021/22
(Appendix 'A' refers)

Contact for further information: Sarah Ironmonger, Tel: 0161 953 6499, Partner, Grant Thornton UK LLP, Sarah.L.Ironmonger@uk.gt.com

Brief Summary

The external auditor is required to report, to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Pension Fund for the year ended 31 March 2022.

Recommendation

The Audit, Risk and Governance Committee is asked to take note of the findings in the report, the updates made to the financial statements, and the other issues raised by the auditor which are set out in the report.

Detail

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Pension Fund for the 2021/22 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Sarah Ironmonger, Partner, and Stuart Basnett, Engagement Manager, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the county council's management.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2022

18 January 2023

Appendix A

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Key Audit Partner
T 0161 953 6499
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Stuart Basnett
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T 0151 224 7232
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on remotely during July-November. Our findings are summarised on pages 4 to 17 . There has no adjustments to the financial statements that have resulted in adjustment to the Pension Fund's reported financial position. Adjusted and Unadjusted audit misstatements, disclosure amendments and misclassification errors are detailed in Appendix B. We have not raised any new recommendations for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

We have essentially completed our audit of the Pension Fund. We are just awaiting confirmation of the timing of the audit sign off for the administering authority so that we can ensure our subsequent events procedures cover the period up to the point of sign off. There are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. This position is subject to the completion of the final standard items below;

- Receipt of signed management representation letter
- Review subsequent events up to point of audit sign off
- Review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have had to alter our audit plan, which was communicated to you at the Audit, Risk & Governance Committee meeting on 25 April 2022, to add an additional significant risk as a result of the reclassification of directly held investment property from level 2 to level 3 in the Fair Value Hierarchy. See page 8 for further details.

Conclusion

We have essentially completed our audit of the Pension Fund. We are just awaiting confirmation of the timing of the audit sign off for the administering authority so that we can ensure our subsequent events procedures cover the period up to the point of sign off. There are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. This position is subject to the completion of the final standard items below;

- Receipt of signed management representation letter
- Review subsequent events up to point of audit sign off
- Review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan, which was presented to the Audit, Risk & Governance Committee on 25 April 2022.

We detail in the table below our determination of materiality for Lancashire County Pension Fund.

	Pension Fund Amount (£m)	Qualitative factors considered
Materiality for the financial statements	105.317	We have determined materiality for the audit to be £105.317m (equivalent to 1% of net assets for the prior year). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	78.987	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	5.265	This equates to 5% of materiality. This is our reporting threshold to the Audit, Risk & Governance Committee for any errors identified.

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2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our testing of journals posted by management during the year, and other procedures stated above, did not identify any issues in respect of management override of controls. As with previous years, the Fund does not have authorisation controls in place over journals – refer to page 17 for further details.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA 240 Fraud in Revenue and Expenditure Recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We have also rebutted the presumption of fraud in expenditure recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council mean that all forms of fraud are seen as unacceptable Therefore, we do not consider this to be a significant risk for Lancashire County Pension Fund.
Valuation of Level 3 Investments The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period and • in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed, the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality. As this is a factual difference it has been included in Appendix B as an unadjusted misstatement.

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2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
New significant risk – Valuation of Directly Held Investment Property (Level 3) • As part of our response to the assessed risk of the valuation of investments held by the pension fund, we challenged management on the classification of all investments within the Fair Value Hierarchy for their appropriateness, in line with the requirements of IFRS 13. • Historically, Directly Held Investment Property has been classified as a level 2 investment at Lancashire County Pension Fund. On this basis we did not initially categorise the valuation of this balance as a significant risk. • In our view, the key inputs into the valuation of the investment properties such as market yields and rental tenancy information, is not "observable" as per IFRS 13 and as such these items should be classified as Level 3 investments. Classification as level 3 is consistent with other similar bodies and also with the classification the administering authority applied to it's investment properties within the Group Accounts. • Management agreed to amend the classification for 2021-22 and also for the prior period comparator.	As a result of the change in classification we reconsidered our audit approach and deemed it appropriate to amend our audit plan to reflect this balance as a significant risk due to the unobservable inputs into the valuation approach. The Fund revalues its directly held property on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due the sensitivity of this estimate to changes in key assumptions. Management engaged the services of a valuer to estimate the current value as at 31 March 2022. We therefore identified valuation of directly held property, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the processes and controls in place which relate to the valuation of directly held investment property and updated our audit approach scoping for the assessed risk. • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written out to them and discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. **Our audit work on the valuation of directly held property did not identify any significant issues or misstatements. Sufficient, appropriate assurance was gained over this balance.**
Control Issue – Management Review of Service Auditor Reports As part of our testing of investments we request service auditor control reports to assess the controls in operation at the custodian and fund managers used by the Pension Fund. We also ask management for their review and assessment of the reports to demonstrate they have considered any control findings.	Management have stated that LPPI perform the review of service auditor reports on their behalf, however LPPI were not willing to disclose the results of this review to us under their confidentiality restrictions.	We have performed our own review of a sample of control reports, where available and no significant issues were identified. However, it is best practice for management to complete their own review and, for the reasons outlined to the left, we are unable to confirm if this was performed during the year or not. In our view the review of reports should be documented by LPPI and shared with management so they are informed of any control weaknesses.

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2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £4,955m (per amended accounts)	The Pension Fund has investments in unquoted equity, pooled property investments and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2022 at £3,838m (per the draft accounts). These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the general partners to the private equity funds which the Fund invests in. The value of the investments per the draft accounts, before reclassifications, increased by £254m in 2021-22, largely due to significant positive changes in the market value of the investments, primarily as a result of the markets continuing to regain lost growth as a result of the Covid-19 Pandemic in prior years. However, the majority of this growth was attained in the first three quarters of the year with the impact of the Russian invasion of Ukraine impacting markets as at 31 March 2022 and reducing growth.	Management determine the values of level 3 investments through placing reliance on the expertise of investment managers. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and within our acceptable tolerances based on our expectation derived from the audited accounts. Management has disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis within Note 17 to allow the reader to understand the potential impact on the accounts should the value of those estimates change. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed, the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality. As this is a factual difference it has been included in Appendix B as an unadjusted misstatement. The accounts have been amended to reflect reclassification of some investments as a result of our audit challenge. LPPI Real Estate ACS from level 2 to level 3 - £944.6m – in line with direct property above and the underlying assets are also classified as level 3 in LPPI's accounts.	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments - £449m (per amended accounts)	The Pension Fund have investments in corporate and overseas government bonds, LA loans and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2022 at £449m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers. The draft accounts included £945m of level 2 pooled property investments in relation to the LPPI Real Estate Fund and £172m of directly held property. On review and challenge of the classification, based on the inputs in to the calculation and how LPPI classify the balance, the £945m LPPI Real Estate Fund and the £172m directly held property has been reclassified as level 3 investments.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations from all main mandate managers and also obtained the audited accounts prepared for the LPPI fixed income fund to use as a basis to compare the valuation in the pension funds accounts to the valuation per the audited accounts of LPPI. We also obtained direct confirmations of balances outstanding from each of the local authority short term loans. No issues were identified from the work which we performed.	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Directly held investment Property – Level 3 - £172m	The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2022 at £172m. As per page 8 of our report, this balance was reclassified to level 3 during the audit. In order to determine the value, management engage independent RICs qualified valuers, Avison Young, to calculate the fair value of the properties on the basis of their Market Value. All of the properties held by the Fund were valued as at 31/3/22. The value of the investments have increased by £12m in 2021/22, this was largely as a result of increases in the fair value of the properties on revaluation as at 31/3/22.	Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer. As such we have sought confirmations of year end valuations from the valuer as well as corresponding with them to understand and assess their skills, competence and independence from the Fund in valuing the investment properties. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon. We compared movements in individual asset values to movements in market indices and challenged management on any movements which were outside of our expected range. We did not identify any issues with the approach or assumptions adopted by the Fund's external property valuer.	Light Purple

Assessment

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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk & Governance Committee and Pension Fund Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We note that no declaration of interest was received for 3 members. We are however satisfied that the fund has appropriate procedures in place to obtain and monitor declarations.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund. It will be included as a separate item in the Audit, Risk & Governance Committee papers at the January 2023 Meeting. We have requested specific representations from management in relation to the completeness and accuracy of the prior period adjustment to reflect the reclassification of assets, as outlined in appendix B.

2. Financial Statements - other communication requirements

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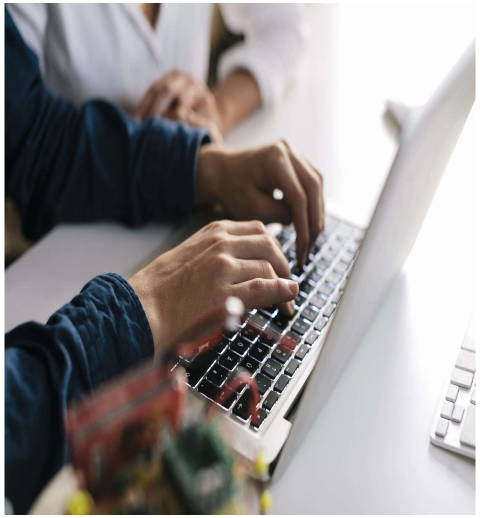

Issue	Commentary
Confirmation requests from third parties	We requested direct confirmations from the Fund's bankers and custodian and plus a sample of managers of level 3 investments. We have received all confirmations requested.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management, to date, has been provided. We note that management provided us with a set of draft financial statements on 8 June 2022, which is over 6 weeks in advance of the national deadline for preparing accounts.

2. Financial Statements - other communication requirements

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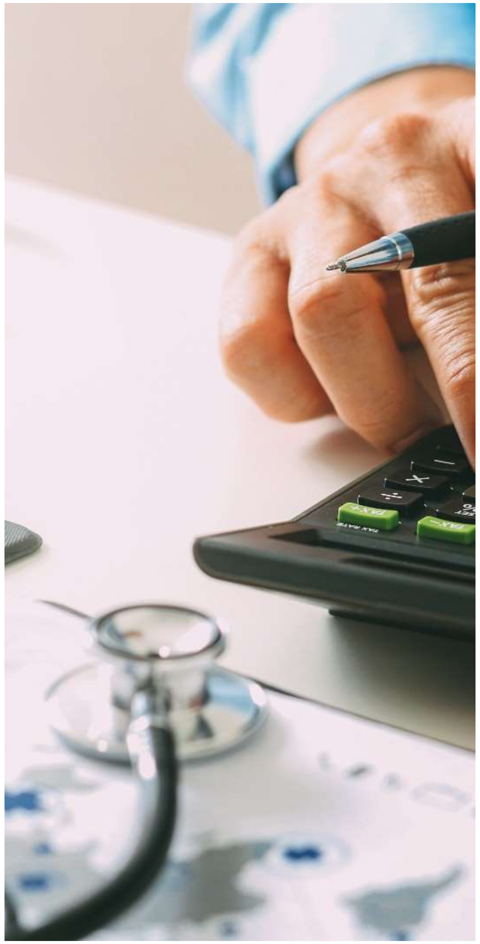
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report with the opinion on the accounts.



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3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Details of fees charged are detailed in Appendix C.

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Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£23,000 (£5,000 base Fee plus £1,000 for each set of audit procedures - 18 Expected)	Self-Interest (because this is a recurring fee) Self-review Management	The fee for this work is recurring but not significant compared to the audit of the financial statements of £37,423 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing undertaken as part of the audit. These factors all mitigate the perceived self-interest threat to an acceptable level. We have not prepared the financial information on which our assurances will be used by the requesting auditor. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate.
Non-audit Related			
None			

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk & Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Follow up of prior year recommendations

We reported the following issues in the audit of the Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. The same issue was identified during our audit this year.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Issue and Risk Manual journals within the financial ledger system are input by approved personnel, but they are not subject to separate authorisation controls by a second staff member at the time of input. The risk is that the absence of authorisation controls at the time of input creates a higher risk of error or manipulation. Recommendation Review the authorisation procedures in place over journal input.	Management Response The same personnel-based controls remain in place at the Council, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept that there are no preventative controls in place, there are informal detective controls in place, such as monthly reconciliations to the custodian report and quarterly reviews, that would identify errors caused by journals. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted. A review of users with access to the pension fund general ledger (and therefore the ability to post journals) is carried out at least annually. Audit Response As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency and we have assessed the journals control environment as “medium” risk. Whilst the deficiency exists with the Fund’s system, the low number of manual journals posted as well as the limited number of journal posters and that the majority of journals relate to investment postings which can be traced to custodian/fund manager records, the impact of the deficiency in the context of the risk of management override of controls, is reduced.

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Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

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

Impact of adjusted misstatements

No adjusted misstatements have been identified to date.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Fair Value Classification of Financial Assets Our testing of investment assets identified a small number of instances where the classification of the assets under the IFRS 13 hierarchy did not appear correct. - £25.6m of cash held in bank accounts classified as level 2 but is more appropriate as level 1 classification as cash equivalents. - Direct property reclassified from level 2 to level 3 - £172.1m – on the basis of the key inputs into the valuation calculation - LPPI Real Estate ACS from level 2 to level 3 - £944.6m – in line with direct property above and this balance is also classified as level 3 in LPPI's accounts. - LPPI Fixed Income from level 1 to level 2 - £398.6m – this investment includes investments in pooled funds and not all items are directly agreeable to an active market/easily observable to justify a level 1 classification.	The final version of accounts to be amended for these matters.	✓
Presentation/Disclosure Changes A number of minor amendments have been suggested to management from our financial statements presentation and internal consistency review.	The final version of accounts to be amended for these matters.	✓
Investment Manager Fees Testing of investment manager fees identified that performance related fees can often be difficult to accrue for due to the cost being linked to performance benchmarked and difficult to quantify until the invoice is received. Our testing identified that the 2021-22 investment management fees per the draft accounts includes £38m of fees relating to 2020-21 and that £4m of fees relating to 2021-22 are recorded in 2022-23's accounts.	The accounts have not been amended for these balances as the figures are below our materiality levels and the prior year accounts were prepared with the available information at the time, as per IAS 8, since this is below materiality it should not necessitate a Prior Period Adjustment, but be corrected for in year. The 2021-22 element accounted for in 2022-23 is below our triviality level.	X

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

B. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit, Risk & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality, however, we are still finalising our work on this area. We are still finalising our work on the review of the investment confirmations, audited accounts and service auditor reports received.	£33.7m	£33.7m	£33.7m	Below Performance Materiality
Overall impact	£33.7m	£33.7m	£33.7m	

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C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£37,423	£37,423
Total audit fees (excluding VAT)	**£37,423**	**£37,423**

Audit Fees per the draft financial statements is £39,300 for the audit of the accounts and £9,500 for IAS 19 assurance. The audit fee per the accounts was based on the actual fees charged for the 2020-21 Audit.

The difference between gross total audit fees for the year charged in the Pension Fund's Fund account (per the draft accounts) of £49k and the total fees to the left of £60k is £11k. This will be amended for in the final version of the Pension Fund's financial statements.

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Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
IAS19 Assurance Letters (£5,000 base fee + £1,000 per letter – 18 expected)	£23,000	£23,000
Total non-audit fees (excluding VAT)	£23,000	£23,000

C. Fees

Detailed below is the reconciliation of the scale fee, set by PSAA in 2018, and the final audit fee to be charged for the financial year which reflects the increased scope and challenge required to be performed in our 2021/22 audit.

Scale fee published by PSAA	£26,310
Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA	
Raising the bar – increased FRC Challenge	£1,875
Enhanced audit procedures for Directly held property	£2,188
Enhanced audit procedures for Investments	£1,750
Increased audit requirements of revised ISAs 540	£3,300
Additional work on journals posted by management	£2,000
Total audit fees (excluding VAT)	£37,423

D. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'Pension Fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement, and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Executive & Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Executive & Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Executive & Director of Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Executive & Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Executive & Director of Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Executive & Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements, or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Executive & Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive & Director of Resources. The Chief Executive & Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in

D. Audit opinion

accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive & Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Executive & Director of Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit, Risk & Governance Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation

of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

  - Journals, in particular with regard to manual journals, those journals over 5x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by senior management personnel.
  - The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Executive & Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manual journals, those journals over 5x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by senior management personnel;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of

D. Audit opinion

Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Sarah Ironmonger, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

[Date]

Grant Thornton

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Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected: N/A

Corporate Priorities: N/A

External Audit – Audit Progress Report and Sector Update – January 2023
(Appendix 'A' refers)

Contact for further information: Sarah Ironmonger, Tel: 0161 953 6499, Partner, Grant Thornton UK LLP, Sarah.L.Ironmonger@uk.gt.com

Brief Summary

The External Audit - Audit Progress Report and Sector Update as at January 2023 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 as at January 2023, as set out at Appendix A.

Detail

This report provides an update including our timescales for the audit of the 2021/22 Statement of Accounts, grants claim assurance 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.

Sarah Ironmonger will attend the meeting to present the report at Appendix A and respond to questions.

Consultations

The report has been agreed with the county council's management.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

Lancashire County Council & Lancashire County Pension Fund - Audit Progress Report and Sector Update

January 2023

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 Authority 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:

Sarah Ironmonger
Key Audit Partner
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E Sarah.L.Ironmonger@uk.gt.com

Stuart Basnett
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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 January 2023

Financial Statements Audit

We undertook our initial planning and interim audit for the 2021/22 audit in March 2022. 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 began our work on your draft financial statements in July.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 was extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Accounting for infrastructure

The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires infrastructure to be reported in the Balance Sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement.

Many authorities do not possess the records to be able to fully comply with the requirements. Following extensive consultation and discussions with interested parties DLUHC laid before Parliament a Statutory Instrument (which received royal assent on 25 December) which should simplify accounting for infrastructure assets until the 2024/25 financial year, following which the CIPFA Code of Practice on Local Authority Accounting is expected to introduce longer term financial reporting requirements in this area.

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 January 2023 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2021/22 return began in October, and is intended to be completed by the end of January 2023.

Meetings

We met with Finance Officers monthly 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 September to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Accounts Workshop which will take place on 2 and 7 February 2023, where we will highlight financial reporting requirements for local authority accounts and give insight into elements of the audit approach.

Further details of the publications that may be of interest to the Council and Pension Fund are set out in our Sector Update section of this report.

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 have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

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 and Pension Fund's 2021/22 financial statements and to issue a commentary on the Council's value for money arrangements in the Auditor's Annual Report	April 2022	Completed
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	July 2022	Completed
Audit Findings Report The Audit Findings Report will be reported to the October and January Audit, Risk & Governance Committee meetings.	October 2022 January 2023	Completed See separate agenda item
Auditors Report This includes the opinion on your financial statements.	January 2023	We anticipate to concluding the audit by 31 January 2023
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2023	See separate agenda item

2021/22 Audit-related Deliverables	Planned Date	Status
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	Expected to be complete by 31 January 2023

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

Audit Market Developments

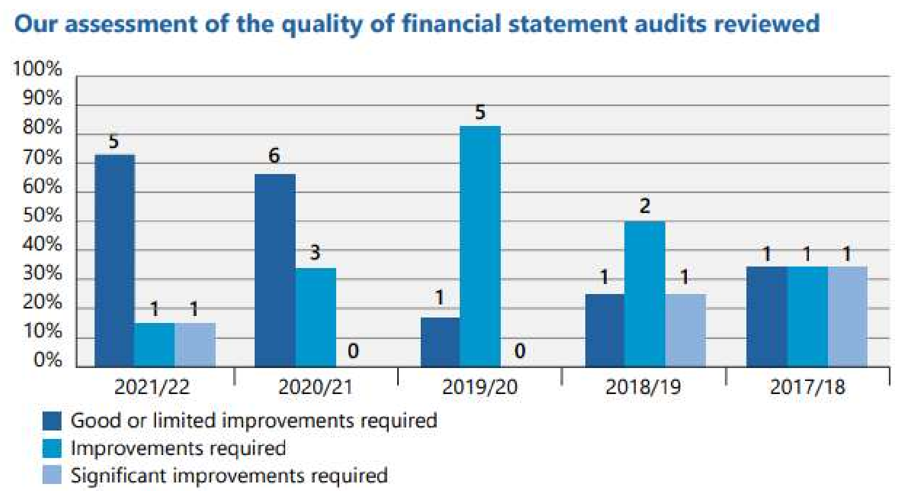
Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found here.

Financial Reporting Council

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found here

Grant Thornton – Nearly 60 councils at risk of 'running out of money' next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts .

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will "continue to unwind through the long tail of Covid-19" with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: "Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

"Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils' financial sustainability in the face of economic instability.

"Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up."

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector's ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: "With no spending review and no fair funding review, CIPFA shares Grant Thornton's concerns about the financial sustainability of some in the sector.

"While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector."

Grant Thornton

CIPFA

Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating "This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development."

CIPFA go on to state "Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA's 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

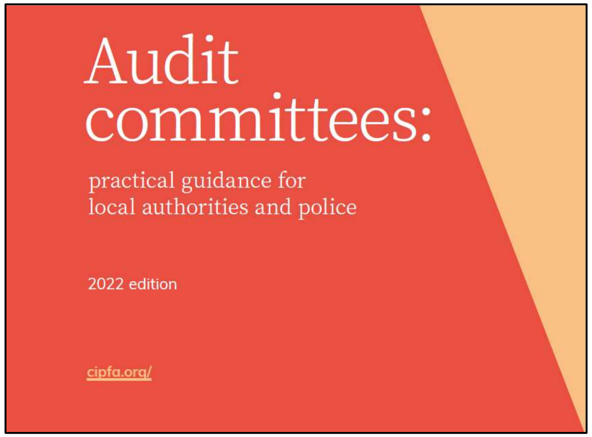
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools."

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

Audit Committee Guidance: 2022 update | CIPFA



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Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected: (All Divisions);

Internal Audit Progress Report
(Appendices 'A' to 'D')

Contact for further information:
Andrew Dalecki, Head of Internal Audit Service, Tel: 01772 533469,
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 up to 31 December 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, as 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 provides an executive summary by each individual internal audit assignment completed since last reported to this committee on 17 October 2022.

Appendix C provides an executive summary by each individual school audit completed since last reported to this committee on 17 October 2022.

Appendix D provides an executive summary for each grant audit and consultancy assignment completed since last reported to this committee on 17 October 2022.

Consultations

The Chief Executive and the Director of Finance, and each of the directors and/or heads of service who have sponsored the audit work reported here, has been consulted.

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 31 December 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 by the Internal Audit Service up to 31 December 2022.

2 Progress against the internal audit plan

2.1 The audits detailed in the table at section 3.1 have been completed since the last Audit Risk and Governance Committee meeting in October 2022.

2.2 A thematic school audit of asset management processes was included in the 2022/23 audit plan. Within the scope of this audit, 15 schools were to be reviewed as part of the audit sample testing. However, during the scoping of this audit it was determined that more value could be added to each school by developing a specific audit for each of the 15 schools. Therefore 15 additional audits were added to the audit plan. Work in all these schools has either been finalised or completed up to the draft report stage.

2.3 Two other audits have also been added to the plan with six audits being removed. The details for the changes to the plan are set out below at section 5.

2.4 As at the 31 December 2022, 78 audits have either commenced or have been completed; this equates to 68% of the plan. The progress of audits from the 2022/23 audit plan are reported below.

Stage of audit process	Number	Percentage
Complete and reported to committee	45	39%
Draft report stage	11	10%
Progressing	22	19%
Not yet started	36	32%
Total number of audits	**114**	**100%**

2.5 The 11 audits detailed in the table below are at the draft reporting stage and are currently being discussed and agreed with managers.

Control area
Workforce Wellbeing
School Asset Management Audits
Hyndburn Park Primary School
Breck Primary School
Christ Church Primary
Water Primary School
Whitworth Community High School

Control area
SS John Fisher and Thomas More RC High School
St Joseph's Catholic Primary School
Walverden Primary School
Wellfield Methodist and Anglican Church School
Penwortham Girls High School

2.6 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.

3 The assurance available from completed audit work

3.1 A brief summary of the assurance provided can be found in the tables below. The matters arising from each of the completed audits are set out in the executive summaries provided at Appendix B, and at Appendix C for the school audits.

Control area	Assurance
Major Strategic Development Projects	● Substantial
CCTV	● Limited
School Catering	● Substantial
Lancashire County Development Ltd. - Financial Management	● Substantial
Children's Social Care Case Recording	● Substantial
Infection Prevention & Control Team – Management arrangements	● Substantial
Safeguarding Adult Reviews	● Moderate
Corporate Mandatory Training	● Limited
Special Guardianship Order - Financial Support	● Limited
SEND Plan - Project Management	● Moderate
Mobile Working & Devices	● Moderate
School Property Maintenance Traded Service	● Substantial
Managing Failing Care Homes	● Moderate
General Data Protection Regulations (GDPR)	● Substantial
Schools' SFVS self-assessment	● Substantial
Operation of the Lancashire Volunteer Partnership	● Limited
Multi Agency Safeguarding Hub	● Substantial
Children's Support Services Hub	● Substantial
Treasury Management	● Substantial
Commercialisation	● Moderate

School Asset Management Audits	Assurance
Brookfield School	● Substantial

Leyland Methodist Junior School	●	Substantial
Spring Hill Community Primary School	●	Limited
St. Gregory's Catholic Primary School	●	Moderate
Our Lady's Catholic High School	●	Substantial

4 Grant certification and consultancy

4.1 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.

4.2 The Internal Audit Service's work also includes consultancy activities designed to add value and improve operations. Consultancy work can be part of a programme of work planned to primarily meet management needs. It also forms part of our assurance work as there is always an element of consultancy work built into every audit; usually this is in the form of audit recommendations. As such consultancy work enriches and contributes to the overall assurance that can be delivered, while also adding value and improving operations.

4.3 The table below provides details of this completed review, with an executive summary for each of the reviews being provided at Appendix D.

Control area
Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks)
Local Transport Capital Block Funding (Pothole Fund)
Liverpool Combined Authority Local Energy Hub – Q1 2022/23
Supporting Families Grant Qtr1
Supporting Families Grant Qtr2
Business Mileage Claims – analysis of normal commute deductions (consultancy)

5 Amendments to the audit plan for 2022/23

5.1 It is important that the audit plan is a flexible plan. The table below details six audits which, following discussions with the relevant service areas, it has been agreed will be removed from this year's audit plan and added to the 2023/24 audit plan.

Audit Title	Reason for removal.
Health Integration	Health Integration has not progressed as quickly as originally thought due to delays in Parliament passing the required legislation to allow changes to commence.
Older people's Service Transformation	We determined from discussions with the Head of Service that the re-development programme (transformation) of older people's service is still ongoing in particular the review of the charging policies. An independent review by a consultant is also due to be completed in March 2023. Therefore, to avoid duplication of work this will now be reviewed as part of the

	2023/24 audit plan. The results of the consultant's work will help inform the scope of the Internal Audit review.
Quality Assurance Framework	We determined from discussions with the Head of Service that the Quality Assurance Framework is not yet in full operation, however, a team to support the framework should be in post after January 2023. Therefore, to allow sufficient time for the Framework to be embedded this will be reviewed as part of the 2023/24 audit plan.
Use of the council's buildings under the new flexible working arrangements	We determined from discussions with the Head of Service that work is still ongoing and has not progressed as far as was initially thought it would have. Therefore, to allow sufficient progress to be made this will be reviewed as part of the 2023/24 audit plan.
Management of the council's property portfolio	We determined from discussions with the Head of Service that work is still ongoing and has not progressed as far as was initially thought it would have. Therefore, to allow sufficient progress to be made this will be reviewed as part of the 2023/24 audit plan.
Lancashire Constabulary Data Transfer	We confirmed from discussions with the Director of Digital that there have been some technical challenges that have resulted in a delay in the completion of the data transfer. Therefore, this will be reviewed as part of the 2023/24 audit plan following the completion of the data transfer.

5.2 Since we last reported to this committee in October 2022, 17 audits have been added to the plan. However, as detailed in section 2.2 above, 15 of these audits were initially planned to be completed as one large thematic school audit. However, more value could be added to each school by delivering an audit specifically tailored to each school's processes.

5.3 We have also been able to facilitate two requests to complete additional audit work that was not part of the original audit plan. Work in Business Mileage Claims has been completed and work is ongoing for financial management within Woodhill's home for older people. 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 additional audit work we have been requested to complete that was not originally included in the audit plan.

Control area
Business Mileage Claims – analysis of normal commute deductions (consultancy)
Financial management within Woodhill's home for older people
Brookfield School - Asset management processes.
Leyland Methodist Junior School - Asset management processes.
Spring Hill Community Primary School - Asset management processes.
St. Gregory's Catholic Primary School - Asset management processes.
Our Lady's Catholic High School - Asset management processes.
Hyndburn Park Primary School - Asset management processes.
Breck Primary School - Asset management processes.

Christ Church Primary - Asset management processes.
Water Primary School - Asset management processes.
Whitworth Community High School - Asset management processes.
SS John Fisher and Thomas More RC High School - Asset management processes.
St Joseph's Catholic Primary School - Asset management processes.
Walverden Primary School - Asset management processes.
Wellfield Methodist and Anglican Church School - Asset management processes.
Penwortham Girls High School - Asset management processes.

Internal Audit

Committee Summaries

Appendix B

Lancashire County Council

Major Strategic Development Projects

Major Strategic Development Projects				
Overall assurance rating	**Audit findings requiring action**			
Substantial	**Extreme**	**High**	**Medium**	**Low**
	0	0	1	0

An adequate and effective control environment surrounds the framework for major strategic development projects.

An overarching governance structure exists ensuring effective responsibility for strategic development programmes and key projects. Roles and responsibilities are clearly identified and executed by suitably experienced teams/ persons, and a defined communication and reporting regime operates.

Project objectives are clearly stated, and a defined project management life cycle exists, incorporating effective, efficient project monitoring and control processes that facilitate effective and timely decision making.

Effective risk management regimes exist, with potential risks and their impact on a project's success being continually reviewed throughout the life cycle of the project.

Project decisions are undertaken in accordance with the Constitution and Scheme of Delegation, and are transparent, appropriately documented, authorised and communicated.

Context

The Strategic Development team are responsible for the direct delivery of major development programmes. Several major strategic development projects are planned across Lancashire, which aim to enable future growth, bring thousands of new jobs and increase investment and skills.

The Council is proactively working with a wide range of public and private sector partners to deliver regionally, nationally and internationally significant schemes. This includes the creation of high-quality strategic development sites and developing an infrastructure to meet future needs. As well as unlocking opportunities for new emerging business sectors and increasing collaborative and partnership working with districts across the county to deliver their strategic objectives.

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:

- Overall programme governance.
- Individual project governance.
- Decision making arrangements.

CCTV

CCTV				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Limited	0	1	4	0

Overall, the governance, maintenance and control arrangements are insufficient for the operation of CCTV cameras across the council. Therefore, we can only provide limited assurance regarding the operation of the CCTV systems.

A policy has been approved on overt surveillance camera systems which was last reviewed in January 2022 which incorporates the requirements of the Surveillance Camera Commissioner's Code of Practice (SCC CoP). The frequency of CCTV inspection requirements is also detailed on the intranet under general information on premises management. Responsibilities have been assigned to premises managers to implement the requirements in the policy and other individuals and teams have been allocated specific responsibilities. However, the requirements in the policy have not been implemented by all officers and teams who have assigned responsibilities within the policy. Some officers were unaware of their responsibilities in the policy. We can conclude that the policy has not been communicated and implemented effectively, which has resulted in the following weaknesses:

1) Some CCTV systems were not working properly, which resulted in footage not being available to be accessed.
2) There was inadequate signage displayed at some sites.
3) Not all CCTV systems were being inspected periodically.
4) There was a lack of assurance on how long data was being retained for.
5) Privacy Impact Assessments or Data Protection Impact Assessments were not in place for all systems and those that were in place were not subject to a regular review.

Controls specified in the policy to detect and correct non-conformance with its requirements such as compliance audits and the maintenance of a CCTV asset register have not been implemented. Certain measures were taken by the Corporate Information Governance Group in 2020 to ensure controls were implemented but it seems that due to issues relating to COVID the measures were not implemented effectively.

Context

The council uses overt surveillance camera systems including CCTV and body worn cameras for various purposes. The use of these systems is subject to a range of legislation and regulations including the Data Protection Act (2018), the UK General Data Protection Regulations and the Freedom of Information Act.

The council has a policy on the use of overt surveillance camera systems, and this specifies the responsibilities of various officers within the council. The policy covers all surveillance camera systems used by the council except schools.

CCTV

Excluding schools there are 343 council sites recorded on the PAMS system. Whilst there isn't currently a comprehensive updated database of all premises with CCTV, we ascertained that there are at least 79 sites with CCTV systems. In addition, two services are in the process of acquiring body worn cameras.

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 and procedures.
- Regulations and training.
- System maintenance.
- Access to images and videos.
- Compliance audits and review of effectiveness.

School catering

School catering				
Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	0	0

There are adequate and effective controls in place to ensure school meals meet the standards required by school food standards and the procurement process for meal ingredients follows relevant council procedures to achieve quality and value for money.

Mechanisms are in place to monitor performance of suppliers and review processes followed by schools in serving meals. There is a system in place to price meals to cover direct and indirect costs and monitor the overall income and expenditure.

Context

The Catering Service provides services to more than 550 units including schools, colleges and civic units across Lancashire County Council. This involves the central procurement of ingredients to produce meals, delivery of ingredients to relevant establishments, producing meal menus which meet school food standards, monitoring supplier performance and auditing kitchens on a periodic basis.

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:

- Ensuring nutritional value of meals is maintained by complying with school food standards.
- Value for money is obtained in food procurement.
- Direct and indirect costs are included in the meal prices charged.

Lancashire County Development Ltd. - Financial Management

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	0

The financial control framework for Lancashire County Development Limited (LCDL) is adequately designed and effectively operated. Financial management arrangements and responsibilities are clearly defined in a business control manual approved by the LCDL Board (the Board). The Senior Corporate Accountant for LCDL is a key officer and ensures that the financial management requirements of the manual are implemented. The Oracle financial system is used appropriately to record the budget, raise orders and bills, and generate related monitoring reports.

Budgeted expenditure and income allocations for 2022/23 were accurately entered into Oracle and agreed with those approved by senior officers from Finance, Business Growth and Estates. Detailed and accurate budget monitoring reports are produced from Oracle each month and shared with relevant officers. A financial update based on these reports is presented to the Board on a quarterly basis.

Expenditure and income are managed effectively on Oracle. Orders placed on behalf of LCDL are appropriate, authorised by a sufficiently senior officer and followed procurement rules. Income due to LCDL is billed in a timely manner and monitored to ensure it is either received within a reasonable timeframe or that appropriate debt recovery action is taken.

Context

LCDL is a Company limited by guarantee and owned by Lancashire County Council. The LCDL Board that oversees the strategic direction of the company is made up wholly of County Councillors, with the Leader of the Council a Board member. Key Council officers from Finance, Business Growth, Estates and Democratic Services attend and update Board meetings.

A business plan is approved by the Board each financial year that sets out a work programme and resources plan. The 2022/23 business plan states that LCDL's goal is to improve Lancashire's economic performance and growth through close co-operation with private sector firms, and by improving infrastructure, services and by removing obstacles.

All administrative and professional services are carried out by the Council (unless otherwise contracted on behalf of the Board). These include the operation of the company's property portfolio, Rosebud loan scheme, financial management, procurement and income billing and collection.

LCDL receives income primarily from the provision of business accommodation at the Whitecross and Lancashire Business Park (Leyland) sites. This generates a surplus which is reinvested to pursue key elements of the economic development strategy for Lancashire.

For 2022/23, the budgeted surplus is £1.636m. The Board approved the allocation of this amount to economic development workstreams in their 2022/23 business plan.

Lancashire County Development Ltd. - Financial Management

Scope of 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:

- Financial management arrangements.
- Budget setting and monitoring.
- Expenditure.
- Income billing and debt monitoring.

Our audit concentrated on the 2022/23 financial year LCDL budget and related monitoring, reporting and transactions and we relied for assurance over the proper operation of Oracle Financials on our key financial systems audits for the Council. The audit did not include a review of the Rosebud loan scheme which was recently independently assessed and reported on to the LCDL Board in the 'Rosebud External Evaluation Insight and Rosebud Fund' report. An external review has been completed of the governance and oversight arrangements in Council owned companies including LCDL, our audit therefore only focused on the framework of controls around the financial management of LCDL.

Children's Social Care Case Recording

Children's Social Care Case Recording				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Substantial	0	0	0	1

The framework of control in place for case recording by Children's Services is adequately designed and effectively operated. Referred cases recorded in the Liquidlogic Children's System (LCS) are uniquely referenced, detailed, assigned to a social worker and manager, and regularly updated. There are mechanisms in place to oversee and independently monitor case activity to help ensure statutory and council requirements are followed in respect of the types of information to be recorded, and the timeliness of data input.

Independent Reviewing Officers and compliance auditors from the Quality Assurance, Inspection and Safeguarding team periodically review the quality of case recording and identify and report any issues that require action. Senior management receive regular performance information sourced from LCS and updates from the Quality Assurance, Inspection and Safeguarding team on their audit work, both of which include case recording related data and findings. These show that full compliance with expectations is not quite achieved in some areas but that they are identifiable, and that action is being taken to improve case recording both on individual cases and across the service. The effectiveness of such actions is measured by comparing results with previous periods. New and existing social workers are supported by guidance and training that incorporate case recording principles and how to use LCS.

Context

The Children's Act 1989 states that 'good case recording is important to demonstrate the accountability of staff. It helps to focus the work of staff and supports effective partnerships with service users and carers. It ensures there is a documented account of the responsible authority's involvement with individual service users, families and carers and assists with continuity when workers are unavailable or changed'.

This applies to the work of all Children's Services and to all recording in relation to children, their families and friends, carers, prospective carers or any other person Children's Services has reason to hold a formal record about (for example an adult who poses a risk to children).

Such records are held electronically on the Liquidlogic Children's System. Each child must have their own electronic case record from the point of referral to case closure. Where documents are in a paper format, these must be uploaded to the child's electronic file on to the Documentum system.

The Quality Assurance, Inspection and Safeguarding team undertake compliance and thematic reviews of case recording that aim to provide senior management with assurance regarding compliance with expected standards and quality, and to identify areas of improvement and good practice.

Children's Social Care Case Recording

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 cases in LCS.
- Review and oversight of case recording.
- Reporting to senior management on case recording activity.
- The provision of relevant guidance and training.

Our audit focused on cases referred to Children's Services and primarily on the mechanisms in place to enable poor or incomplete data quality to be identified, escalated and addressed.

Infection, Prevention and Control Team - Management arrangements

Infection, Prevention and Control Team				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Substantial	0	0	0	1

Overall, we can provide substantial assurance on the adequacy and effectiveness of the managerial scrutiny, supervision and performance management arrangements within the Infection, Prevention and Control team (IPC Team) that support achievement of the Council's objectives in relation to the prevention, reduction and investigation and control of incidences of infection.

There are adequate policies, procedures and guidance notes in place which clearly identify the aims and objectives of the roles and responsibilities of the team. The nursing staff within the IPC Team are all up to date with their Nursing and Midwifery Council accreditation. Similarly, supervision meetings are taking place on a regular basis, and although the content of the meetings have not been formally recorded, all staff contacted considered that meeting coverage was appropriate.

The IPC Team works closely with Lancashire County Council (LCC) senior management, partners and other relevant health protection bodies and professionals and in doing so has populated a number of informative reports which includes the Service Delivery Plan, Monthly Progress Reports, Health Protection Service Assurance and Reporting Timelines and the Health Protection Board Terms of Reference. We noted that when the IPC Team were part of the Health, Safety and Resilience Service they populated a quarterly dashboard which was shared with the Senior Leadership Team. However, the IPC Team transferred to a new Health Protection Service in June 2022, and the need for these dashboards is currently being reviewed.

The IPC Team actively works with other professionals and partners on an ad-hoc basis and the Lead Nurse Infection Prevention and Control Officer regularly is involved in attending meetings with various Public Health bodies, in order to gain new ideas and share up-to-date knowledge.

Context

The IPC Team plays an important role in creating and maintaining a safe environment throughout Lancashire, and in doing so they help and support healthcare workers, community nurses, GP's, care home staff, school nurses and many others in the community. They provide relevant advice in preventing infections which includes regular observations of their own practices to try and reduce the incidences of infection in-line with the Department of Health targets. They work alongside other Healthcare staff to ensure that all measures are taken to reduce and prevent healthcare associated infection.

Scope of 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:

Infection, Prevention and Control Team - Management arrangements

- Policies, procedures and guidance.
- Training, Continuous Professional Development and Supervision.
- Quality Assurance, Reporting and Performance monitoring.
- Continuous improvement and networking.

Safeguarding Adult Reviews

Safeguarding Adult Reviews				
Overall assurance rating	**Audit findings requiring action**			
Moderate	**Extreme**	**High**	**Medium**	**Low**
	0	0	3	0

Overall, we can provide moderate assurance that the processes and controls operated by the Lancashire Safeguarding Adults Board (LSAB) in relation to Safeguarding Adult Reviews (SAR's) are adequately designed. Over the course of the pandemic LSAB processes were reviewed and new guidance was approved, but to date, only one SAR has been completed under these new arrangements. We have examined this case from referral through to the publication of the report and are satisfied that there has been compliance with the documented arrangements.

At the time of the audit there was insufficient evidence available to confirm whether actions due to be taken have been appropriately implemented by the relevant agencies. The Joint Partnership Business Unit (JPBU) Business Manager is currently undertaking an exercise to gather this information alongside obtaining a status on the actions raised following previous SAR's. A quality assurance framework is currently being established by the Director of Quality Improvement. A small number of actions, which we consider will strengthen the SAR arrangements as managed by the LSAB have been identified.

Context

The Care Act 2014 requires each Local Authority to have a Safeguarding Adults Board. Key local agencies are represented on the Board at a senior level and the Board has an Independent Chair. Under the Care Act 2014 the Lancashire Safeguarding Adult Board (LSAB) must commission a Safeguarding Adult Review (SAR) if criteria set under s. 44 of the Care Act is met, including where an adult with care and support needs has died and there is a reason to believe this is as a result of abuse or neglect, or the adult has experienced serious abuse or neglect. As per statutory guidance the purpose of a SAR is to 'promote effective learning and improvement action to prevent future deaths or serious harm occurring again'.

Scope of Audit

In this audit we have reviewed and tested the adequacy of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Safeguarding adult reviews - guidance and processes.
- Assignment of actions and confirmation that actions are being implemented.

Corporate Mandatory Training

Corporate Mandatory Training	
Overall assurance rating	**Audit findings requiring action**

Limited

Extreme	High	Medium	Low
0	1	3	0

Based on our review we are able to provide limited assurance on the adequacy and effectiveness of the controls in place for the management of Corporate Mandatory Training.

Guidance on the training is available for new staff in the Induction Guide and on service specific pages of the Intranet, but this is not periodically provided to existing staff. Training is accessed through Astute and MeLearning software, and other external partner operated platforms. This makes automatic registration and user amendment of profile data impractical and enables users to create multiple accounts. In addition, there is no process for deactivating accounts when users leave the council. There are multiple versions of courses, refresh periods on some courses are not clear and errors in the reporting tool caused inaccuracies in completion records. These issues make it difficult or impossible to obtain accurate and complete data such as establishing the extent of compliance with mandatory training. Although we established that not all mandatory training is completed in line with corporate requirements.

Although managers and staff are responsible for ensuring that training is up to date and completed. The systems do not however, help support managers and staff as reliable reports are not available for monitoring and only two training modules have an auto enrolment function. Although reports are periodically produced showing the training that officers have completed the data is not reliable and they are not shared with managers.

Work is in hand which should address some of these issues, with L&D's working to produce a catalogue of training courses which will include a review of in-house training content on Astute, and a data cleansing exercise being undertaken by Digital Services. These will take time to complete and will not address all issues. Improvements have also recently been made by the system providers, DeltaNet, to update completion certificates.

L&D are preparing a business case for a new system to temporarily replace the existing arrangements, which may also provide an opportunity for financial savings to be delivered. Procurement of a learning management system (LMS) was actively considered prior to the pandemic. We agree with the Head of Service that an LMS is essential to manage staff training efficiently and to provide complete and accurate data on compliance with corporate requirements to support oversight, though plans to procure a system are pending Oracle Fusion implementation and roll-out.

Context

Corporate mandatory training is training that is determined essential to enable employees to carry out the requirements of their job role safely, effectively and to maintain competence to required standards. In December 2020 the CMT approved a list of compulsory e-Learning training for staff comprising training events associated with legal liability, linked to the council's core obligations to the most vulnerable service users and the council's core values. This training was produced in consultation with senior managers and subject matter experts although it does not include specific training required by individual services. L&D have developed on-line training events that enable participants to undertake the training when it is convenient for them.

Corporate Mandatory Training

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 and approach.
- Operational compliance.
- Training records.
- Monitoring and oversight.

Special Guardianship Order - Financial Support

Special Guardianship Order - Financial Support

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Limited	0	5	1	0

Based on our review we are able to provide limited assurance on the adequacy and effectiveness of the controls in place for the management of Special Guardianship Orders (SGO) financial support. Both Children's Social Care and Exchequer Services acknowledge that not all parts of the SGO financial assessment process are being applied consistently. Weaknesses in the process include senior manager approval, sharing assessments with prospective guardians and processing of payments promptly. A working group was established with the aim of determining if a SGO support service is required to improve the outcome. However, progress made by the working group seems to have stalled, which is of concern as the outcome of this review could affect the management of SGO financial support.

Examples of good practice for payments to transitional foster carers were identified, although documented reasons to support these were not always maintained. Statutory guidance states foster care transitional payments should be reviewed after two years. However, end payment dates are not recorded on the Liquidlogic Children's Social Care System (LCS) to prompt a review.

Financial reassessments are not periodically carried out, as required in the statutory guidance. There is no signed declaration between the guardian and the council detailing the start date, amount to be paid or the obligations of both parties. A 'non- detriment' policy for historic cases has previously been considered where the guardians may be receiving higher rates, but no further action has been taken to develop this policy. Overpayments to guardians are not always identified and recovered promptly.

It is clear from this audit that issues similar to those we identified in our 2020 audit have yet to be addressed, although actions raised were not formally agreed due to the pandemic.

Context

The Special Guardianship Regulations 2005 (as amended) allow close relatives of children needing permanent care outside their birth family to seek parental responsibility under an SGO. These offer greater security for the child without absolute legal severance from the birth family. Prospective guardians are means tested to establish the financial resources they have available and what additional financial support they may require. The assessment is based on regulatory considerations set out in the Department for Education's statutory guidance, including when councils must, or have discretion to, disregard means. As at May 2022 the council has approximately 1373 children with SGOs, excluding historical cases that are not receiving a financial allowance. In 2021/22 the total value of SGO payments was £9.6 million of this, around 153 children were receiving enhancements of approximately £0.71 million

Special Guardianship Order - Financial Support

Scope of Audit

We reviewed and tested the adequacy and effectiveness of the controls and processes to mitigate the key risks relating to the following areas:

- Policy and procedures.
- SGO viability.
- Case tracking & means testing.
- Enhancements.
- Processing of payments.
- Reassessments.

SEND Plan - Project Management

SEND Plan - Project Management				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Moderate	0	0	2	0

Currently, we can provide moderate assurance over the adequacy and effectiveness of the controls in place for the project management of the Special Education Needs and Disabilities (SEND) plan. We acknowledge that it is still early in the delivery of the plan and areas such as the measurement of impact and outcomes from priorities need to be developed further.

The governance structure is sufficient to facilitate the management and implementation of the plan, although there are areas that need to be addressed such as the development of terms of reference for all groups. There is an agreement between partners on the expectations of their responsibilities and this is being developed further with the imminent introduction of a Communication Strategy. However, there is no formally documented agreement as to partners financial responsibilities.

The plan has been co-produced and approved by stakeholders and the SEND Partnership. Further sub-priorities and actions to address the five high level priorities have been developed and are being addressed through different mechanisms, including delivery groups and established work streams. The Board and the Executive Group oversee the implementation of the plan, including actions delivered and their expected impact. The Board recently approved Key performance indicators (KPIs) which will help identify where progress against priorities is insufficient and further work is required.

Context

Initially the Lancashire SEND Partnership was formed to address the outcomes of a joint inspection by Ofsted and the Care Quality Commission Services in 2017. While the outcomes from this review have now been addressed the partners acknowledge that they have more work to do and have developed the Lancashire SEND plan for 2021-25 which describes their ongoing improvement activity, including how partners will work together. The Partnership brings together agencies which provide SEND services with the aim of obtaining the best outcomes for children, young people, and their families.

In collaboration with stakeholders the Partnership identified five priorities that are important to children and young people, their families and staff who support the SEND journey, and aims to achieve specific benefits for children and young people with SEND through working on these priorities.

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:

- Content of plan.
- Delivery and reporting.
- Governance.
- Review of plan.

Mobile Working & Device

<table>
<tr><th colspan="2">Mobile Working & Device</th></tr>
<tr><td>Overall assurance rating

Moderate</td><td>Audit findings requiring action
<table><tr><th>Extreme</th><th>High</th><th>Medium</th><th>Low</th></tr><tr><td>0</td><td>0</td><td>2</td><td>0</td></tr></table></td></tr>
<tr><td colspan="2">The aim of this review was to provide an opinion on the council's arrangements around remote working and the safe and secure use of mobile devices. We identified some areas of good practice, but the council were already aware of known gaps and have taken positive steps to address weaknesses resulting in 'moderate' assurance being assigned for this review.

Intune is a new mobile device management system (MDM), which has been implemented to provide the appropriate security features to ensure the council's mobile device estate is managed safely and securely.

The new MDM allows effective and real time monitoring to ensure mobile devices remain compliant with the security policies and configurations that the council have set including minimum operating systems, encryption, screen lock, security PIN and anti-virus. All non-compliant devices i.e., not enrolled in the MDM, are automatically blocked by the council's Azure Conditional Access policy which prevents the device connecting to Microsoft 365 services including Office.com.

There are three areas where there are opportunities to strengthen controls which are summarised below and agreed with management.
Reporting mechanisms to demonstrate overall compliance with the council's policies around mobile working to the appropriate governance group are to be developed. This could also include reporting on the compliance status of the mobile estate with the council's agreed security controls.
Completion of risk assessments for mobile working or the deployment of mobile devices with any residual risk to be included on the digital risk register.
Collation of an IT asset register identifying all mobile devices/ serial no. / location/ ownership.</td></tr>
</table>

Context

Modern IT is increasingly complex to manage in so many ways and one of these relates to mobile computing. Mobile computing in this context may include any device, such as laptops, tablets, and smart phones, etc. capable of storing and processing data off site and potentially connecting to the network from remote locations.

The use of mobile computing in its different forms is ever increasing, for instance, there was a rapid rise in mobile / home working during the Covid-19 pandemic, and it is an essential enabler for the delivery of services across the various community locations it serves and for providing staff with connectivity and access to the council infrastructure and resources. The network perimeter is the secure boundary between private and the locally managed part of a network and the internet. However, the modern landscape of technology means that the line of the perimeter is now blurred with users connecting remotely through mobile devices and data and applications being hosted offsite in data warehouses or as cloud services. It is imperative that a good framework of control exists around this area. Senior management at the council recognised the importance of appropriate controls in this area and commissioned this review to obtain assurance relating to this area and identify opportunities for improvement, where appropriate.

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, procedures, guidance and reporting in relation to mobile working/devices.
- Legal requirements and compliance.
- Training and awareness activities undertaken with staff.
- Effectiveness of management framework of removable and remote devices connecting to the network and accessing council resources.
- Manageability and other support considerations for example COVID-19 arrangements and risk assessments.
- Management of configuration, patches and operating system updates.

School Property Maintenance Traded Service

School Property Maintenance Traded Service	
Overall assurance rating	**Audit findings requiring action**
Substantial	

Extreme	High	Medium	Low
0	0	0	2

Overall, the pooled resources and operational plan (PROp) scheme is operated and managed effectively, delivering a balanced annual budget and a net breakeven financial position. A standardised formula framework accurately calculates client contributions for each of the scheme services, which are extensively monitored. Costs are scrutinised to ensure they are legitimate, correctly coded and reconciled on the property asset management system (PAMS) and Oracle Financials, enabling requisitions and invoices to be processed and approved on a timely basis. The service operates a main procurement framework of selected contractors and also maintains a mini procurement framework for works up to £10k by selected local traders, which is recorded on spreadsheets and monitored. Work requests are captured in the Becon system and managed through PAMS and on spreadsheets until completion.

Service staff are supported by local policies, procedures and guidance on the service Intranet site and shared folders. Continuity plans are in place and Business Support Officers have been recruited and trained to assist key Business Support staff and build in resilience and service continuity. District Surveyors provide a single point of contact for schools for advice and guidance. The benefits of scheme uptake are actively marketed by the contact officers, who encourage participation, and annual letters to schools promoting scheme benefits and setting out costs. The current scheme prospectus on the Schools Portal needs updating, although there is up-to-date information on the Portal in other forms. All schools joining the scheme should sign the council's terms and conditions but only 43% of clients did so, although the remainder continue to pay contributions.

The service achieved continued ISO45001 accreditation by an external standards accreditor which identified no non-conformances and confirmed management systems operated effectively. This is supported by the findings of the council's Quality, Health and Safety Team who carry out scheduled audits. On the most recent annual Quality Service Management Review schools rated satisfaction with the services at 97% against a target of 85%. KPIs and performance information is escalated to senior managers during monthly meetings, with excellent performance for capital projects and good performance for sickness absence, capital service contracts and contractor performance. Risks are identified and managed by the service risk register.

Context

The pooled resources and operational plan (PROp) defines the council's approach to meeting its duties and responsibilities to schools as an estate management service provider under health and safety and design construction and management legislation and regulations. It is run as a not- for-profit traded service. The Design and Construction Team is a multi-disciplinary group consisting of surveyors, engineers and architects based throughout Lancashire. District surveyors are assigned to schools within their geographical area to support schools and ensure buildings are adequately maintained.

The plan has a three-year cycle and offers three services:

- Planned maintenance – ring-fenced contributions paid by a school and used on their buildings for maintenance and improvement works.
- Service contracts - frequent servicing and inspections to meet compliance and extend the lifecycle of plant and equipment.

School Property Maintenance Traded Service

- Emergency or reactive repairs - a pooled resource calculated at a standard rate per pupil covering roof leaks, drainage repairs and vandalism.

Schools have the option to purchase one or more services, and around 95% opt for membership of all three. The scheme breaks even or provides a small surplus each year, so school contributions have remained static over the last 10 years.

The current PROp scheme budget for 2022/2023 including fees and charges is £12.5m.

Scope of Audit

We audited the adequacy and effectiveness of controls and processes to mitigate the key risks relating to:

- Policies, procedure and guidance.
- Financial contributions and costs.
- Marketing and communications.
- Service delivery.
- Service quality.
- Performance and risk management.

Managing Failing Care Homes

Managing Failing Care Homes

Overall assurance rating

Moderate

Audit findings requiring action

Extreme	High	Medium	Low
0	0	3	0

Overall, we can provide moderate assurance that the processes and controls operated by the Quality Improvement and Contract Monitoring Teams in relation to the management of failing care homes are adequately designed and effectively operated.

There are sufficient mechanisms in place to ensure that early warning signs of provider failure are identified and acted upon through the Quality Performance and Improvement Planning (QPIP) and RADAR arrangements. Should a care home ultimately fail staff have appropriate policy and guidance material available to guide them through the necessary arrangements. This helps ensure that service users and their families are fully supported throughout the process of transferring to an alternative care home provider.

Three areas for improvement have been identified that we consider could improve the current control framework. These include considering further as to what intelligence should be recorded on the provider event log to ensure that all staff record sufficient and relevant information in a consistent manner. Ensuring a consistent approach is taken for all QPIPs and ensuring the Managing Provider Failure guidance is available to all Adult Social Care teams who may be involved in care home closures.

Context

The Care Act 2014 section 48 'Temporary Duty on local authority' requires the council to meet the care and support needs of adults in the authority's area prior to the registered care provider becoming unable to carry out their regulated activity. This duty begins as soon as the council becomes aware of any business failure issues which may be a result of the provider no longer being able to meet the care needs and provide a safe environment to individuals, or no longer being financially viable, unable to recruit sufficient staff or appropriately qualified nursing staff to safely care for individuals.

The Contract Management and Quality Improvement Teams monitor provider service delivery which includes sharing information with colleagues in the council and other professionals such as Health and the Care Quality Commission (CQC) about any concerns in the quality of care being provided. Providers may be reviewed and monitored through RADAR who may determine that the provider should be subject to a Quality Performance and Improvement Plan (QPIP) process to support them in addressing any areas of concern in order that they can improve and sustain an acceptable level of service delivery which ultimately may improve care and prevent the care provider from closing.

Managing Failing Care Homes

Scope of Audit

We have reviewed the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following key risks:

- Contract and Policies, Procedures and Guidance
- Intelligence gathering
- Quality performance and improvement planning process
- Care home failure process

General Data Protection Regulations (GDPR)

General Data Protection Regulations (GDPR)

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	1	0

The council has appropriate policies and procedures in place to ensure compliance with UK General Data Protection Regulations (UK GDPR) and these are easily accessible to staff. The Information Governance Framework allocates data protection roles and responsibilities, lists policies and records improvement actions, with oversight of key issues being maintained by the Corporate Information Governance Group (CIGG). Guidance and other information are regularly posted on the Intranet's Staff Notices and all staff are required to complete e-learning annually.

The most recent assessment established that 85% of staff had completed the training, although system records need to be cleaned and reconciled to Oracle to ensure completeness and accuracy. Records of Processing Activities (ROPA) are performed annually to assess the implications of GDPR on services, including the lawful basis for processing data and confirmation that consent for collecting and processing personal data details is obtained and recorded.

The Information Governance (IG) Team support service managers in assessing personal data, sharing plans and completing privacy notices. The council's general privacy notice covering the purpose of processing data, consent, information sharing and retention, users' rights, and access to the data is available on the council website, along with service-specific privacy notices. Processes are in place to identify new initiatives and projects, and the IG Team provide support for managers in completing DPIAs. However, four projects did not have a completed DPIA which were flagged and subsequently followed up by the IG Team.

The number of security incidents have been consistently around 400 per year, a third of which do not result in any loss or disclosure outside the organisation. In 2021 there were 372 reported incidents of which seven were classified as data breaches and reported to the Information Commissioner's Office (ICO), with any required changes to procedures reported back to the relevant service. Corporate and service wide initiatives, including additional awareness training directed towards minimising data breaches, are run by the Learning and Development Team with support from the IG Team in reviewing course material. Subject Access Requests are handled by qualified Information Access Officers and a new software package, iCasework, was implemented in 2022 to process requests. This provides daily monitoring reports and performance statistics to the IG Team though it is not fully functional, and work is ongoing to resolve the issues with the provider. Performance statistics and information security incidents are reported quarterly to Business Intelligence for inclusion in dashboard reports and reports to CIGG. We verified the accuracy of reported incidents to supporting evidence.

General Data Protection Regulations (GDPR)

Context

The EU General Data Protection Regulation (EU GDPR) and the Data Protection Act 2018 came into force on 25 May 2018. UK-General Data Protection Regulation (UK GDPR) which reflects the requirements of EU GDPR became part of UK domestic law on 1 January 2021. This establishes the legal framework for processing personal information and information rights of individuals and sets out seven data protection principles including fair and lawful processing and accountability.

The number of reported information security incidents is around 400 a year with a third not considered as incidents after further assessment. Statistics reported in July 2022 showed a slight decrease from the previous quarter to 98 incidents with 29 being "No incidents".

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:

- Governance and Accountability
- Policies, procedures and awareness training
- Data processing audits
- Privacy statements and impact assessments
- Reporting and subject access requests

Compliance with UK-GDPR within services and operational information security arrangements are excluded from the scope of this review.

Schools' SFVS Self-assessment

Schools' SFVS Self-assessment				
Overall assurance rating	**Audit findings requiring action**			
Substantial	**Extreme**	**High**	**Medium**	**Low**
	0	0	0	0

Schools' SFVS self-assessment submissions are supported by evidence of compliance and are consistent with the expected standards in most cases. Most schools buy in to the council's Financial Services Service Level Agreement (SLA) and have a designated finance officer supporting budget setting and monitoring functions. However, in five of the schools we visited only one member of staff was responsible for managing the school's financial services, limiting the ability to adequately separate key financial tasks.

Budgets are set consistently, are supported by two-year forecasts and are reviewed by Resources Committees and approved by the Full Governing Board. However, in most school's budget monitoring reports are produced termly rather than the six times per year required by SFVS. Schools Finance recently amended their SLA to address this and will provide additional budget monitoring reports to meet the requirement, advising that the additional reports are forwarded to Governors for information. We have advised the schools we visited that do not buy in to the SLA to make similar arrangements. There is no requirement for governors to meet more frequently to discuss these additional reports.

School's financial regulations include procurement rules which follow the council's model policy for procurement thresholds or apply lower limits. Most schools hold a business continuity plan which includes disaster recovery, but one school could not provide a plan and three other plans had not been signed by the Head Teacher or Chair of Governors, although they had been reviewed in the academic year. Schools hold employer and public liability insurance. Asset registers are held but the content and review frequency are inconsistent and our schools' asset management audit in October 2022 will address this further.

Context

Completion of the Schools Financial Value Standard is a mandatory requirement for local authority maintained schools. It is designed to help schools self-assess financial management and governance arrangements and identify and address opportunities for improvement.

Scope of Audit

We reviewed a sample of six questions (see Areas of Coverage below) from the SFVS submissions, and verified information provided by 15 schools to assess compliance with the expected standards.

Our audit testing was conducted in July 2022 and covered the submissions relating to the 2021/22 academic year.

Operation of the Lancashire Volunteer Partnership

Operation of the Lancashire Volunteer Partnership

Overall assurance rating

Limited

Audit findings requiring action

Extreme	High	Medium	Low
0	1	4	0

Overall, we can only provide an opinion of limited assurance over the control framework to support achievement of the Council's objectives in relation to the Lancashire Volunteer Partnership (LVP). Whilst we consider it to be adequately designed, there are a number of areas requiring improvement to ensure that it is effectively operated throughout.

Therefore, we have agreed actions to enhance aspects of the control framework. These include

- The review, update, formal approval, and issue of key governance documentation
- The reinstatement of LVP board meetings including requirements to produce minutes and an action log.
- Regular resource monitoring and financial analysis.
- Formalised and enhanced arrangements for reporting and provision of information to senior management and the board to ensure that delivery against targets and objectives are recorded.
- Improved evaluation of the delivery and impact of LVP initiatives within local communities.
- Review, update, formal agreement and retention of Information Sharing Agreements and volunteer statements.
- Publishing of the Privacy Notice on the Lancashire Volunteer Partnership website.

There are established arrangements in place between lead members and affiliate partners and there is a comprehensive website for the Lancashire Volunteer Partnership. The LVP Manager is responsible for the oversight and day to day administration of the partnership which includes resource management and financial monitoring. SLA's and ISA's are in place for affiliate members which detail requirements in respect of data protection, freedom of information, and confidentiality. The Better Impact Volunteer Management System is utilised to hold information and obtain data analysis reports.

Context

In December 2016, the Council and Lancashire Constabulary came together as lead members to form the Lancashire Volunteer Partnership (LVP) establishing a volunteer hub to bring volunteering across the whole of Lancashire's public services together. The Parties agreed that this arrangement should be entered into on a collaborative basis for the pursuit of objectives in the public interest and with a view to securing the economic, social, and environmental wellbeing of the area.

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:

Operation of the Lancashire Volunteer Partnership

- Governance, partnership arrangements and reporting
- Monitoring
- Impact analysis
- Data collection and information sharing

Children's Support Services Hub, Multi Agency Safeguarding Hub

Children's Support Services Hub, Multi Agency safeguarding Hub

Multi Agency Safeguarding Hub Ref: 2022-20

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	1

Children's Support Services Hub Ref: 2022-21

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	1	0

Due to the close relationship between these two audits we are reporting our findings in a single report to avoid repetition and duplication. We have however, provided separate assurance opinions for each audit. We can provide substantial assurance over the adequacy and effectiveness of the controls in place for the policy and processes for managing referrals both within the Multi-Agency Safeguarding Hub (MASH) and Children's Services Support Hub (CSSH). We can also give substantial assurance on the effectiveness of the introduction of the CSSH. Although the directorate have not yet reviewed the impact of the introduction of the CSSH on MASH, this is planned as part of an imminent annual review.

The governance structure is sufficient to facilitate the effective management of MASH. Robust multi-agency working arrangements and interdependencies with key partner agencies and internal teams are established and frequent liaison is demonstrated through attendance at regular operational and strategic meetings and collaborative working. The memorandum of agreement between the partners is out of date, although an updated version is due to be signed off at the January 2023 Strategic Group. Referrals were processed efficiently and effectively in the MASH and the CSSH. The quality and the performance of the referral process is overseen by the service as well as the wider partnership using different mechanisms. Action is taken to address issues where required.

Prior to the introduction of the CSSH there was engagement with stakeholders in different ways and this has continued since the roll out in November 2021. There is a comprehensive induction process for both the MASH and the CSSH, and the MASH operational procedures reflect the changes in process. Not all revised processes are embedded with professionals, as the method of referring cases and the initial assigned level of continuum of need is often incorrect. This results in them being initially signposted incorrectly to MASH and slows down the referral process. However, there has been targeted work with key professionals to reiterate the process, as well as comprehensive ongoing wide-reaching streams of work through the Children's Communication Plan.

Children's Support Services Hub, Multi Agency Safeguarding Hub

Context

The MASH service was established in 2013 and is the single point of access in Lancashire for all safeguarding concerns across all service areas for both children & adults with care and support needs aged 18 years and over. The MASH consists of representatives from the county council's adult safeguarding and children's social care departments working alongside the police, health, education, youth justice service, early help officers, Lancashire fire and rescue, probation and other partners.

In November 2021 the CSSH was launched as "one point of contact into Children's Services". The CSSH is a discreet team within the MASH that processes all requests for services that do not meet the threshold for statutory services.

Data analysis for the 12 months prior to the introduction of the CSSH showed a consistently high number of referrals into Children's Services that did not meet the threshold for statutory services. Almost 85% of referrals to MASH were stepped down to Early Help or Universal Services. The introduction of the CSSH is designed to ensure that the families are signposted to the wider early help provision in line with the continuum of need and principles of the Working Well with Children and Families guidance. The changes should also allow increased capacity for social workers within the MASH to undertake timely, informative enquiries and provide a swift response for those that are most in need of statutory services.

Scope of Audit

Our audits covered the role and impact of the CSSH for processing referrals for non-statutory services, and the policy and processing for managing referrals within MASH. Some of the key areas of controls and testing necessarily overlapped. We reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate key risks relating to the following areas:

- Policy and training within MASH.
- Reporting and triage of cases.
- Assessment and referral of cases.
- Quality of cases.
- Performance Management.
- Implementation of the CSSH.
- CSSH Training.
- Impact of the CSSH.

Treasury Management

Treasury Management					
Overall assurance rating	**Audit findings requiring action**				
	Extreme	**High**	**Medium**	**Low**	
Substantial	0	0	0	0	

Controls operating within treasury management are adequately designed and effectively operated. A Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision statement were all approved at the beginning of the year and treasury management activity is undertaken accordingly.

Testing confirmed that the selection of investments complied with the criteria in the Strategy and investment activity was undertaken within parameters specified in the Strategy. Appropriate documentation is retained to provide a record and evidence of transactions.

Interest receivable on investments is correctly calculated, monitored and received. Independent advisors are used for investment advice and rates of return on investments are competitive in line with independent advice received.

Context

The Treasury Management service administers investments and borrowings for the council in accordance with the Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision Statement approved at the beginning of the year. As of September 2022, the gross borrowing was £1,268 million and value of investments was £1,008 million.

Scope of Audit

In this audit we have reviewed and tested the adequacy and effectiveness of controls and processes established by management to mitigate key risks relating to the following areas:

- Managing risk whilst investing or borrowing funds.
- Maximising returns on investments and minimising costs of borrowing.
- Managing cash flow to identify cash required for delivering services or available for investment.
- Keeping comprehensive records of transactions.

Commercialisation

Commercialisation				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Moderate	0	0	3	0

We can provide moderate assurance on the adequacy of the control framework developed to support the implementation of commercial projects. The controls are adequately designed to support the identification and implementation of commercial projects in accordance with the Commercial Blueprint, but action is needed to ensure controls are effectively operated and continue to do so.

We were informed that options for progressing the commercialisation agenda are currently being reviewed. The actions noted below are for the consideration of management if the current model is continued to make the process of identifying and implementing successful commercial projects more effective.

It is acknowledged that the Change and Improvement team are currently identifying and evaluating all inflight projects within the council to establish the level of benefit these projects are expected to achieve. They have also developed an online tool to evaluate and approve all projects.

Context

A Commercial Blueprint was approved by Cabinet in August 2020. It was recognised that commercial approaches and income generation was an increasingly essential part of the solution to ensuring financial sustainability alongside managing demand reduction and cost efficiency of service delivery. The themes within the Commercial Blueprint included a change of culture, consideration of fees and charges and the identification and selection of new commercial projects.

Whilst a system was set up to identify, implement and monitor commercial projects, the Head of Service (Commercial) who was leading on this left the council during 2022. The council is in the process of deciding how to progress new and existing commercial projects going forward. Separately, the Change and Improvement team is currently identifying and evaluating all projects within the council as part of the improvement plan.

Scope of Audit

In this audit we have reviewed and tested the adequacy of the controls and processes established by management to mitigate the key risks relating to the following areas:

- The identification and initiation of potential commercial opportunities.
- Commercial viability and profitability of projects.
- Non-financial risks of commercial projects.
- Management and monitoring of ongoing projects.

Internal Audit

School's Committee Summaries

Appendix C

Lancashire County Council

School's Committee Summaries

Context

As part of Lancashire County Council's 2022/23 internal audit plan, the Internal Audit Service Audited 15 schools across the county to obtain assurance over the design and operation of asset management controls. This report summarises the key findings for five schools in which the audits have been fully completed. The remaining ten audits are currently being progressed and are nearing completion. The results of these will be reported to the next meeting of the Audit Risk and Governance Committee. A further report outlining best practices found during the audit will be published later this year on the school's Portal in order to share learning with all schools across the County.

Scope of Audit

In these audits 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.
- Asset registers.
- Disposal of assets.
- Insurance and security.

Brookfield School

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	0

Roles and responsibilities relating to asset management are defined in the school's asset management policy which was approved by the Governing Body in September 2022. Separate procedural guidance is not held, as the policy is relied on to provide guidance on the procedural tasks involved. The school's IT Manager is responsible for the maintenance of the asset register, and annual checks are undertaken by the Headteacher to provide sufficient separation of duties between responsibility for operational tasks and for oversight. The register contains sufficient information to identify assets, with details such as item type, location, condition and purchasing value. We confirmed that assets were accurately recorded on the register. Obsolete assets are recorded and prior approval for their disposal is obtained from the Governing Body on a termly basis.

Leyland Methodist Junior School

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	1	1

Roles and responsibilities relating to asset management are defined in the school's asset management policy and were approved by the Full Governing Body in September 2022. Separate procedural guidance is not held, as the policy is relied on to provide guidance on the procedural tasks involved.

The school has recently purchased asset management software and is currently in the process of transferring asset information from the previous register into the new system. The previous register continues to operate until this process is completed and staff are satisfied with the accuracy of data. Asset registers identify assets by item type, location and condition. Labels are being introduced in conjunction with the new asset management software and previously were identified by serial number for IT assets. One instance was found on the new software which incorrectly noted the location of a laptop and could not be found. This will be addressed in line with the transition between the two registers. Annual, complete asset register checks undertaken by a member of staff independent of the day-to-day maintenance of the register are not yet carried out.

Obsolete assets are recorded on the register and are approved for disposal or sale by the Headteacher, but approval is not sought from Governors.

Spring Hill Community Primary School- Accrington

Overall assurance rating

Limited

Audit findings requiring action

Extreme	High	Medium	Low
0	0	3	0

We acknowledge the recent work that has been put into establishing an appropriate policy framework for managing key assets which should, with some adjustment based on our comments, ensure the establishment of effective procedures in future. However, the assurance opinion reflects the fact that the framework is in its formative stage, and we are therefore unable to provide an opinion on it as operated. Roles and responsibilities relating to asset management are defined in the school's asset management policy, however this has not yet been approved by the Full Governing Body. Approval of the draft policy is on the Full Governing Body agenda at their next meeting.

The school is in the process of finalising their asset register following the appointment of the School Business Manager in September. IT assets are identified with supporting information for asset type, condition, value and status, but currently a location is not specified. Outstanding furnishing assets are still to be added to the register. The School Business Manager will be responsible for the maintenance of the asset register once completed. Whilst the school has not operated an asset register previously, the Headteacher has agreed to carry out annual checks from 2023 onwards. Obsolete assets are recorded on the register but proposals to dispose of individual items are not reported to Full Governing Body for approval.

St. Gregory's Catholic Primary School

Overall assurance rating

Moderate

Audit findings requiring action

Extreme	High	Medium	Low
0	0	2	0

Roles and responsibilities are defined in the school's asset management policy, however this has not yet been approved by the Full Governing Body. Approval of the draft policy is on the Full Governing Body's agenda for their next meeting. Separate procedural guidance has been produced following our audit which outlines key tasks, how they are carried out, how often and by whom. This will help support compliance with the policy in the event of unforeseen absence. The school's asset register was created in October 2022 and identifies assets by item type, location, value and condition. Whilst the school has not undertaken checks previously, annual checks will be carried out by a member of staff that is not involved in the day-to-day maintenance of the asset register from 2023 onwards.

Obsolete assets are recorded on the register and approved by the Headteacher but are not submitted to Governors for approval of disposal or sale.

Our Lady's Catholic High School

Overall assurance rating	Audit findings requiring action			
	Extreme	High	Medium	Low
Substantial	0	0	1	1

Roles and responsibilities relating to asset management are defined in the school's finance manual and were approved by the Finance and Premises Committee in February 2022. Procedural guidance for asset management is held for complete register checks and includes a brief outline for new assets and disposals, with the school referring to the policy for general understanding when seeking guidance. The school's IT Department are responsible for the maintenance of the asset register, however checks should also be undertaken by another officer to provide sufficient separation of duties. The register identifies assets by item type, location and condition. Labels are used for items on the register which include QR scanning codes to identify the record information on the register. In some instances, labels had been removed from items and asset register details were not accurate.

Obsolete assets are recorded and sign-off for their disposal is obtained from the Finance and Premises Committee on an annual basis.

Internal Audit

Grant Audit & Audit Consultancy Summaries

2022/23

Appendix D

Lancashire County Council

Local Transport Capital Block Funding Grant 2021/22

Local Transport Capital Block Funding Grant 2021/22
Grant certification and verification We have examined payments made for the 2021-22 financial year in relation to the Local Transport Capital Block Funding Grants which is split into two separate determination letters set out below. The objective of this review was to perform checks and provide assurance that grant conditions have been met. • Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) Specific Grant Determination (2021/22) No.31/5505 • Local Transport Capital Block Funding (Pothole Fund) Specific Grant Determination (2021/22): No. 31/5506 We confirmed that funding was receipted by Lancashire County Council for the full amount of £34,912,000. Grant conditions state that funding may be used only for capital purposes. We confirmed that all expenditure incurred has complied with grant conditions. A grant certificate containing the grant income received and spent in the financial year was produced and signed off by the Head of Internal Audit and the Chief Executive for submission to the Department for Transport (DfT).

Context

This audit has been conducted to provide assurance to the that in line with the grant determination letter, full funding totalling £34,912,000 was received by the council, spent against this grant during 2021/22 on local transport related projects and in accordance with the grant conditions.

The Internal Audit Service considers information and evidence provided by the Finance team in support of grant income and expenditure for 2021-22.

Liverpool Combined Authority Local Energy Hub – Q1 2022/23
Grant certification and verification We have examined payments made in Quarter 1 of the 2022-23 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 is complete, accurate and complies 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. Although employment costs for the period reviewed do not include the pay award for 2022/23 which was agreed in November 2022. The April to October's pay will be backdated in November's payroll.

Context

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 1, is complete, accurate and that grant terms and conditions have been complied with.

Grant funding for the sum of £260,000 plus £10,000 was allocated to Lancashire County Council to support the establishment of the Northwest 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.

Supporting Families Quarter 1 & 2 - 2022-23

Supporting Families Quarter 1 - 2022-23
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 Department for Levelling Up, Housing and Communities (DLUHC) 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.
Supporting Families Quarter 2 - 2022-23
Grant certification and verification We have examined claims made in Quarter 2 of the 2022-23 financial year, in compliance with grant conditions at the request of the Children and Family Wellbeing service to meet the Department for Levelling Up, Housing and Communities (DLUHC) Financial Framework for the Expanded Supporting Families Programme. Audit testing for July, August and September of 2022 comprised a sample of claims from a population of 1,080 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. We can confirm that the number of claims able to be submitted for the financial year period has now been met by the Children and Family Wellbeing service.

Context

Audits of compliance with grant conditions are conducted quarterly at the request of the council's Children and Family Wellbeing service to meet the DLUHC Financial Framework for the Expanded Supporting Families Programme.

For each claim window, the Supporting Families team submit to the Internal Audit Service all claims they consider eligible for submission to DLUHC, and in accordance with the financial framework for the Expanded Supporting Families Programme. They complete a template collating source 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.

Claim	Total Families included	Award per submission	Total per claim	Period covered
Quarter 1	535	£800	£428,000	April to June 2022
Quarter 2	1,080	£800	£540,000	July to September 2022

Business Mileage Claims – analysis of normal commute deductions (consultancy)

Business Mileage Claims – analysis of normal commute deductions (consultancy)
Significant Observations It remains important that employees understand what they are entitled to claim for, and that managers check a proportion of claims for accuracy and compliance with policy before approving for payment. This may require further communication to clarify the rules that apply, including more direct methods than posting on the Intranet such as via team meetings and email. Not all employees follow the policy correctly for claiming business mileage, as they have not deducted their normal commute when travelling from home past and beyond their designated office. From a sample of 181 claims starting the journey at 'home', we identified 29 that had passed the office base, none of which had been adjusted as such resulting in an overpayment of approximately £290. We also identified 167 claims where the word 'less' was included in the journey detail. Analysis of a sample of 108 of these confirmed that normal commute had been deducted accurately from the claim made. The 108 claims paid by the Council totalled £1,842. If the requirement to deduct normal commute was removed, these would have cost the Council an additional £961. The phrase 'past and beyond' that replaced the five-mile radius rule in June 2021 is open to interpretation meaning that our conclusions were based on a judgement of what we deemed to be reasonable rather than any defined Council requirement. We cannot conclude that we identified all relevant claims and caution should therefore be exercised in extrapolating our findings to calculate the exact cost to the Council that any change in policy would have on the whole of the mileage bill. We can say however that removing the requirement to deduct normal commute where officers travelled past and beyond their workplace would increase the costs of claims overall.

Scope of review

We reviewed a sample of business mileage claims paid to employees in the months April to September 2022. Initially claims by Children's Services staff with 'home' in the route details were selected to ascertain those where employees had travelled past and beyond their work base. Thereafter, claims were selected from across all services where 'less' or 'commute' were in the route details to identify those for which normal commute mileage was deducted from the claim.
Our testing aimed to:

- analyse compliance with policy regarding the deduction of normal commute mileage from business mileage claims; and
- to determine the effect a removal of this requirement would have on the cost of mileage claims paid by the Council.

The Oracle system does not produce data that automatically identifies claims where an employee drives past and beyond their office base. As journey details are entered by claimants in free text there is a lack of consistency in the words used meaning that our samples were identified by searching for the key phrases. Analysis of the journeys entered was required by reference to office details recorded in Outlook, home address in Oracle HR and google maps.

Business Mileage Claims – analysis of normal commute deductions (consultancy)

In the payment period examined (1 April to 30 September 2022) 3,824 employees (including school based) submitted 121,000 claims for business travel, for a total payment of £1.67m.

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected:
(All Divisions);

Corporate Risk and Opportunity Register - Quarter 3 Update
(Appendices 'A' and 'B' refer)

Contact for further information:
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Brief Summary

This report provides an updated (Quarter 3 2022/23) Corporate Risk and Opportunity Register for the committee to consider and comment on. The register has been refreshed to reflect the council's current operating environment and is presented to this committee to provide a progress update and assurance that the current risk management arrangements are both robust and effective.

The updated Corporate Risk and Opportunity Register is attached at Appendix A. The risk entry for Cyber Security 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

This report provides an updated (Quarter 3 2022/23) Corporate Risk and Opportunity Register for committee to consider and comment on. The register was refreshed at Quarter 2 to reflect the council's current operating environment and is now presented to committee to provide an update and assurance that the current risk management arrangements are both robust and effective.

In line with the council's Risk Management Framework, the Executive Management Team review (quarterly) the Corporate Risk and Opportunity Register, taking account of the current and predicted future internal and external environment in which the county council and its strategic partners operate. The Corporate Register sets out the 'across the board' risks that could threaten the authority's core business and the way it operates. Below this are Directorate Registers that are managed by Executive Directors and identify risks that could threaten day-to-day activities. Where a new directorate risk has a score of 12 or above, it is automatically referred to the Executive Management Team for consideration for inclusion on the Corporate Register. However, the Executive Management Team may decide not to escalate such a risk to the Corporate Register and ask that it is managed at an operational level. This may be because the Executive Management Team consider that the risk does not threaten the core business of the organisation or that the score has been over inflated (scores are subjective). This process was discussed at the last meeting of the Audit, Risk and Governance Committee. Consequently, the committee has asked to be informed of future instances of when a risk has been considered by the Executive Management Team but not escalated onto the Corporate Register. Further details of such risks are set out below.

Quarter 3 Update Summary of key points:

The risks and opportunities have been updated using information provided through directorate risk registers. None of the current risks or opportunities were removed from the register as they had not reached their target score. Two of the new risks added at the last review (Financial Sustainability, and Recruitment and Retention) will prove challenging over the short to medium term as their current risk scores remain high even though mitigating actions have been put in place.

It should be noted that the target risk confidence RAG rating for School Places has moved from green to amber to reflect the current position. Work is ongoing with schools to support them to offer places and the council's school place sufficiency strategy will deliver additional places. The amber rating reflects the level of challenge to mitigate completely.

Corp 1 - Financial Sustainability

On 3 November 2022, Cabinet agreed the budget and savings proposals for 2023/24. The financial forecast reported to Cabinet in September identified an estimated financial gap of £87.054m in 2023/24, rising to £159.678m by 2026/27 which reflected the financial pressures common across local government. The savings proposals were generally focused on areas which would reduce cost or generate additional income without impacting negatively on service quality. There were also several cross cutting strategic targets that were included that would further support reducing the financial gap and improve the efficiency and effectiveness of the organisation. The savings that have been agreed to date are being closely monitored. There is a combination of savings that were planned to be delivered in 2021/22 or earlier and were delayed due to the pandemic, and the budgeted savings agreed to be reprofiled for 2022/23.

On 17 November 2022, the Autumn Statement took place, with the Chancellor of the Exchequer providing details of both additions and reductions in funding for the local government sector overall and changes to costs, such as the National Living Wage. Whilst an initial assessment suggests that the impact of the funding changes announced in the statement should be positive overall for the 2023/24 budget position, there is uncertainty about the actual impact on individual council funding allocations until further information is made available. The provisional local government finance settlement published on the 19 December 2022 is anticipated to have a positive impact on the current Medium Term Financial Strategy position and the updated Medium Term Financial Strategy will be reported to Cabinet in January 2023. The impact of the settlement on this risk will be reported in Quarter 4.

Corp 2 - Workforce Recruitment and Retention

Workforce Recruitment and Retention focusses on the Human Resources aspects of the risk as well as incorporating the service issues and consequences, together with the mitigating actions being implemented. This has a risk score of 16 and a target score of 12. This acknowledges that whilst this is a major risk, we are proactively working to mitigate it in the short to medium term. However, given the breath of the risk across services it is RAG-rated red.

Corp 3 – Demand for Services

Demand for client-based services across Adults and Children's Services continues to increase. Both Adult and Children's Social Care and the Special Educational Needs and Disabilities (SEND) service have put in place a range of mitigating actions and are progressing actions on several fronts to reduce the risk score.

Corp 4 – Our Improvement Journey

The Interim Executive Director of Resources is working with services to develop an integrated business planning and performance framework. Other developments include:

- The introduction of a corporate change plan;
- Developing additional metrics and measures relating to the Staff Experience and Customer Experience workstreams;
- Work to develop additional data and analysis skills within Lancashire County Council's workforce is proceeding;
- A programme of training for Lancashire County Council's staff to develop Agile, Lean, and continuous improvement skills has commenced; and
- New data sets will support the next phases of the property review, providing a more accurate and up to date picture of building usage and efficiency.

Corp 5 – Social Care Reform

Adult Social Care and the Health Partnership Board has agreed a joint work programme and work is progressing. Work is being undertaken to explore the opportunity to create an integrated approach to commissioning and the development of an integrated approach to service delivery. This is particularly focused on the use of Lancashire County Council residential care to prevent avoidable admissions and increase support for EMI (Elderly Mentally Infirm) and EMD (Elderly Mental Dementia) homes. An Adult Social Care Performance Board has been established to monitor progress.

Corp 6 – School Places

The target risk confidence RAG rating for School Places has moved from green to amber to reflect the current position. Work is ongoing with schools to support them to offer places and the council's school place sufficiency strategy will deliver additional places. The amber rating reflects the level of challenge to mitigate the risk completely. Developing approaches to better support new arrivals to county/country including support to address language barriers

CO1 – New Ways of Working

Within Adult Social Care and Public Health, the 'lessons learned' from remote working have provided a platform for future ways of working. It also provided an opportunity for improved partnership working to build better alliances with our partners to deliver improved outcomes for the people of Lancashire. The Living Better Lives in Lancashire project will build on new ways of working, and Adult Social Care and the Health Partnership Board continue to build on the benefits of joint working.

CO2 – Environmental Improvements

Recent changes include a Corporate Charging infrastructure for Electric Vehicles. We are also undertaking a premises review which will help reduce carbon emissions and identify properties for improvement. We continue to investigate opportunities for carbon reduction in our premises and seek sources of external funding.

CO3 – Sub Regional Place Leadership and Governance

The Government has re-emphasised its commitment to devolution through the Levelling Up White Paper, and several devolution deals with other regions were announced over Summer 2022. Work on Lancashire 2050, governance and scope continues through regular meetings of the Lancashire Leaders. Leaders await a response from Government about further engagement on a county deal, and clarity on how the new government will continue to develop this policy agenda.

New Risks Considered by the Executive Management Team

The Executive Management Team were asked to consider whether the following issue(s) should be added to the corporate register:

- **National Changes to Sustainable Travel Policy and Funding (Current risk score 16) (RAG: RED)**

  This is a new risk on the Growth, Environment and Transport directorate register. The risk relates to changes about how highways and transport are funded nationally (sustainable and active travel). If the county council does not have the capacity to respond positively and consistently there is a risk that we will be unable to maintain existing funding from the Department for Transport nor secure new capital funding.

In terms of mitigation, the service is examining options to increase capacity in the area of sustainable travel.

- **Health, Equity, Welfare & Partnerships (HEWP) – Staff Capacity to Deliver Key Responsibilities (Current risk score 20) (RAG: Amber)**

  This is a new risk on the Public Health register. The risk relates to the capacity to deliver statutory and non-statutory services, for example recommissioning public health contracts.

  To mitigate this risk the service is filling critical posts. Recommissioning has been identified as a service priority and they are receiving support from the Programme Office.

- **Health, Equity, Welfare and Partnerships – Performance Management of Key Services (Current risk score 16) (RAG: Amber)**

  This is a new risk on the Public Health register and relates to the performance of key contracts. Underperforming contracts may not provide the desired outcomes. In terms of mitigation, contract monitoring arrangements are in place together with performance challenge meetings with providers. Additional measures are being introduced via further contract management and legal support to appropriately challenge under performance.

- **Health, Equity, Welfare and Partnerships – Budget Pressures including Agenda for Change Requests from Providers (Current risk score: 20) (RAG: Amber)**

  This is a new risk on the Public Health register and relates to budgetary pressures faced by providers that leads to under performance or contract variation. The service has established a process to deal with uplift requests and has reserves to meet one off requests. The service is assessing the appropriate scope of the contract and identifying appropriate level of potential annual uplift at recommissioning.

Whilst each of the new risks above scores 12 or above, the Executive Management Team felt that they tended to be more operationally focused than strategic in nature. Therefore, the Executive Management Team decided not to escalate the risks onto the Corporate 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 & Opportunity Register 2022/23 Q3

Risk ID Corp 1	**Title: Financial Sustainability**	**Current risk score: 20**	**Target Risk Score: 16**	
Risk Description **Failure to deliver a sustainable financial strategy that supports the delivery of the corporate strategy and four priorities** Causes: • The current medium term financial strategy indicates a forecast funding gap of £87.054m in 2023/24, an increase of £56.506m on the previously reported position, with the forecast gap rising to £159.678m by 2026/27 • Inability to set a balanced budget or deliver services within available resources because of various issues that include economic uncertainty; rising inflation that exceeds budget provision; high demand on care services; lack of certainty over future funding; specific impact of proposals for funding care costs (cap on the lifetime cost of personal care)	**Risk Consequences** • Increased overspends in particular services • Services become unsustainable and we cannot fulfil our statutory duties because of funding pressures not being met • Adverse impact on clients/residents • Insufficient reserves • Unable to meet savings targets • External intervention if the council is unable to deliver a balanced budget in future years • Reputational damage • Budgetary pressures on providers leading to underperformance or contract variation • The council is unable to support all its capital investment requirements going forward resulting in a focus primarily on reactive works and resultant negative impact on asset condition	**Risk Owner** Executive Director of Resources/S151 Officer **Target date** March 23/Ongoing	**Current Likelihood** Likely (4) **Target Likelihood** Likely (4) **Target Risk Confidence**	**Current Impact** Catastrophic (5) **Target Impact** Major (4)

Current Controls	Control Owner
- 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 - Capital Strategy and capital delivery programme approved annually at Full Council in February	S151 Officer/Director of Finance/Executive Directors
Mitigating Actions	**Mitigation Owner**
- 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 - Assessing scope of contracts and reviewing uplifts at recommissioning - Transformation options considered towards meeting future years funding gaps - The capital programme is managed by Capital Board at an officer level to ensure that its development 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.	S151 Officer/Director of Finance/Executive Directors

• Additional capital requirements for 2023/24 to be provided by services before the end of July for consideration by EMT / Cabinet as part of the 2023/24 budget process.	
Progress: • On 3 November 2022 Cabinet agreed the budget and savings proposals for 2023/24. The financial forecast reported to Cabinet in September, identified an estimated financial gap of £87.054m in 2023/24, rising to £159.678m by 2026/27 which reflected the financial pressures common across local government. The savings were generally focused on areas which would reduce cost or generate additional income without impacting negatively on service quality. There were also several cross cutting strategic targets that were included that would further support reducing the financial gap and improve the efficiency and effectiveness of the organisation. The savings that have been agreed to date are being closely monitored. There is a combination of savings that were planned to be delivered in 2021/22 or earlier and were delayed due to the pandemic, and the budgeted savings agreed to be reprofiled for 2022/23. • On 17th November 2022, the Autumn Statement took place, with the Chancellor of the Exchequer providing details of both additions and reductions in funding for the local government sector overall and changes to costs, such as the National Living Wage. Whilst an initial assessment suggests that the impact of the funding changes announced in the statement should be positive overall for the 2023/24 budget position, there is uncertainty about the actual impact on individual council funding allocations until further information is made available. • Capital Board meets fortnightly and has senior membership from all key service areas	

<table>
<tr><td colspan="2">Risk ID Corp 2</td><td colspan="2">Title: Workforce recruitment and retention</td><td colspan="2">Current risk score: 16 Target Risk Score: 12</td></tr>
<tr><td colspan="2">Risk Description
Unable to attract and recruit candidates, and retain staff leading to an inability to deliver services

Causes:
• Lack of suitably qualified candidates in the labour market
• Non-competitive pay rates
• Unattractive terms and conditions
• Retention policies ineffective
• Poor workforce planning (including lack of workforce data) with an ageing workforce
• Commissioned services and education settings unable to recruit and retain staff</td><td>Risk Consequences
• Reduced capacity and skills to deliver key roles and council priorities leading to increased waiting times and delays for people in need of support
• Potential skills gap and deterioration in service delivery through loss of experienced staff and age profile of workforce
• Unable to deliver statutory services and services in key areas
• Adverse impact on clients/residents/businesses
• High vacancy rates
• High use of agency staffing
• Pressure to increase market rates
• Weaknesses in approach to workforce planning
• Reputational damage
• Increased demands and pressures on remaining staff leading to morale issues
• Commissioned services and education settings fail</td><td>Risk Owner

Executive Directors

Target date

March 23</td><td>Current Likelihood

Major (4)

Target Likelihood
Possible (3)

Target Risk Confidence</td><td>Current Impact

Likely (4)

Target Impact
Major (4)</td></tr>
<tr><td colspan="3">Current Controls
• Performance management dashboards established to collate and analyse workforce data
• Governance structure identified to manage and lead the workforce performance & strategy (ASC)
• Education and Children's Services Workforce Strategy agreed April 2022
• Corporate workforce group to facilitate joint solutions with directorate SMTs
• Developing talent acquisition team and recruitment support
• Commission recruitment consultants for some roles</td><td colspan="3">Control Owner
Executive Directors</td></tr>
</table>

• Skills and development opportunities • Performance engagement • Social work academy • Additional OT capacity being sought from COMF funding to start July 2022 • Backlog agency in place from April 2022 (Attenti)	

Mitigating Actions
• Regular discussions at directorate management teams to understand areas where recruitment and retention is a challenge
• Corporate exercise to identify recruitment and retention issues related to hard to fill posts
• Reviewing structures as appropriate
• In Adult Social Care, regular monitoring and action plans are in place and include:
• ASC Workforce Strategy refresh in progress that includes:
  ◦ Provider Services Recruitment Action Plan
  ◦ Key transformation priorities (LBLiL, Demand Management) will address workforce issues in the immediate & longer term
  ◦ Discissions with HR re international recruitment (pending data analysis)
  ◦ Ensuring the right capacity within our workforce to respond to the demand.
  ◦ Additional capacity being sourced to help clear some of the Occupational Therapy Backlogs
  ◦ Workforce data framework established
  ◦ Performance Management Board established
  ◦ In-house Provider Workforce sub-group established focused on recruitment and retention
• Education and Children's Workforce Strategy established that includes:
  ◦ Strengthening recruitment activity through, for example, clear approach to engagement through social media, virtual open days, engagement with local education partners, promoting LCC as an
	Mitigation Owner
	Executive Directors

employer of choice, targeted recruitment activity including overseas recruitment • Strengthening retention activity through, for example, creating an inclusive and diverse workplace, listening to and responding to employee voice, clear development frameworks and learning opportunities, talent management, manageable caseloads and effective tools for the job	
Progress: • Engagement of an interim Director of People and Culture has been undertaken to help progress the outcomes of the HR/L&D review. The review of HR, Skills, Learning and Development will result in a strategic service offer to support delivery of the council's ambition to have a high performing workforce. This includes embedding workforce planning and developing attraction and retention strategies • Regular discussions at directorate management teams to understand areas where recruitment and retention is a challenge and to put in place/monitor mitigating actions • In terms of key system risks we are proactively engaged with the NHS on workforce issues • Effective succession planning including 'grow your own' initiatives and using the Apprenticeship Levy to address challenges in the medium to long term • Actions taken to improve sickness levels include weekly reviews of our absence data, targeting those services with trends and peaks early and providing support to prevent short term absence becoming long term • New vacancy approval process in place – filling critical posts	

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<tr><td colspan="2">Risk ID Corp 3</td><td colspan="2">Title: Demand for Services</td><td colspan="2">Current risk score: 16 Target Risk Score: 8</td></tr>
<tr>
<td>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

Causes:
• Provider failure
• Insufficient funding
• As we move into winter, seasonal illnesses such as flu and further Covid 19 peaks could exacerbate this risk
• Adverse impact of the rising cost of living, high inflation, and increased cost of energy
• Lack of qualified staff

See Corp 1 & 2</td>
<td colspan="2">Risk Consequences

• Significant financial pressure on the county council
• Poor outcomes for those people in receipt of our services
• Potential adverse impact on quality-of-service provision as backlogs and waiting times could increase further
• Pressure on specific services such as Mental Health which are already under strain
• Could result in additional safeguarding alerts
• Additional pressures on family and other carers
• Pressures on already pressured and fatigued workforce (internal and external)
• Could result in strained relationships with key partners such as NHS, VCFS and external market
• Potential drift and delay – impact on timeliness of assessments, plans and interventions with children and families
• Special Educational Needs & Disability - Insufficient local places to meet needs</td>
<td>Risk Owner

All Directors and Heads of Service within Adult Social Care and Education & Children's Services

Target date

March 2023</td>
<td>Current Likelihood

Likely (4)

Target Likelihood

Possible (3)

Target Risk Confidence</td>
<td>Current Impact

Major (4)

Target Impact

Moderate (3)</td>
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<td colspan="3">Current Controls
Adult Social Care
• Working with the NHS locally to model capacity, agree plans and procedures (particular focus on Continuing Health Care (CHC), system resilience and hospital discharge), financial flows and workforce requirements
• Designated leads in LCC to ensure oversight, performance, and assurance
• Incomplete CHC Referrals Board in place – meets weekly to review progress/address issues</td>
<td colspan="3">Control Owner
All Directors and Heads of Service within Adult Social Care and Education & Children's Services</td>
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• ICS CHC recovery group in operation, with reporting lines upwards • Quality Improvement Strategy in development • Additional Agency staff maintained from April 2022 from temporary Covid grant (COMF) • Additional Occupational Therapy (OT) capacity in place with COMF funding • Processes and procedures are in place to help manage current demand for Adult Mental Health services • Review of 'front door' underway to improve how we work with people when they approach us for services • Assessment backlog Performance Management in place with fortnightly boards and weekly reports • New ASC internal structure and appointment of LCC Exec Director in joint leadership role as Director of Health and Care for Lancashire should result in an improved approach to cross system working to address demand pressures **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 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	
Mitigating Actions	**Mitigation Owner**

• CHC: Ongoing discussions and working group in progress at ICS level • New practice focussed project Living Better Lives in Lancashire will fundamentally change the approach and ways of working particularly around current front-line assessment and determination of services (see ASC 8 below) • Undertaking an evaluation in terms of demand and capacity to ensure we have the right capacity within our workforce to respond to the demand. • Additional capacity sourced to help clear some of the Occupational Therapy Backlogs • Working closely with providers to review capacity in the domiciliary care sector and how to improve this which will include the prioritisation of care delivery to the most vulnerable people and key/essential tasks. • Winter resilience planning in progress in collaboration with the NHS • Review of front door will assess how people currently access services and support increase of signposting and use of community assets **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 **SEND** • Delivery of priorities within the SEND sufficiency strategy • Consulted on Strategy • Ongoing consideration of Covid impact	As above plus Area and County Managers across directorates
Progress:	

• Negotiated an agreed position with NHS in respect of responsibility for funding CHC. NHS have confirmed commitment to pay one off monies in current year in respect of previous/on going cases and will reimburse appropriately going forward. • In principle decision taken to bring forward the re-procurement of homecare. Reablement and crisis services will also be reprocured next year • Review of in house older people's care services is underway • Review of day services is underway • Discussions in progress with Shared Lives Plus to potentially expand the offer • Adult Mental Health bed delays continue to increase • Backlog – Performance Board established fortnightly, dashboards in process of validation, some reporting remains off-system (carers service make manual submissions) • ASC Performance Board to pick up actions and monitor progress • Front Door – baseline data being completed and draft SLA underway • Early Help Strategy agreed. Delivery ongoing. • Family Safeguarding implemented. • Outreach services expanded. • Family Group Conferencing evaluation as part of national programme. VCFS provision in place supporting referrals from Children's Social Care Teams 'Where our Children Live' capital bid to Department for Education was successful and plans to implement developed • Avoidance of high-cost placements workstream being established through Where Our Children Live project • Consideration of further bid to DfE for children's home capital funding • SSEND Sufficiency Strategy agreed by Cabinet • 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. • SEND Partnership Plan agreed • Additional SEN Units being established • Agreement to establish new SEN provision in North of County • Staffing options developed	

Risk ID Corp 4	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
 	
Causes:
• Inability to secure sufficient resource (capacity) across the organisation to deliver on some areas of the Improvement Journey due to competing priorities
• Not having a joined up, cohesive, corporate wide LCC change programme with EMT oversight and appropriately allocated resources.
• Multiple front doors with multiple gatekeepers to initiate change leading to:
 	
  • A lack of strategic prioritisation, sequencing and link to corporate objectives
  • Too many completing asks
	Risk Consequences
	
	Insufficient 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 consequently, 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 (EMT)/Director of OD & Change
		
		Target date
		March 2023/Ongoing
			Current Likelihood
			
			Major (4)
			
			Target Likelihood
			Possible (3)
			
			Target Risk Confidence
				Current Impact
				
				Major (4)
				
				Target Impact
				Moderate (3)

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<td>• Silo working approach
• Inconsistent approach to prioritisation and delivery of change projects

See Corp 1, 2 & 3</td>
<td>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

Commercialisation
• We will not achieve our commercialisation vision</td>
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<td colspan="2">Current Controls
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.
• Engagement of an interim Director of People and Culture

Change Programme
• Detailed PMO roadmaps developed with Adults, ECS and PH, and resourcing issues resolved.

Our ways of working
• Improvement Journey priorities aligned with corporate priorities, subject to regular review by Strategic Improvement Board
• Staff Experience established, with plan in place for priority outcomes & deliverables for the next 12 months
• Values & Behaviours developed and disseminated
• Customer Experience SRO and lead appointed</td>
<td colspan="3">Control Owner
Director of OD & Change</td>
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- 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
- Leadership and management development offer in place and evolving to meet needs of new ways of working
- 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

Commercialisation

- Commercialisation blueprint approved by cabinet

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Mitigating Actions
Capacity

- Continue to recruit to remaining positions and key matrix roles (including Change Hubs)
- Regular engagement with EMT 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.

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Mitigation Owner
Director of OD & Change

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• Support EMT to have greater visibility and discussion on the entire change programme enabling informed strategic decision making from EMT 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 • 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 **Commercialisation** • Commercial champions/network in place • Commercial learning programme and business planning framework		
Progress: • Develop additional metrics and measures relating to the Staff Experience and Customer Experience workstreams. • Work to develop additional data and analysis skills within Lancashire County Council's workforce is proceeding • A programme of training for Lancashire County Council's staff to develop Agile, Lean and continuous improvement skills has commenced • New data sets will support the next phases of the property review, providing a more accurate and up to date picture of building usage and efficiency • The change and improvement service has developed a draft integrated framework which links strategy and priorities, business planning, financial planning and performance reporting for discussion at the Strategic Improvement Board in November.		

• A corporate change plan which supports prioritisation, resourcing, benefits planning and realisation, and governance is under development. All current change initiatives are being reviewed and prioritised for delivery.		

Risk ID Corp 5	**Title: Social Care Reform**	**Current risk score: 15**	**Target Risk Score: 6**	
Risk Description Reform of local government and/or the health and social care landscape has the potential to disrupt services, have a significant impact on staff and divert attention away from local efforts to transform and improve services (e.g. Health and Care Bill and White paper on Social Care Reform)	**Risk Consequences** Lack of clarity regarding roles, governance, accountabilities and working arrangements with the ICS, ICB and Place Based Partnerships together with funding implications for adult social care Potential for increasing staff costs as many services which are 'county wide' may need to be provided on a more local footprint. Potential negative impact on local officer working relationships with partners including health and districts.	**Risk Owner** **ASC leadership in conjunction with CMT and partners** **Target date** March 2023	**Current Likelihood** Certain (5) **Target Likelihood** Possible (3) **Target Risk Confidence**	**Current Impact** Moderate (3) **Target Impact** Minor (2)
Current Controls • Structural change position closely monitored, and messages of reassurance given to staff and partners • ASC leadership feed in to local and national discussions and contribute to corporate business cases for change • A number of the joint/strategic decision-making groups e.g. Adult Social Care & Health Partnership, OOH cell, are being maintained to build on the collaborative ways of working • The impact of the new social care reforms is under consideration		**Control Owner** All ASC Directors and HoS		

Mitigating Actions	Mitigation Owner
• Joint work programmes being agreed between ASC and NHS • Place Based Directors of Integration to have joint accountability to the NHS and Upper Tier Local Authorities • Continue to build strong and effective working relationships with partners in anticipation of any structural reform • Continue to brief staff and managers of impact of any potential structural changes and take advantage of positive changes that may result	As above
Progress: • Adult Social Care and Health Partnership Board has agreed a joint work programme and work is progressing • We are exploring the opportunity to create an integrated approach to Commissioning • Also exploring development of Integrated approach to service delivery, in particular the use of LCC residential care to prevent avoidable admissions, and increase support / offer for EMI / EMD • ASC Performance Board established to monitor progress	

Risk ID Corp 6	Title: School Places		Current risk score: 12	Target Risk Score: 8
Risk Description Insufficient school places in some parts of the county meaning children and young people are missing out on education	**Risk Consequences** • Children are put at risk of harm • Children missing out on education • Adverse publicity	**Risk Owner** **Director of Education and Children's Services** **Target date** March 2023	**Current Likelihood** Possible (3) **Target Likelihood** Possible (3) **Target Risk Confidence**	**Current Impact** Major (4) **Target Impact** Major (4)
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		**Control Owner** Director of Education and Children's Services		
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		**Mitigation Owner** Director of Policy, Commissioning and Children's Health		
Progress:				

• Ongoing discussions to identify further opportunities and mitigations • Assets Team secured consultancy support • Developing approaches to better support new arrivals to county/country including support to address language barriers	

Opportunity ID: CO1	**Title: New Ways of Working (ACS&PH)**	**Current Opp score: 15**		**Target Opp Score: 20**
Opportunity Description The 'lessons learned' from remote working have provided a platform for future ways of working. Improved Partnership working to build better alliances with our partners to deliver improved outcomes for the people of Lancashire.	**Opportunity Consequences** 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. We will take advantage of technology to improve the way we work and also improve and enhance our service offer. We will use people's skills in a more flexible way and spend less time planning and more time in doing These new ways of working and innovative approaches to service delivery should enable financial savings to be achieved 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 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.	**Opp Owner** **ASC leadership** **Target date** March 2023	**Current Likelihood** Certain **Target Likelihood** Certain **Target Opp Confidence**	**Current Impact** Moderate **Target Impact** Major

Current Controls • ASC leadership team continue to seek best practice examples and share learning • Ongoing reviews of services will capture potential financial savings	**Control Owner** ASC Directors and HoS

• Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money • Front Door Project will focus on introducing training and upskilling to CAS on technology solutions, working with 3rd sector partners and improving knowledge of community assets, working with Digital Gaps.	
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: • Living Better Lives in Lancashire project will build on new ways of working • Adult Social Care and Health Partnership Board continues to build on benefits of joint working • WAH Risk assessment to be reviewed • Working remotely on Teams guidance developed	

Opportunity ID: CO2	**Title: Environmental Improvements**	**Current Opportunity score: 6**		**Target Opportunity Score: 16**
Opportunity Description **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	**Opportunity Consequences** • 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.	**Risk Owner** HoS P&IT **Target date** Ongoing	**Current Likelihood** 3 **Target Likelihood** 4 **Target Confidence**	**Current Impact** 2 **Target Impact** 4

Progress to date	Control Owner
• 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. • Premises review underway	HoS P&IT Fleet Manager and Property Service
Actions to realise • Corporate Charging infrastructure for Electric Vehicles • We are also undertaking a premises review which will help reduce carbon emissions and identify properties for improvement. We continue to investigate opportunities for carbon reduction in our premises and seek sources of external funding.	**Opportunity Owner** Director of Highways & Transport Director of Strategy & Performance

Opportunity ID CO3 – Sub Regional Place Leadership and Governance		Current Opportunity score: 12		Target Opportunity Score: 16
Opportunity Description There is an opportunity for Lancashire to secure appropriate sub-regional governance, powers and resource to maximise shared outcomes and priorities (e.g. Combined Authority, Elected Mayor, County/Devolution	**Opportunity 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,	**Opp Owner** Phil Green **Target date** Lancashire (collectively all 15 authorities) to	**Current Likelihood** Likely (4) **Target Likelihood**	**Current Impact** Major (4) **Target Impact**

Deal or other appropriate arrangement) through Central Government legislation, negotiation, Local Government Reorganisation or other mechanism.	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.	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.	Possible (3) **Target Opp Confidence**	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
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.	**Mitigation Owner** Director of Growth, Environment & Planning

• Building strategic capacity and resource to develop and deliver new strategic and policy framework including operational governance and theme groups.		
Progress: • The Government has re-emphasised its commitment to devolution through the Levelling Up White Paper. Work on Lancashire 2050 strategic framework continues through regular meetings of Lancashire Leaders. Leaders await a response from Government regarding further engagement on county deal. • Cabinet to consider outline Lancashire 2050 strategic framework as the strategic framework that will guide further development of shared detailed priorities and actions with partners and stakeholders across the whole of Lancashire. • Leader of the Council will continue to work with Lancashire Leaders in line with the principles already agreed by Full Council in January 2022		

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			

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 January 2023

Electoral Division affected:
None;

Code of Conduct - Annual Report of Complaints
(Appendix 'A' refers)

Contact for further information:
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Brief Summary

This report presents a summary of all complaints received in 2022 against county councillors under the Code of Conduct.

Recommendation

The Audit, Risk and Governance Committee is asked to note the summary and comment as appropriate.

Detail

Under the Localism Act 2011, the county council is required to have a Code of Conduct for Councillors ("the Code").

The Code has three elements:

- Behavioural expectations (principally aligned with the Nolan principles)
- Requirements around registering and declaring interests
- Requirements around Gifts and Hospitality

Complaints that a councillor has breached the rules around the registration and declaration of pecuniary (i.e. financial) interests are a criminal matter and complaints would be dealt with by the police. The county council is not aware of any allegations made to the police against Lancashire County Councillors in this regard.

All other complaints that a councillor has breached the Code are dealt with according to local arrangements, agreed by Full Council in 2012. There is a three-stage process:

1. An initial assessment by the Monitoring Officer. The Monitoring Officer determines whether the complaint is within the remit of the Code and not

vexatious. If the Monitoring Officer identifies that a complaint is legitimate, informal resolution will be explored, such as an apology or explanation that will satisfy the complainant without unnecessary use of resources. At this stage, a written response is sent to the complainant to advise them whether a complaint is dismissed as it is outside the Code, or not a breach of it, or if it is upheld and will be resolved informally. There is no right of appeal against the Monitoring Officer's decision at this stage.

2. Investigation. Where the Monitoring Officer is unable to resolve a complaint informally, a full investigation will be undertaken, including interviews and examination of evidence. The Monitoring Officer will either determine that there has been no breach of the Code, in which case the matter is at an end, or that there has been a breach, in which case it will be referred to the Conduct Committee for consideration.

3. Conduct Committee consideration. The committee will receive the report of the Monitoring Officer and determine what action to take. The councillor who is subject to the complaint will have the right to attend and make representations. The committee must take the views of the appointed "Independent Person" into account before reaching a decision.

The emphasis, in line with the government's initial intention in revising the Standards arrangements in the Localism Act 2011, is to reduce bureaucracy and seek informal resolutions where possible. This avoids lengthy and potentially resource intensive investigations into minor or vexatious complaints.

Independent Persons

Local authorities must also appoint an "independent person" whose views must be sought by the local authority before a decision is taken in relation to an allegation of misconduct. Members who have had allegations made against them may, if they wish, also seek the views of the independent person.

Lancashire has appointed three independent persons, to ensure that there can be appropriate separation between the roles of supporting the subject member and advising the committee, should it be necessary to do so.

Complaints 2022

In general, Lancashire continues to receive relatively few complaints about county councillors. A full summary of complaints received in 2022 is attached at Appendix A.

There were two significant complaints received:

- In one case, comments made by a councillor on Radio Lancashire relating to public behaviour during the pandemic lockdown generated a large volume of complaints. A total of 15 emails or letters were received, although in a couple of cases, the correspondence was more in the nature of a challenge back or criticism of the councillor rather than a complaint. The councillor in question quickly apologised and withdrew their comments, and therefore no further action was taken, although the council made clear, in the response to the complainants, its appreciation of the efforts of the people of Lancashire in very difficult and sometimes distressing circumstances.

- In a second case, the Monitoring Officer has undertaken a full investigation into the behaviour of a councillor following a complaint. This is due to be considered by the Conduct Committee in the new year, and at the time of writing this report, the outcome is not known. It is, however, unusual for the Monitoring Officer to undertake a formal investigation into a complaint, it being the case that most complaints are able to be resolved informally.

The Audit, Risk and Governance Committee is invited to note the report and make any comments or observations about the complaints received or processes around managing complaints.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The county council is required to have a Code of Conduct for councillors under the Localism Act 2011.

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

Date	Complainant	Summary of allegation	Outcome
February 2022	Member of the public	Failure to respond to enquiries	No breach. Councillor was able to demonstrate they had made efforts to communicate and had, subsequent to the complaint, successfully made contact with the complainant to discuss the issues.
February 2022	Members of the public (15 complaints)	Comments made on Radio Lancashire suggested breaching pandemic lockdown rules was widespread	Councillor withdrew comments and apologised at a public meeting.
February 2022	Member of the public	Councillor gave incorrect information to residents and meetings and failed to resolve a local issue	No breach. Councillor was able to provide evidence that they had made efforts with officers to resolve the issues, and therefore the information given to residents and meetings was correct as far as the Councillor could reasonably establish.
August 2022	Contractors	Councillor acted in an intimidating way to contractors and implied they were empowered to act on behalf of the council.	Remains under investigation. Conduct Committee to consider early 2023.

Appendix A

Agenda Item 17

(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

Appendix A

(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

Agenda Item 18

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 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

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