Lancashire County Council

Audit, Risk and Governance Committee

Monday 29th January 2024 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 16 October 2023** To be confirmed and signed by the Chair.	(Pages 1 - 8)
4.	**Treasury Management Activity 2023/24**	(Pages 9 - 18)
5.	**Treasury Management Strategy 2024/25**	(Pages 19 - 50)
6.	**Significant Accounting Policies Used in the Preparation of the Council's Statement of Accounts 2023/24**	(Pages 51 - 70)
7.	**External Audit: Audit Progress Report and Sector Update**	(Pages 71 - 82)
8.	**External Audit: Lancashire County Pension Fund Audit Findings Report 2022/23**	(Pages 83 - 126)
9.	**Internal Audit Progress Report**	(Pages 127 - 168)
10.	**Governance Risk and Resilience Framework Review**	(Pages 169 - 176)

11. Code of Conduct - Annual Report of Complaints (Pages 177 - 182)

12. Local Member Grants Scheme - Update Report (Pages 183 - 188)

13. Corporate Risk and Opportunity Register - Quarter 4 Update (Pages 189 - 206)

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 22 April 2024 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)

17. Appendix 'C' to Item 13 (Pages 207 - 214)

(Not for Publication – Exempt information as defined in Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

18. Appendix 'E' to Item 9 (Pages 215 - 220)

(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).

19. Local Pensions Partnership Investment Ltd – Internal Audit Summaries (Pages 221 - 228)

(Not for Publication – Exempt information as defined in Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

20. Counter Financial Crime, Investigations and Whistleblowing Update Report (Pages 229 - 238)

(Not for Publication – Exempt information as defined in Paragraphs 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972.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

21. Cyber Security Risk Update (Pages 239 - 262)

(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).

22. Update on the Overpayment of Salaries (Pages 263 - 266)

(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).

H MacAndrew
Director of Law and Governance

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday 16th October 2023 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

N Aziz	C Edwards
M Clifford	J Shedwick
J Couperthwaite	J R Singleton JP

1. Apologies

Apologies were received from County Councillor Julia Berry.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 24 July 2023

Resolved: That the minutes of the Audit, Risk and Governance Committee held on 24 July 2023 be confirmed as an accurate record.

Subsequently, it was noted in relation to Minute Item 16 that the expected reports on the overpayment of salaries and the Risk and Resilience Framework Review had not been included in the meeting agenda and would instead be presented at the next committee meeting on 29 January 2024.

4. Approval of the Council's Statement of Accounts for 2022/23

Khadija Saeed, Head of Corporate Finance presented the 2022/23 Statement of Accounts for Lancashire County Council and Lancashire County Pension Fund for the committee's approval.

It was highlighted that:

- The Statement of Accounts had been published in early September for public inspection, which was outside of the statutory period due to delays caused by the implementation of Oracle Fusion.

- There was a significant change in the Pension Fund's valuation compared with 2021/22, due to a change in the actuaries' valuation of employee benefits.

In response to questions, members were informed that:

- The variation in the Pension Fund's valuation did not increase the council's usable reserves.

- In relation to the 2021/22 accounts the audit was now completed. Delays to the audit of local authority statement of accounts was a national issue. The valuation of pension funds and the valuation of land and buildings produced complex balances which could be time consuming to audit and were areas being looked at by regulators as to how they should be audited in future.

Members thanked officers for their explanation of the statement accounts at the briefing for all county councillors, which was held on 28 September 2023.

Resolved: That the 2022/23 Statement of Accounts for Lancashire County Council and Lancashire County Pension Fund, as presented, be approved.

5. Response to the Information Request of the External Auditor

The committee considered the proposed management response to the external auditor's request for information for 2022/23.

Resolved: That the management response to the external auditor's information request, as presented, be approved.

6. 2023/24 External Audit Fee Scale

Neil Kissock, Director of Finance presented a report which set out the proposed external audit fees payable by the council for 2023/24.

It was highlighted that Public Sector Audit Appointments would confirm the new fees by 1 December 2023, following their consultation exercise. The proposed fee increase was viewed in the context of national issues and pressure in the audit market.

In response to questions, members were informed that:

- The proposed fee increase was not expected to change, but the council was awaiting confirmation of the consultation outcome.

- External auditors' fees were set by Public Sector Audit Appointments. Six audit firms had been awarded contracts for local authorities during the latest tender process, with the largest proportion being awarded to Grant Thornton.

- If the county council appointed outside of Public Sector Audit Appointments' scheme, it may still need to appoint one of the large auditing firms and may face challenges in setting up the necessary processes to appoint an auditor.

- The complexity of auditing work required increased capacity and skillset in the auditors' teams, but also placed pressure on the council's finance team.

- The proposed fee increase was intended to cover expected additional audit work and therefore negate the need for continued additions to fees at the year end. This could not be guaranteed, although Public Sector Audit Appointments was looking to strengthen its arrangements around additional fees and opting into their scheme helped to manage these risks to the council.

Stuart Basnett, Audit Manager at Grant Thornton UK provided wider context for the proposed fee increase, including that audit fees had been reduced significantly in 2012/13 and again in 2018/19; meanwhile, auditing requirements had become more complex and scrutiny of auditors' work had increased. The proposed fee for 2023/24 onwards would return audit fees to a similar level to pre-2012.

Resolved: That Public Sector Audit Appointments' fee proposal and the county council's response to the consultation be noted.

7. External Audit: Progress Report and Sector Update

Stuart Basnett, Audit Manager at Grant Thornton UK presented the Audit Progress Report and Sector Update as of October 2023.

It was highlighted that:

- A full audit team was in place, however timescales to deliver the audit work were in part dependant on resources available within the council's finance team.

- The audit of the Pension Fund's accounts had started in July and progressed over summer. There was some additional information required before the auditors could complete their work.

In response to a query, members were reassured that Lancashire County Council and the work of the council's finance team were in a good position compared to many other local authorities. Delays to the audit's progress related to national issues.

Resolved: That the Audit Progress Report and Sector Update for October 2023 be noted.

8. Internal Audit Progress Report

Andy Dalecki, Head of Internal Audit presented an update on the Internal Audit Service's work and outcomes for 2022/23, for the period to 24 September 2023.

In response to the committee's previous request that an update be provided on the audit of Older People Care Services – Financial Management, it was highlighted that the service had agreed to update its procedures and, following that, training and guidance would be shared with staff. The service was also reviewing its records to ensure that any deposits held for too long would be identified and returned. The date for these actions to be implemented was 31 March 2024, at which point the services' progress would be reviewed in the follow-up audit work.

It was also highlighted that:

- Three audits had received limited assurance. In relation to Older People's Finances at care homes, the service planned to review all their procedures before any other care homes were audited, to allow time for improvements. Therefore, some audit work had been delayed to allow for this to take place.

- The audit of Direct Payments had been a significant piece of work, aimed at achieving consistency and implementing best practice across several services. This area was a challenge for all local authorities, but a cross-service action plan would be developed to drive improvements.

- A wider review of management actions in response to Internal Audit's recommendations would be undertaken and an update provided to the committee at its next meeting.

In response to questions, members were informed that:

- Regarding the audit of Direct Payments, there had not been problems with payments to residents. The issues related to following policies and guidance and maintaining records, to control the risk of potential fraud. The services' progress to implement Internal Audit's recommendations would be followed-up and reported to the committee as usual. Members highlighted the importance of direct payments to Lancashire's residents and were reassured that the service would not become difficult to access, as most of the recommended changes affected internal processes.

- Workload pressures across different services had impacted the Internal Audit team's progress, so the Internal Audit Plan would be revisited to ensure priority work did not get missed. The team's outsourced work did not negatively impact their audits of county council services. It was still envisioned that sufficient work would be completed within the financial year to inform a reliable audit opinion.

- The Internal Audit team were working with Local Pensions Partnership Investments Limited to gain an understanding of the company's internal audit reports, provided by Deloitte. A summary of these reports would be provided to the committee at its next meeting. In relation to this point, County Councillor Alan Schofield and County Councillor Charlie Edwards declared a non-pecuniary interest, due to their roles as Non-Executive Directors of Local Pensions Partnership Limited.

Resolved: That the Internal Audit Progress Report be noted.

9. Local Member Grants Scheme - Update Report

Josh Mynott, Democratic and Member Services Manager presented an update report on the outcomes of the Local Member Grants Scheme monitoring activity carried out by Democratic Services, for the period January 2021 to March 2023.

In response to a query about applications from organisations that did not meet the scheme's criteria, members were informed that thorough checks were carried out and, if needed, the applicants were contacted for further information before their application was passed onto the local county councillor for a decision.

It was recommended that, where no response or evidence is received from an organisation, Democratic Services should inform the appropriate county councillor so that they can contact the organisation, support them to provide evidence of expenditure, and take informed decisions to award Local Member Grants in future.

Members thanked Democratic Services for the well-run and uncomplicated scheme and agreed to receive a further update at the committee's next meeting.

Resolved: That

i) The Local Member Grants Scheme – Update Report for January 2021 to March 2023 be noted;

ii) Democratic Services be asked to inform the appropriate county councillor when organisations do not provide evidence of expenditure for their Local Member Grant; and

iii) A further report on the Local Member Grants Scheme be provided at the Audit, Risk and Governance Committee meeting on 29 January 2023, to include updated figures for 2021/22 and 2022/23.

10. Corporate Risk and Opportunity Register - Quarter 3 Update

Heloise MacAndrew, Director of Law and Governance presented the updated Corporate Risk and Opportunity Register for Quarter 3 of 2023/24.

It was noted that four risk entries relating to cyber security, the Oracle Fusion data breach, Oracle Fusion post implementation issues, and Building Schools for the Future contained exempt information and were included in Part II of the agenda.

Resolved: That the updated Corporate Risk and Opportunity Register be noted.

11. Urgent Business

None.

12. Date of Next Meeting

It was noted that the next meeting of the Audit, Risk and Governance Committee would be held on Monday 29 January 2024 at 2.00 pm, at County Hall, Preston.

13. 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.

14. Appendix 'B' to Item 10

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

The committee considered the private and confidential Appendix B to Item 10 – Corporate Risk and Opportunity Register – Quarter 3 Update.

Resolved: That Appendix B to Item 10 – Corporate Risk and Opportunity Register – Quarter 3 Update, be noted.

15. 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 requested that the outstanding information relating to requests to access communications data over the last 12 months be provided after the meeting.

It was noted that references in the policies to the Director of Corporate Services needed updating to the Director of Law and Governance.

Resolved: That, subject to the incorrect Director references being amended,

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.

16. Oracle Fusion Data Breach - Update

(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).

Jo Winston, Information Governance Manager presented a private and confidential report which provided an update on the Oracle Fusion data breaches reported to the Information Commissioner's Office and the steps taken by the county council in response.

Resolved: That

i) The report on the Oracle Fusion Data Breach be noted; and

ii) Further updates in relation to ongoing actions and the work of the Oracle Fusion Steering Group be provided at a future committee meeting to be agreed.

H MacAndrew
Director of Law and Governance

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected:
N/A;

Treasury Management Activity 2023/24
(Appendix 'A' refers)

Contact for further information:
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Brief Summary

The report at Appendix 'A' provides the Audit, Risk and Governance Committee with information on the treasury management activity in 2023/24, for the period April to November 2023.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and comment on the review of treasury management activities for the period April to November 2023.

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 2023/24 for the period April to November 2023.

The report also highlights that 2023 saw an increasing Bank of England base rate to an expected peak of 5.25%. It is noted that the forecast position reported to the council's Cabinet in December was for treasury management expenditure to be in line with budget for the financial year 2023/24. This includes the assumption that if there is under-delivery against the £9m budget saving commitment, it will be funded by the use of the ring-fenced treasury management reserve.

Appendices

Appendix	Title
Appendix 'A'	Review of Treasury Management Activity

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	2021 edition	Paul Dobson 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Activity 2023/24: April to November 2023

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 2023 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 impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, and together with war in Ukraine and the Middle East.

The year has seen a steady increase in the Bank Rate. At 1 April it was at 4.25% with the Bank of England 's Monetary Policy Committee (MPC) increasing the rate at its meetings in May, June and August to reach a level of 5.25%. This rate was maintained in September and then again in November.

In the Bank of England's (BoE) November quarterly Monetary Policy Report (MPR) included a forecast of a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the target of 2% coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

The UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but this is still high relative to the Bank of England target of 2%. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.The October CPI did subsequently show a sharp fall with CPI falling to 4.6%.

Arlingclose Forecast

The Authority's treasury management adviser Arlingclose forecasts that although UK inflation and wage growth remain elevated, that Bank Rate has peaked at 5.25%.

The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early/mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

Investment Activity

Investments at 30 November 2023 totalled £767m and consisted of £27m in bank and local authority deposits and £740m in corporate and government bonds. The following table shows the investment activity between 1 April and 30 November 2023.

Bank and Local Authority	**Call**	**Fixed**	**Total**
Deposits	**£m**	**£m**	**£m**
Balance 1 April 2023	**41.1**	**10.0**	**51.1**
Maturities	-115.1	0.0	-115.1
New Investments	91.1	0.0	91.1
Balance 30 November 2023	**17.1**	**10.0**	**27.1**

Bonds	**LA Bonds £m**	**Gilts £m**	**Liquidity £m**	**Corporate £m**	**Total £m**
Balance 1 April 2023	**25.3**	**323.8**	**252.7**	**203.1**	**804.9**
Maturities	-5.3	-214.5	-2,384.4	-0.7	-2,604.9
New Investments	0.2	235.9	2,303.6	0.0	2,539.7
Balance 30 November 2023	**20.2**	**345.2**	**171.9**	**202.4**	**739.7**

Total investments, including the bank and local authority deposits, have decreased by £89m during the period. It is anticipated that these will gradually reduce over the remainder of the financial year so as at 31 March 2024 they are estimated to be around £700m.

The current rate of return on the investment portfolio measured by Arlingclose is 2.94% which compares unfavourably with the Sterling Overnight Rate (SONIA) which averaged 4.86% over the period. This is largely due to the high level of balances held in Gilts and corporate bonds which are yielding relatively low rates but have high credit quality. However, to sell them would involve incurring a loss and therefore it is not considered to be financially advantageous at the current time.

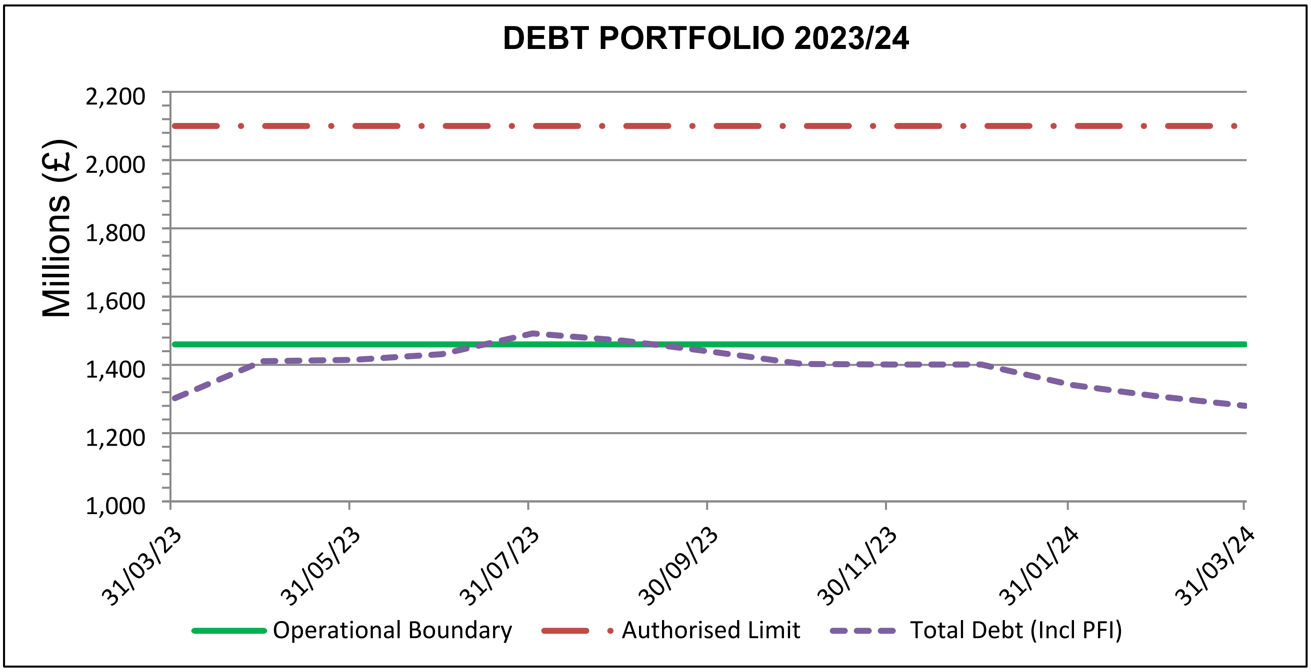
Borrowing Activity

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 2023.

	PWLB Fixed £m	Long Term Bond £m	Other Locals £m	Police, Fire & Lancashire District Councils £m	Total £m
Balance 1 April 2023	**279.6**	**600.0**	**217.0**	**79.7**	**1,176.3**
New Borrowing	0.0	0.0	388.0	436.9	824.9
Maturities	0.0	0.0	-308.0	-426.0	-734.0
Balance 30 November 2023	**279.6**	**600.0**	**297.0**	**90.6**	**1,267.2**
Public Finance Initiative (PFI) Liability					126.0
Total Borrowing & PFI					**1,393.2**

Total borrowing at the end of November was £1.393bn including the financing of £126m of assets through remaining Private Finance Initiative schemes. The outstanding borrowing has increased by £91m in the period, which is largely due to the increased levels deposited by district councils along with some short-term borrowing from local authorities for cashflow purposes. It is expected that the borrowing levels will now reduce over the remainder of the financial year, as borrowings mature, so at 31 March 2024 being under the opening balance figure.

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 the authorised limit and for a large share of the year been under the operational limit. It is anticipated that the debt will be below both the operational and authorised limits at the financial year end.

The council's current interest rate payable on debt as measured by Arlingclose is 4.23%.

Budget Monitoring

The forecast position reported to the council's Cabinet in December was for treasury management expenditure to be in line with budget for the financial year 2023/24. This includes the assumption that if there is under-delivery against the £9m budget saving commitment, it will be funded by the use of the ring-fenced treasury management reserve.

Any changes to the 'fair value' of investments 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 2023/24 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.

	Limit	Actual
	£m	£m
Borrowing	1,700	1,267
Other long-term liabilities (PFI schemes)	400	126
TOTAL	**2,100**	**1,393**

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	1,267
Other long-term liabilities (PFI schemes)	160	126
TOTAL	**1,460**	**1,393**

Gross Debt and the Capital Financing Requirement

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 (CFR) over the next three years. The CFR is a measure of the total capital expenditure that is unfunded and therefore requires external or internal borrowing. 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 on the repayment of debt and debt held on behalf of other authorities i.e. due to historic local government reorganisation and that relating to the waste PFI project payable by Blackpool Council. 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 as at 30 November	1,393
Capital Financing Requirement estimated 31 March 2024	1,165
Debt in excess of CFR	228
Due to:	
Debt held on behalf other authorities	37
Premiums	38
Borrowing in advance	153

By 31 March 2024 some £166m of debt is maturing. Therefore, the Director of Finance confirms that the level of borrowing over the three years is within the capital financing requirement conditions.

Liability Benchmark

This new indicator compares the council's existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £50m required to manage day-to-day cash flow.

	31/3/23 Actual £m	**31/3/24 Estimate £m**	**31/3/25 Forecast £m**	**31/3/26 Forecast £m**	**31/3/27 Forecast £m**
Loans CFR	1028.3	1046.1	1062.1	1076.5	1092.1
Less: Balance sheet resources	-507.3	-506.8	-506.8	-506.8	-506.8
Net loans requirement	521.0	539.3	555.3	569.7	585.3
Plus: Liquidity allowance	50.0	50.0	50.0	50.0	50.0
Liability benchmark	**571.0**	**589.3**	**605.3**	**619.7**	**635.3**
Committed borrowing	**1,176.3**	**1,044.6**	**529.6**	**504.6**	**494.6**

The liability benchmark data shows that from 2024/25 the committed borrowing is below the minimum required to finance existing plans therefore new borrowing will need to be undertaken.

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	£5.4m

This arises as although a significant proportion of the debt is at fixed rates, the variable borrowings have increased significantly over the last few months. This is larger than the increase in interest rates for variable investments.

The indicator excludes the impact on fair values of an interest rate rise as these values are affected by various factors but could be estimated to be in the region of £5m, based on the 2022/23 year-end figures.

Maturity Structure of Debt

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

	Upper Limit	Actual
Under 12 months	75%	18%
12 months and within 2 years	75%	41%
2 years and within 5 years	75%	3%
5 years and within 10 years	75%	4%
10 years and above	75%	34%

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 2024 (deemed an operational limit which is kept under review during the year).

The level of investments is expected to fall in the year to around the £700m level by the year-end due to the utilisation of reserves in-year, which will require bonds to be sold for liquidity purposes.

	Upper limit	Actual
Total invested over 1 year	£1,200m	£750m
Initial forecast at 31 March 2024	£800m	£750m

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	£4m

Over the period a total of £388m new borrowing (excluding amounts deposited by Police, Fire and Lancashire District Councils under the call account arrangement) has been taken, most of this was planned due to maturities and known borrowing requirements. In the period there was the need to borrow £4m due to unexpected cashflow requirements.

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected:
N/A;

Treasury Management Strategy 2024/25
(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 2024/25 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 2024/25, 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 will continue to review the balance between long- and short-term debt. 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 2024/25 is also presented for approval at Appendix 'C'. The Department for Levelling Up, Housing and Communities is currently consulting on proposed changes to Minimum Revenue Provision regulations which will limit the scope for authorities to: (a) make no Minimum Revenue Provision on parts of the capital financing requirement; and (b) to use capital receipts in lieu of a revenue charge for Minimum Revenue Provision. It is not anticipated that the outcome of the consultations will require for the Minimum Revenue Provision Policy Statement at Appendix 'C' to be changed.

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 2023/24, with the most significant change being within the Treasury Management Strategy where there is a proposal to amend credit ratings to reflect possible downgrading of the UK government and the subsequent effect on other credit ratings.

A new accounting standard on leases (IFRS 16) is to be implemented in 2024/25. This means that all leases are to be reflected as a liability on the balance sheet, rather than recorded as a finance lease. If the proposed Minimum Revenue Provision Policy Statement is approved whereby the Minimum Revenue Provision equals the principal repayment, then there will be no overall impact on the revenue account. However, the proposed authorised and operational prudential limits for 'other long-term liabilities' will be increased to reflect the additional liabilities to be recognised.

Appendices

Appendices A –C are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

Appendix	**Title**
Appendix A	Treasury Management Strategy
Appendix B	Investment Strategy
Appendix C	Minimum Revenue Provision Policy Statement

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 Tel 01772 534725
Chartered Institute of Public Finance and Accountancy The Prudential Code for capital finance in local authorities	2021	Paul Dobson Tel 01772 534725
Ministry of Housing, Communities and Local Government statutory guidance on local authority investments		Paul Dobson Tel 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Strategy 2024/25

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; and
- Estimates of future borrowing and investment requirements.

Economic position

Economic background:

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, are major influences on the council's treasury management strategy for 2024/25.

The Bank of England (BoE) increased the Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

The UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in the first quarter of 2024 and forecasts that higher interest rates will constrain GDP growth, which will remain weak over their entire forecast horizon.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling however taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

Arlingclose forecast

The council's treasury management adviser Arlingclose forecasts that although UK inflation and wage growth remain elevated, that Bank Rate has peaked at 5.25%.

The Bank of England’s Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from the third quarter of 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure.

Bond markets are expected to need to absorb significant new supply, particularly from the US government.

Current portfolio

The council's treasury portfolio as at 30 November 2023 was as follows.

	£m
Call accounts	68
Local authority deposits	10
Corporate Bonds	374
Government, local government and supra-national bonds	365
Total Investments	**817**
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	**462**

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 2023. 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 £50m in 2024/25 and then £50m in each of years 2025/26 to 2027/28. Clearly, this will be subject to change as the capital programme develops.

	31/03/2024	31/03/2025	31/03/2026	31/03/2027
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital financing requirement	1,165	1,172	1,178	1,183
Other long term liabilities	-119	-110	-102	-90
Borrowing capital financing requirement	1,046	1,062	1,076	1,093
External borrowing	-1,102	-560	-505	-495
Borrowing requirement for capital	-56	502	572	598

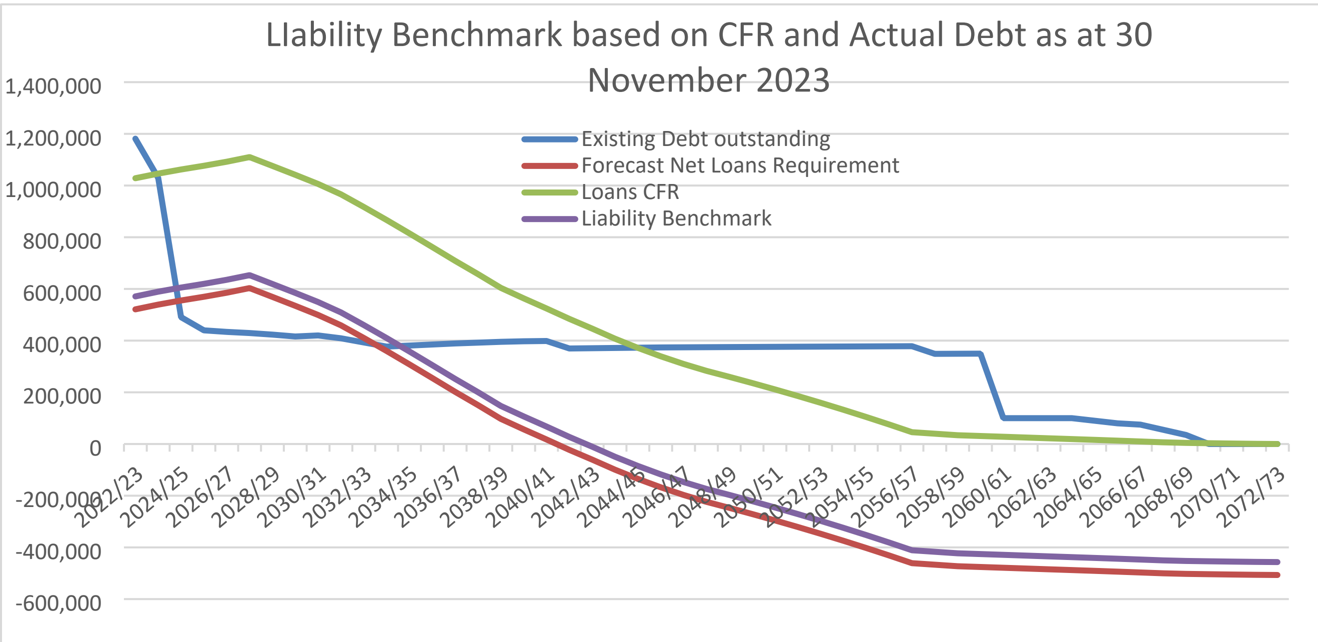
Other borrowing requirements*	73	69	65	60
Reserves and working capital	-550	-550	-550	-550
Borrowing/ - Investment need	-533	21	87	108

* debt held on behalf other local authorities and premiums

The table above shows that there is an identified need for borrowing from 2024/25 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 risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £50m at each year-end to maintain sufficient liquidity. The liability benchmark is shown in the graph below:



The liability benchmark graph above shows that although the existing debt falls below the CFR it would be above the liability benchmark until March 2025. This suggests that that there is actually only a small amount of borrowings (£21m) required in 2024/25 if investments were reduced to meet the cash flow requirements. It is also worth noting that 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. To be clear, this analysis includes no future Capital Programme borrowing beyond the next three years.

Borrowing Strategy

As indicated earlier in the report there is a current borrowing holding of £1,279m. It has been noted that under the liability benchmark model there is probably limited need to further borrow in 2024/25 to meet the capital needs in the year. However, this is only one model for treasury management. 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 is an estimated borrowing requirement of approximately £571m in 2024/25.

The borrowing strategy will be 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.

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 a problem. 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 2024/25:

- Variable rate borrowing may 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.
- the 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 1-50yrs. 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 will 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 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 LCC 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 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 regularly monitors 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 external advicethe 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 department.

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 with the low interest rates.

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 having to be a charge against council tax at 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 at the heart 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. The 2024/25 policy continues to be based on the UK credit quality, as measured by Moody's long-term ratings, of Aa3. However this rating is subject to change. The 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. 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. 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 it could prevent insolvency by printing money. Therefore, it is proposed that the minimum sovereign rating is not applied to the UK.

The 2023/24 Investment Strategy included the holding of government Gilts and other long term corporate and supra-national bonds. The holding of these at the 30 November was some £700m. However, the market value of these assets are subject to significant volatility. In recent years this volatility has been such that gains have been made on the sale of assets. Recent market movement has seen the price of the bonds generally falling. If the current holding had to be sold there would be a significant loss. While there is no pressure to sell the assets for cash flow purposes this apparent loss will not be realised. It is not currently anticipated that these assets will need to be sold in 2024/25 for cash flow purposes and it is anticipated that prices will increase in the medium term.

In the 2023/24 investment strategy the investment in UK government including Gilts was unlimited whilst long term corporate and government backed bonds had class limits of up to £400m. 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 corporate 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 limits for these are therefore to remain unchanged.

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.

As referred to earlier in this report the UK is subject to credit ratings and has recently been on negative outlook. If the UK rating is reduced then some of the ratings in the credit matrix above may need to be revisited. It is proposed that if the UK credit rating is downgraded in the year then for the longer term investments (over 5 years) credit limits will be the UKs rating minus a notch, and the shorter term investments (5 years and under) the rating minus 2 notches. These would then be reviewed in setting the strategy for 2025/26 or if the ratings fell below investment grade ratings.

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 Treasury Management 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 Treasury Management policy matrix above. The only 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 Treasury Management investment limits.

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
Up to 2 years	£30m	£450m	2 years
Over 2-10 years	£25m	£300m	10 years
Over 10 years	£25m	£100m	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. The holding of the bonds is considered to be outside the limits expressed above but 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.

However, the investments are held in government and supranational securities, which 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 £800m at 31 March 2025, 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 a 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 2024/25 is £1,200m.

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 external 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 limits below. 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. have 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. (Technically, insuring against events more than 1.5 Standard Deviations away from the median expected outcome at each maturity.)

Where appropriate and if advised necessary by the treasury management consultants, 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, this budget will be amended to reflect changes in the capital programme and interest rates.

	Revenue Budget 2023/24 £m	Revenue Budget 2024/25 £m	Revenue Budget 2025/26 £m	Revenue Budget 2026/27 £m
Minimum Revenue Provision	29	34	36	35
Interest paid	51	52	47	44
Interest and other income earned	-39	-40	-36	-33
Total	41	46	47	46

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.

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:

	2023/24	2024/25	2025/26	2026/27
	£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. In effect more leases will be included as a liability on the council's balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the 'other long-term liabilities' limits will be subject to change.

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:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Borrowing	1,200	1,200	1,200	1,200
Other long-term liabilities	160	160	160	160
TOTAL	1,360	1,360	1,360	1,360

The actual external debt as at 31 March 2023 was £1,176m.

Gross debt and the capital financing requirement (capital financing requirement)

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 is 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.

	As at 31 March			
	2024	2025	2026	2027
	£m	£m	£m	£m
Borrowing capital financing requirement	1,046	1,062	1,076	1,092
Estimated total borrowing	1,119	1,131	1,141	1,153
Borrowing in excess of capital financing requirement	73	69	65	61
Represented by:				
Premiums	35	33	31	29
Borrowing relating to other authorities	38	36	34	32

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 (currently forecast to be £800m). The level of investments will be managed to be in line with the estimated reserves and balances and cash flow at 31 March 2024 (deemed an operational limit which will be reviewed during the year). 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
Forecast at 31 March 2025	£800m

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 2024/25

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 2024/25 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 BC 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 2024/25. The table below provides details of the loans outstanding at 31 March 23 and proposed limits for 2024/25.

Category of borrower	Outstanding at 31 March 23 £m	Proposed Limit 2024/25 £m
Subsidiaries	7.2	15.0
Other councils	25.7	40.0
Employees	0.1	1.0
Schools	0.1	5.0
Total	**33.1**	**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 MHCLG 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 Ltd. In 2022/23 the income generated from smallholdings was less than £0.1m while Lancashire County Developments Ltd 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 Investments

The table below summarises the total investments:

Total investment exposure	31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
	£m	£m	£m
Treasury management investments	856	800	800
Service investments: Loans	33	33	33
Commercial investments: other	0	0	0
Total Investments	**889**	**833**	**833**

It is anticipated that borrowing will remain within the capital requirements and therefore none of the 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.

Income from treasury management investments is shown in the treasury management strategy.

Minimum Revenue Provision Statement 2024/25

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 (DCLG) in 2008. This has been updated with the latest guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG) 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 (MRP).

Guidance issued by the former Ministry for Housing Communities and Local Government continues to identify 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 above, which 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 2024/25 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 31.03.2023	83.2
Approved drawdown 2023/24	-8.5
Expected balance 31.03.2024	74.7
Planned drawdown 2024/25	-8.8
Forecast balance 31.03.2024	65.9

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 2024/25. 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 2024/25.

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 charging revenue until the capital project is operational.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected: (All Divisions);

Significant Accounting Policies Used in the Preparation of the Council's Statement of Accounts 2023/24
(Appendix 'A' refers)

Contact for further information:
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Brief Summary

The accounting policies to be used in preparing the council's 2023/24 Statement of Accounts are set out at Appendix 'A'.

There are no changes proposed to the accounting policies for 2023/24 compared to the previous year.

Recommendation

The Audit, Risk and Governance Committee is asked to approve the accounting policies for 2023/24, as set out at Appendix 'A'.

Detail

The Chief Finance Officer is responsible for the preparation of the council's Statement of Accounts in accordance with proper accounting practices, for each financial year ending 31 March. These regulations primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

In preparing the Statement of Accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. Accounting policies are the specific principles, conventions, rules, and practices applied in preparing and presenting the financial statements and set out how transactions are recognised, presented, and measured in the accounts.

Appendices

Appendix	Title
Appendix A	Significant Accounting Policies for 2023/24

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

None

Reason for inclusion in Part II, if appropriate

N/A

Significant Accounting Policies

General principles

Basis of preparation

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

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

Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue.

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

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

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

Group accounts

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

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

Pooled budgets

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

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

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

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

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

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

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

Accounting policies for income

Recognition of income

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

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

Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet.

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

Council tax and non-domestic rates income

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

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

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

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

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

Government grants and other contributions

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

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

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

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

Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. This income is then reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

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

Accounting policies for costs

Recognition of expenditure

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

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

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

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

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

Charges to revenue for non-current assets

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

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

Employee benefits

Employee benefits payable during employment

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

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

Termination benefits

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

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

Post-employment benefits

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

- Teachers' pension scheme, administered by Capita Teachers' pensions on behalf of the Department for Education (DfE);
- Local government pension scheme administered by Lancashire County Council and the Local Pensions Partnership;
- NHS pension scheme administered by NHS Business Services Authority on behalf of the Secretary of State for Health.

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

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

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

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

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

Local government pension scheme

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

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

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

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

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

Service costs:
Current service cost is the increase in liabilities as a result of years of service earned this year and is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.
Past service cost is the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned 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, which have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.
Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but as a minimum every three years.

Valuations are undertaken internally by Lancashire County Council's estates service with valuations for specialist operational properties undertaken by external professional valuers.

Valuations are provided as at 1 April and are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. Assets which are valued using the depreciated replacement cost methodology are updated based on cost prices at 31 March.

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 cycle tracks	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, 29 January 2024

Part I

Electoral Division affected: None

External Audit: Audit Progress Report and Sector Update
(Appendix 'A' refers)

Contact for further information:
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Brief Summary

The External Audit - Audit Progress Report and Sector Update as at January 2024 is set out at Appendix 'A' for the committee's consideration.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and comment on the External Audit - Audit Progress Report and Sector Update as at January 2024, as set out at Appendix 'A'.

Detail

This report provides an update including the auditor's proposed timescales for the audit of the 2022/23 statement of accounts and the Value for Money (VfM) conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee.

The report also provides additional information on sector developments to members of the committee, as those charged with governance for the county council.

Consultations

The reports have been discussed with finance officers of the county council.

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
None		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council Audit Progress Report & Sector Update

January 2024

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 Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit, Risk and 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 and 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 2024

Financial Statements Audit

At the October Committee we reported that the Audit Findings Report will be presented to the January Audit, Risk and Governance Committee as we had sufficient resources in place to complete our work between October to December. However, significant work remains ongoing, and the implementation of the new financial system has impacted upon the delivery of the audit.

Whilst we have issued the majority of our audit samples (and have been testing evidence received to date to support them), we are still awaiting further information from the Council to enable us to finalise the sample selection process for creditors and debtors. Once this information is received, we will be able to issue our sample and await receipt of evidence to support the transactions.

Our IT audit identified four significant deficiencies in the general controls of the new system, and this has impacted upon our audit approach in a number of ways:

- We have increased the risk score for the journals control environment, increasing the minimum number of journals we are required to test.
- Additional audit procedures are required to gain assurance over system reports produced by the Council
- Additional reconciliations are required to ensure that non-financial data has migrated over to the new system as part of the implementation

We have regular catch-up meetings with management to discuss audit progress and to monitor the audit tracker for the sample testing and queries identified which require responses. We adjusted the phasing of our resources in December to remove team members from the audit before Christmas due to the volume of queries/samples which we were awaiting responses to from the Council.

We have a fully resourced audit team in place to deliver the audit before 31 March 2024, assuming the Council are able to support us to achieve this target.

Value for Money

The majority of our work in assessing the Council's arrangements for securing value for money in the use of its arrangements has been completed. As with previous years' our review of arrangements across financial sustainability, governance and improving economy, efficiency and effectiveness has identified several improvement recommendations but no significant weaknesses.

However, we are still assessing the governance arrangements with regard to the implementation of Oracle Fusion during 2022-23. As noted to the left, our IT audit of the general controls underpinning the new system and the implementation of the system identified a number of significant deficiencies. We are currently discussing these deficiencies with management and awaiting to see if further documentation is available to support some of the identified findings.

We are unable to finalise our value for money work and issue our Auditor's Annual Report until this work is completed.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit, Risk and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2022/23 financial statements and to issue a commentary on the Council's value for money arrangements in the Auditor's Annual Report	July 2023	Completed
Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report.	October 2023	Completed
Audit Findings Report At the October Committee we reported that the Audit Findings Report will be reported to the January Audit, Risk and Governance Committee since we had resources in place to complete our work between October to December. However, significant work remains ongoing, and the implementation of the new financial system has impacted upon the delivery of the audit. We have appropriate resources in place to complete the audit before 31 March 2024.	TBC – April 2024 (or earlier if additional committee added)	See left
Auditors Report This includes the opinion on your financial statements.	TBC – April 2024 (or earlier if additional committee added)	As above
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	TBC – April 2024 (or earlier if additional committee added)	We are unable to issue the AAR until we finalise our consideration of the findings from the IT audit.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing 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

Call for sanctions for late accounts amid fears of 'more Wokings' - public accounts committee (PAC)

The Commons' public accounts committee (PAC) published a report, Timeliness of local auditor reporting, which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.

Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

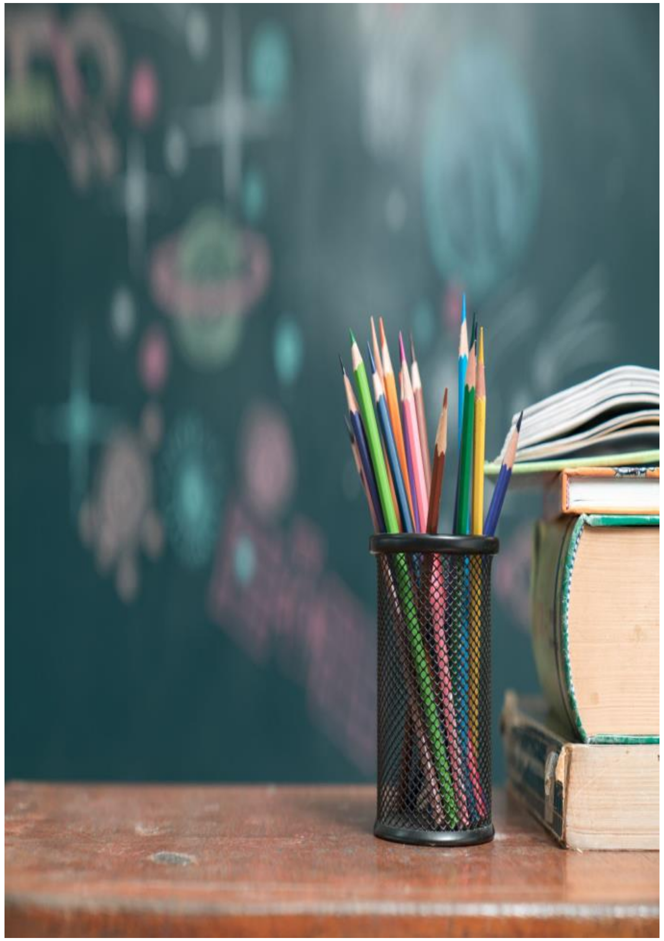
The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/

The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.



Read the full report here

https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/

LGPS valuation gives ‘cause for optimism’ – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia’s invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: “Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

“While the good news is welcome, the hard work doesn’t stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025.”

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased “across the board” in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

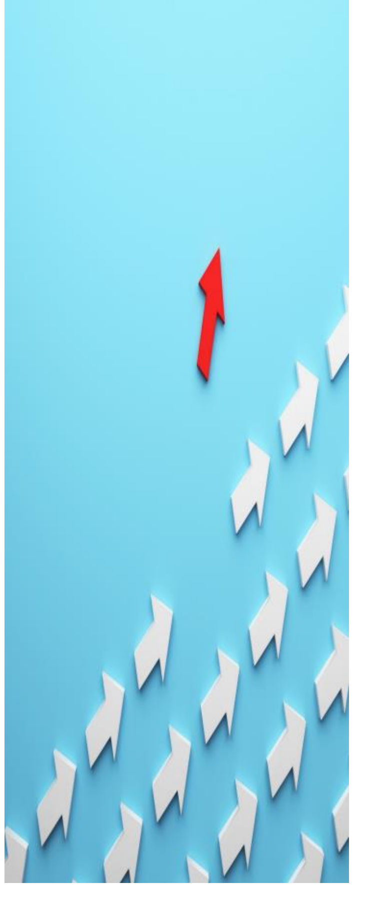
Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

“This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a ‘deficit working group’ and the significant market events that the LGPS has had to navigate in recent years.”

“Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade.”

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)



Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Part I

Electoral Division affected:
None

External Audit: Lancashire County Pension Fund Audit Findings Report 2022/23
(Appendix 'A' refers)

Contact for further information:
Sarah Ironmonger, Partner at Grant Thornton UK LLP, Tel: 0161 953 6499,
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 ending 31 March 2023.

Recommendation

The Audit, Risk and Governance Committee is asked to consider the findings in the report, 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 2022/23 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 discussed with finance officers of the Pension Fund and the county council.

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
None		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

The Audit Findings Report for Lancashire County Pension Fund

Year ended 31 March 2023

January 2024

Appendix A

Contents

Your key Grant Thornton team members are:

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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.

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.

Name: Sarah Ironmonger
For Grant Thornton UK LLP
Date: January 2024

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 2023 for the attention of 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 transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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 remotely during July-November. Our findings are summarised on pages 5 to 23. We have completed a substantial amount of our audit. However, at the time of writing this report, some audit tasks are still to be completed to finalise the audit. Subject to the satisfactory completion of the outstanding items below, there are currently no matters of which we are aware that would require modification of our audit opinion [Appendix H] or material changes to the financial statements. However, this position is subject to the satisfactory completion of the following outstanding matters; • Final quality reviews of the audit work by the Engagement Leader • Management responses to deficiencies raised by our IT audit team on Oracle Fusion • Hot review sign off • Receipt of signed management representation letter • Review of the final set of financial statements Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us to complete the audit of the Pension Fund.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Mercer, and showed that the overall funding level for the Fund had increased to 115% (2019 funding level: 100%). The results of the latest triennial valuation are reflected in Note 24 to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 50 members and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

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.

For Lancashire County Pension Fund, the Audit, Risk and Governance Committee fulfil the role of those charged with governance.

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 not had to alter our audit plan, which was communicated to you at the Audit, Risk & Governance Committee meeting on 24 July 2023.

Conclusion

We have completed a substantial amount of our audit.

Subject to outstanding audit work and queries being resolved appropriately, we anticipate issuing an unqualified audit opinion however, the timing of when we are able to issue the opinion is dependent on when the Administering Authority audit opinion is also ready to be issued.

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 and Governance Committee on 24 July 2023.

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

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£106.520m	We have determined materiality for the audit to be £105.317m (equivalent to 1% of net assets as at 31/12/2022). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	£79.890m	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	£5.326m	This equates to 5% of materiality. This is our reporting threshold to the Audit, Risk & Governance Committee for any errors identified.
Materiality for fund account	£48.910m	This equates to 10% of prior year gross operating costs.

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 substantive testing of the journals posted by management, based upon a risk-scoring method as well as an overarching review of all manual journals posted (due to the small number of postings in the year) has not identified any evidence of inappropriate management override of controls. As with previous years, the Fund does not have authorisation controls in place over journals – refer to page 29 for further details.
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.

Page 91

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
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 (£5,244m) 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 2023. 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 2023 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 2023, 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 2023 is £1.8m. This amount is below our triviality level so no amendment of the accounts is required. Management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which is a reduction in the asset value by £5.4m.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Direct Property 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 to the size of the numbers involved (£152 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. We therefore identified valuation of directly held property, particularly revaluations and impairments, 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.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Incomplete or inaccurate financial information transferred to the new general ledger In January 2023, the Fund implemented a new general ledger system for the 2022/23 financial year-end. The Fund has moved from Oracle R12 to Oracle Fusion, a cloud-based system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We have: • completed an information technology (IT) environment review by our IT audit specialists which included documenting and evaluating the design and implementation of controls within the new general ledger system; and • mapped the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information. Detailed findings from our work on the control environment of the new system can be found on pages 14-15. Our work identified some significant deficiencies in the IT General Controls. Recommendations for management are included at Appendix B. Our work on the migration of balances from the old system to the new system did not identify any issues.
Incomplete or inaccurate information transferred to the new pension administration system Local Pensions Partnership Administration (LPPA) provide the benefits administration services for the Fund. In December 2022, LPPA migrated the LCPF membership data from the previously used Altair system to a new Civica UPM system. It is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous administration system. We therefore identified the completeness and accuracy of the transfer of member data information to the new administration system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We will: • completed an information technology (IT) environment review which included documenting and evaluating the design and implementation of controls within the new pension administration system; and • Performed substantive procedures to test the completeness and accuracy of the member data transferred to the new system. Our work has not identified any issues with regards to the migration of data to the new pension administration system.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £5,244m	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 2023 at £5,244m (per 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 has decreased by £115m in 2022-23, largely due to significant market volatility resulting from the Russian invasion of Ukraine, the September 2022 "mini-budget" and the cost-of-living crisis.	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 2023, 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 2023 is £1.8m. This amount is below our triviality level so no amendment of the accounts is required. Management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which is a reduction in the asset value by £5.4m.	Light Purple

Page 95

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
Level 2 Investments – £156.3m	The Pension Fund's level 2 investments consist of the LPPI Fixed Income Fund which is a pooled fund investing in "high credit quality, highly liquid fixed income instruments across geographies, instrument types and maturities". The value of the Fund per the draft financial statements as at 31 March 2023 was £156.3m. The value of the investments has decreased by £242m in 2022-23, largely due to significant reduction in the number of units held by the Fund at year end. These 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.	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 LPPI 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

Page 96

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 - £152.8m	The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2023 at £152.8m. 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 31/3/2023. The value of the investments have decreased by £10m in 2022/23. Although there were net purchases of £11m during there year, the fall in the overall valuation of directly held property was largely as a result of significant decreases in the fair value of the properties on revaluation as at 31/3/2023.	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

Page 97

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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Oracle Fusion	ITGC assessment (design and implementation effectiveness only)	Red	Red	Red	Red	All significant risks	We have reviewed the findings of the IT audit and confirmed that none of the identified users with admin access/self-assigned access rights had posted any journals during the year. We performed a review of all manual posted journals as part of our journal selection. Also, since the majority of the pension fund posting are agreeable to custodian reports or 3rd party confirmations, we have assurance over information produced by the entity (IPE).
Oracle EBS	ITGC assessment (design and implementation effectiveness only)	Red	Red	Grey	Grey	All significant risks	None – the PF moved to Oracle Fusion during the year.

We have raised further queries with management as a result of the findings from our ITGC work and the recommendations in Appendix B. Management are still considering these further queries.

Assessment

- Red: Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Amber: Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- Green: IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Grey: Not in scope for testing

2. Financial Statements: Information Technology

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			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Pension Administration System (Civica UPM)	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Links to management override of controls, Fund Account Balances and data provided to the actuary in relation to IAS 19 procedures	None required
Pension Administration System (Altair)	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	As above	None – the PF moved to Civica UPM during the year.

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: Information Technology

We also performed specific procedures in relation to the changes to key systems during the audit period, specifically the implementation of the new general ledger system and the new pension administration system. We observed the following results:

IT system	Event	Result	Related significant risks/ risk/observations
Oracle Fusion	New system implementation	Significant deficiencies identified in IT controls relevant to the audit of financial statements. Lack of proper documentation and retention of the IT project related activities. See recommendations at Appendix B.	- All significant risks
Civica UPM	New system implementation	No significant deficiencies have been identified	- Links to management override of controls, Fund Account Balances and data provided to the actuary in relation to IAS 19 procedures

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

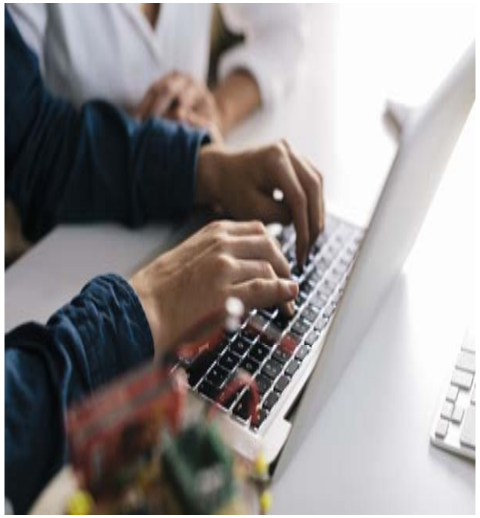
2. Financial Statements: other communication requirements

Page 101

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. We have not requested any additional specific representations from management. See draft representation letter at Appendix G.
Audit evidence and explanations	We note that there were significant delays in the provision of some working papers and responding to requests to provide evidence for audit samples by LPPA. Whilst we had weekly calls with staff at LPPA to discuss progress, the timeframes for the provision of information was far longer than we would expect and resulted in significant delays to the completion of the audit. We do understand that there are currently staffing/capacity issues at LPPA and that LPPA provides administration services to 18 clients. If we are to get back to a position where we aim to sign off the audit by 30 September in future years, then it will be necessary to ensure that all key working papers are provided at the start of the audit and that sample evidence is returned promptly. We will discuss this with management as part of our review of this years' audit. As a result of the delays additional resources were required to complete the audit, incurring additional audit fee costs. See Appendix E.

2. Financial Statements: other communication requirements



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. All confirmations were received.
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.

2. Financial Statements: other communication requirements

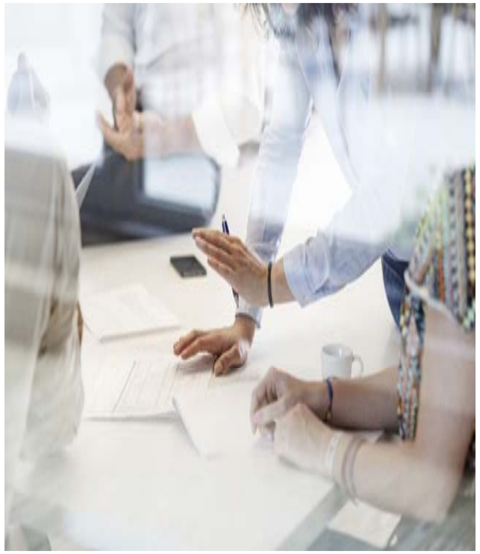
Our responsibility

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. 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
Other information	The Pension Fund is administered by Lancashire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H.
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. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix E.

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 Grant Thornton International Transparency report 2023.

3. Independence and ethics

Page 106

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 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. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£39,000 (£6,000 base Fee, £5,000 Triennial Valuation plus £1,100 for each set of audit procedures - 20 Expected) We also issued 6 additional 21-22 letters due to the triennial valuation (£1,000 each)	Self-Interest (because this is a recurring fee)	The fee for this work is recurring but not significant compared to the audit of the financial statements of £51,036 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. The amount to be recharged is to be confirmed – see appendix E for a reconciliation to the financial statements.
		Self-review	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
		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.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff
For transparency, we are disclosing 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 holding 50% share of the equity.	The audit fees are paid directly by LPP with no financial impact for Lancashire County Pension Fund or the Council. This disclosure is purely to make members aware of our relationship with bodies related to Pension Fund. The Council and Pension Fund Audits are undertaken by a separate audit team from the Public Sector arm of the firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leaders in place for the audits, and where we seek to place reliance on the LPP audit, this is treated as an auditor's expert for the purposes of our work. The LPP audit is undertaken in accordance with relevant auditing standards. We are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund (and Council) 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 2023/24 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
	Lack of proper documentation and retention of the IT project related activities During our audit, we noted that there was no proper documentation for the entire Oracle Cloud system implementation project. Evidence was not available for audit inspection. We were informed that the implementation process was led by SOCITM, an outsourced service providers, with further support from Mastek and Egress. Although a group of representatives from Lancashire County Council were involved in the project, all of them had left the Council at the time of our audit. Lancashire County Council teams were unable to retrieve the project related documentation Risk Without proper retention of project documentation increases the risk of not being able to confirm if objectives have been met, whether adequate governance was in place throughout the life of the project, what challenges were faced, what lessons were learned and whether risks were addressed adequately. In the absence of documented evidence for what checks were performed during the migration process there is an increased risk that data migrated between the legacy and new applications, may not be complete and accurate. Furthermore, the application may not consistently operate if known bugs and issues identified during data migration and system testing have not been resolved or appropriately mitigated prior to go live. Not documenting the go-live decision makes it difficult to verify how much due diligence was performed increasing the risk that key aspects of the project may have been overlooked which could result in a potential failure of the new system.	It is recommended that management ensure policies and procedures are developed and implemented that provide guidance on how IT systems should be acquired or developed. These documents should be formally approved by an appropriate level of Management and communicated to staff who will be responsible managing and implementing projects. Consideration should be given to developing and implementing all or some of the following suggested policies, procedures and documents, which will be dependent on the risk appetite of the Council and the size and risk of the project in question: Project Initiation document (PID) Gap analysis and considerations during software selection and design specifications Project plan Project Charter Work Breakdown Structure (WBS) Testing strategy incorporating the use of test plans Data migration strategy incorporating data cleansing, cutover and reconciliations Risks and Issues Log Project Communications Plan incorporating the capture of documented approvals for key stages of the project especially any go-live decisions Change Request Management. Failover/roll back plans As part of developing the above-mentioned policies, procedures and documents, guidance should be provided for how long they should be retained for each project, where they should be retained and who should be able to access them once the project has concluded. Most organisations retain documentation for a minimum period of twelve months after the project has completed. Management response Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee.

Page 110

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion During our audit, we noted that system administrative access to Oracle EBS and Oracle Fusion had been granted to 36 and 17 business users, respectively. These users had financial or operational responsibilities. Furthermore, management was unable to provide justification for two privileged generic accounts identified in Oracle Fusion. Risk A combination of administration and financial/ operational responsibilities creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities, e.g. reviewing system reports of detailed transactions; audit trails for activities performed by the privileged accounts, etc. Management response Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee.
	Lack of formal process in managing Oracle Fusion self-assigned roles We identified 38 instances in Oracle Fusion applications where accesses were self-assigned. This comprises eight unique users who assigned the accesses to their accounts. No approval documentation was provided for audit inspection. Risk User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	Management should ensure that all access requests are formally documented and approved. Additionally, it is advisable to regularly monitor system audit trails, preferably by IT security personnel or a team independent of those administering Oracle Fusion and its underlying database. Any identified issues within these trails should be thoroughly investigated, and mitigating controls should be implemented to minimize the risk of recurrence. Management response Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee.

Page 111

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	**Insufficient retention of documents related to Oracle Fusion system changes and access provisioning** During our audit, we noted that relevant documentation of Oracle Fusion system changes and access provisioning was not available for audit inspection. We were informed that the Service Now application was used for the management of IT services, encompassing system changes and access provisioning throughout the audit period. However, this application was no longer accessible at the time of our audit as it was decommissioned. **Risk** Without proper retention of documentation: • It becomes challenging to attribute changes to specific individuals or teams, leading to a lack of accountability for system modification and access-related actions • In scenarios involving staff turnover or changes in roles, it poses difficulties in transferring knowledge related to system changes and access provisioning processes, leading to potential disruptions • It becomes harder to monitor and detect insider threats, as unauthorised activities may go unnoticed in the absence of clear record • It can impede troubleshooting and problem resolution processes, causing delays in addressing issues and impacting overall system performance	It is recommended that management should establishing and maintaining a robust system change and access provisioning documentation process for ensuring transparency, accountability, and security of the IT environment. The process should include clear guidelines, regularly updates records, and adherence to security best practices. When changing the IT services solutions (such as Service Now application), it is recommended that management should follow the process of acquiring and developing new IT system, including: • Implement a comprehensive data backup plan before migrating to a new IT services solution. The integrity of backups should be verified to ensure that critical records are securely stored and can be readily accessed if needed. • Document all relevant information about the existing IT service solution, including access provisioning, system changes, and configurations. • Perform thorough validation and integrity checks on data migrated to the new IT service solution to identify and address any discrepancies or missing records. **Management response** Responses to the recommendations will be provided within the Council Audit Findings Report and the final version of this report at a later meeting of this Committee.

Page 112

Controls

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

C. Follow up of prior year recommendations

We identified the following issue in the audit of the Pension Fund's 2020/21 financial statements, which resulted in a recommendation being reported. This issue continues to exist and so we continue to report it for the attention of Those Charged with Governance.

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.

Page 113

Assessment

✓ Action completed

X Not yet addressed

D. 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 and their impact on the main statements are set out below:

Detail	Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m
Ledger Reconciliation Differences On completion of our agreement of the trial balance to the accounts and through discussions with management, it was identified that there were some minor reconciling differences between the ledger codes for transfers in, accrued expenses and sundry debtors which net off against each other to a minor impact on the Fund Account. Management has however made these amendments to the final set of accounts.	£0.6m	£0.6m	£0.6m
Level 3 Investments As detailed on page 8 of our report, management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which was a reduction in the asset value by £5.4m.	(£5.4m)	(£5.4m)	(£5.4m)
Overall impact	£4.8m	£4.8m	£4.8m

D. 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.

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/issue/Omission	Auditor recommendations	Adjusted?
Presentation/Disclosure Changes A number of minor amendments have been suggested to management from our financial statements presentation and internal consistency review. This includes Note 2, Note 5, Note 21 and other minor amendments to other notes in the accounts.	The final version of accounts is to be amended for these matters.	✓
Note 4 Critical Judgements This note has been revised to remove disclosures made in the draft accounts which when challenged, management did not believe where the most critical judgements made in the application of their accounting policies. A new disclosure has been added for the judgement that, based on the key inputs into the valuation of the LPPI Global Equities Pooled Fund, it should be classified as a level 1 investment.	The final version of accounts is to be amended for these matters.	✓
Notes 13, 16 and 17 From our audit work performed there have been various amendments made to the investments and financial instrument notes to ensure that they are all consistent with each other, agree to supporting workings and are presented in line with the code. These notes are all disclosure notes so there is no impact on the main statements from these changes	The final version of accounts is to be amended for these matters.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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
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 an understatement of 2022-23 investment manager fees of £1.4m. Our testing also identified an understatement of 2021-22 investment manager fees (not received until 22/23 or adjusted for in 22/23) of £6.7m. The total understatement of £8.1m is below PM and will be accounted for in the 2023/24 accounts.	(£8.1m)	(£8.1m)	(£8.1m)	Not material
Overall impact	(£8.1m)	(£8.1m)	(£8.1m)	

Page 116

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 2021/22 financial statements

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.	£33.7m	£33.7m	£33.7m	Below Performance Materiality
Overall impact	£33.7m	£33.7m	£33.7m	

E. Fees and non-audit services

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

Audit fees	Proposed fee (£)	Final fee (£)
Scale Fee (set by PSAA)	£28,185	£28,185
Valuation of Level 3 Investments	£1,563	£1,563
Valuation of Directly held Property	£2,188	£2,188
Impact of ISA 540	£3,600	£3,600
Impact of ISA 315	£3,000	£3,000
Journals testing	£2,000	£2,000
Additional testing of member data analytical review – change in circumstances	£500	£500
Quality review – response to FRC (Hot Review – occurs bi-annually)	0	£2,500
Review of the controls and implementation of the new ledger and pension administration systems	£10,000	£10,000
Additional resourcing costs incurred due to significant delays in receipt of evidence	0	£5,000
Pension Fund Audit	**£51,036**	**£58,536**
IAS 19 letters for employer body auditors	£34,000	TBC**
Work on triennial valuation member data *	£5,000	£5,000
Total audit fees (excluding VAT)	£90,036	£97,536

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2023/24 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

** We are still awaiting request letters from a number of auditors of admitted bodies. The proposed national audit sign-off backstop date in 2024 (still TBC) may mean that some auditors do not complete 2022-23 audits and so do not request an IAS 19 assurance letter from us. As such the final fee for IAS 19 letters remains subject to change.

Variations to the scale fee are subject to PSAA approval which often takes place after we have signed the audit opinion. We do not believe that this impacts upon our integrity, objectivity or independence.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
IAS19 Assurance Letters (£6,000 base fee + £1,100 per letter – 20 expected though not all yet received) Triennial Valuation Fee - £5,000 Additional 2021-22 Letters (£1,000 – per letter – 6 issued)	£39,000	TBC
Total non-audit fees (excluding VAT)	£39,000	TBC

The Audit fees for the opinion reconcile to the financial statements per our proposed figures. The additional fees charged per the final audit fees will be accounted for in 2023/24.

There are reconciling items with regards to the additional IAS 19 Fees, which will again be accounted for in 2023/24:

IAS 19 fees per Note 10 of the financial statements - £25,800

- Triennial Valuation Fee - £5,000
- Additional revised 21-22 IAS 19 Fees - £6,000 (These assurance letters were issued in June 2023 and November 2023 to account for results of 31/3/2022 Triennial Valuation)
- Two additional requests for 2022-23 (Only 18 letters in 2021/22) - £2,200 (£1,100 per letter)

Total fees per above - £39,000

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69)).

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

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

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

Dear Sirs

Lancashire County Pension Fund Financial Statements for the year ended 31 March 2023

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 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23 ("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 level 2 investments, level 3 investments and directly-held investment property. 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.

xi. 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. 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 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.

G. Management Letter of Representation

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 Audit, Risk & Governance Committee at its meeting on XX XX XXXX.

Yours faithfully

Name……………………………

Position…………………………

Date……………………………

Name……………………………

Position…………………………

Date……………………………

Signed on behalf of the Fund

H. 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 on financial statements

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 2023, 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 2022/23.

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 2023 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 2022/23; 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 Section 151 Officer's 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 Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022) 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.

In auditing the financial statements, we have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

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.

Our responsibilities and the responsibilities of the Section 151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements and our auditor's report thereon, and our

H. Audit opinion

auditor's report on the Authority's and group's financial statements. The Section 151 Officer is responsible for the other information. 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters 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, 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 and the Section 151 Officer

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 Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer 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 Section 151 Officer 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 they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the

H. Audit opinion

United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003), Public Service Pensions Act 2013, Local Government Pension Scheme Regulations 2013 and Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of management and the Audit, Risk and 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 management, internal audit and the Audit, Risk and 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 management's 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 manual journals, those journals over 5 times 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. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on manual journals, those journals over 5 times 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 investments, level 3 investments and directly held property, and
- 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including management override of controls. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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.

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.

H. Audit opinion

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 44 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, 29 January 2024

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
(Appendices 'A' – 'D' refer)

Contact for further information:
Andrew Dalecki, Head of Internal Audit, Tel: 01772 533469,
andrew.dalecki@lancashire.gov.uk

Brief Summary

In the context of the Audit, Risk and Governance 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 the period up to 2 January 2024.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and comment on the report.

Detail

This report provides a summary of the Internal Audit Service's work performed under the audit plan for 2023/24, as approved in April 2023.

Appendices

Appendices 'A' to 'D' are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

Appendix	Title
Appendix A	Internal Audit Progress Report – 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	Internal Audit Summaries – Provides an executive summary of each audit assignment completed since last reported to this committee on 16 October 2023.
Appendix C	Grant Audit Summaries – Provides an executive summary of each

	grant audit completed since last reported to this committee on 16 October 2023.
Appendix D	Follow-up Audit Summaries – Provides an executive summary of each follow-up audit completed since last reported to this committee on 16 October 2023.
Appendix E	Confidential Internal Audit Summaries, provided in Part II of the agenda.

Consultations

N/A

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

Appendix 'E' to this report is included in Part II of the agenda because it contains exempt information, as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972:

- Information relating to the financial or business affairs of any particular person (including the authority holding the information).

Matters arising from internal audit work completed during the period to 2 January 2024

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 2 January 2024.

2 Progress against the internal audit plan

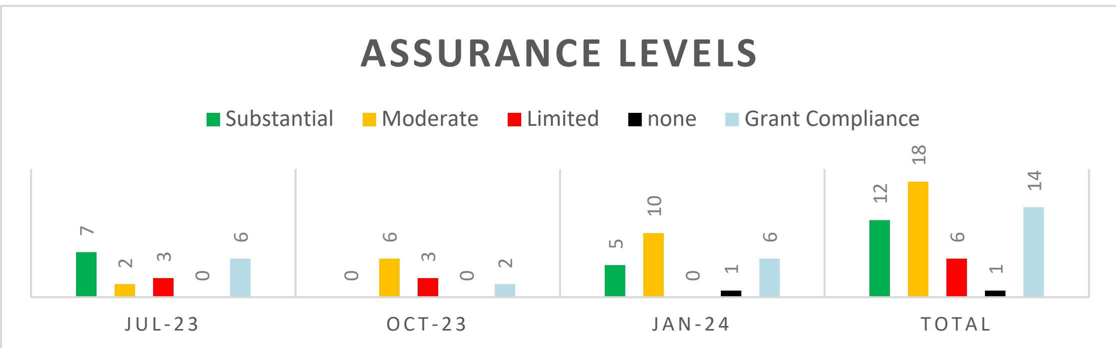
2.1 The Audits detailed in the tables at section 3.1 have been completed since the last Audit Risk and Governance Committee meeting on 16 October 2023.

2.2 The Internal Audit work plan that was approved by the Audit Risk and Governance Committee in April 2023 contained 100 audit assignments that the Internal Audit service planned to complete throughout the 2023/24 financial year. These included a variety of audit assignments ranging from full risk and control evaluation audits, grant audits, school audits and consultancy reviews to be completed across the whole Council.

2.3 As at 2 January 2024 the Internal Audit Service had completed and reported the findings for 51 audit assignments. This includes reviews carried over from the previous year's plan and unplanned work requested from service areas during the year. Since the last Internal Audit progress report was provided to the Audit Risk and Governance Committee in October, the service has finalised and issued 21 audit reports. There are also currently a further 24 reviews that are at a draft reporting stage or are being progressed.

Stage of audit process	23/24 plan Number	%
Complete and reported to committee	51	51%
Draft report stage	5	5%
Progressing	19	19%
Total number of audits	**100**	**75%**

2.4 The bar chart below illustrates the assurance levels provided for each audit assignment completed in the 2023/24 financial year and reported to this committee.



2.5 Presently there are currently five audits that are at the draft reporting stage, which are currently being discussed and agreed with managers.

Control area
Governance arrangements for the delivery of change within the organisation
flexible working
Flakefleet Primary School
Morecambe Bay Primary School
Management or the timeliness of assessments and reviews- Adult Services

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. The Internal Audit service for Wyre Borough Council also commission us to deliver a few individual audit assignments on their behalf.

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. The committee summary for Digital Services Procurement and the Governance Risk and Resilience Framework are both reported under separate agenda items for this meeting.

Control area	Assurance
Highways S278 agreements	● Substantial
Budget Savings – Governance	● Substantial
Management of the council's property portfolio	● Substantial
DWP Searchlight system	● Moderate
Safeguarding's Service redesign and implementation	● Moderate
Adequacy of the Safeguarding Board	● Moderate
Councils' response to the consultancy work on the use of employment agencies	● Moderate
Payroll system	● Moderate
Fostering payments	● Moderate
Digital Services Procurement	● No Assurance
Governance Risk and Resilience Framework	N/A

School Asset Management Audits	Assurance
St. Mary's RC Primary School	● Substantial
Walton-le-Dale High School	● Substantial
School Financial Controls Wellfield Academy	● Moderate

Wilsons Endowed School	Moderate
Barnacre Road Primary School	Moderate
Dalton St Michael's CE Primary School	Substantial

4 Grant certification and consultancy reviews

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. The table below provides details of this completed review, with an executive summary for each of the reviews being provided at Appendix C.

Grant Audits	Assurance
Grants from the Department of Transport to support capital expenditure	Compliant
Supporting Families Programme Q1	Compliant
Supporting Families Programme Q2	Compliant
Supporting Families Programme Q3	Compliant

5 Follow-up audits

5.1 The Internal Audit Service aims to follow up the action plans agreed by managers to address the risks identified through the audit process, to confirm that action has been taken. The plan for the year therefore includes an allocation of time for this work and the actions agreed to be reviewed with the responsible officers. The status of each management action is established by either the completion of a follow up audit as reported in section 5.3 below, or by seeking management assurance as to the progress made in the implementation of each agreed management action.

5.2 The tables below detail the status of the agreed management actions, including the financial years that any outstanding Management Actions were agreed.

Action status	Total as at 02 Jan 24					
			Risk rating			
	Total		Critical	High	Medium	Low
Complete	76	33%	0	2	36	38
Incomplete	95	41%	0	17	52	26
Superseded	17	7%	0	1	10	6
Follow up Scheduled	43	19%	1	15	25	2
Total	231	100%	1	35	123	72
Incomplete Management Actions by year						
2021/22	37	39%	0	3	20	14
2022/23	45	47%	0	11	26	8
2023/24	13	14%	0	3	6	4
Total	95	100%	0	17	52	26

5.3 Two follow up audits have been completed. As part of these follow up audits four management actions were reviewed. The table below provides as summary of the status of these actions and an executive summary of each review can be found at Appendix D.

	Extreme	High	Medium	Low	Total
Number of actions	0	0	1	3	4
Implemented	0	0	1	2	3
Superseded	0	0	0	0	0
Progressing	0	0	0	1	1
Not implemented	0	0	0	0	0

6 Amendments to the audit plan for 2023/24

6.1 There have been four amendments to the audit plan since we last reported to the committee on the 16 October 2023. These changes consist of three audits being removed from the audit plan for 2023/24 along with some grant audits that are no longer required.

Audits	Reason for change
Scheme of delegation	A constitutional review currently being undertaken likely to lead to new arrangements – This will be considered for inclusion in 2024/25 audit plan.
Overtime Payments	The original issue that caused the need for the use of overtime payments has now been addressed and the service is reporting that very few overtime payments are now being made.
RAMP system	RAMP is an administration system used for invoicing and payments for the Highways and Transport Service. This system has now been replaced by a new system - Key1. After the new system has been fully embedded it will be considered for inclusion in 2024/25 audit plan.
Various grants x 12	There are 12 different grants that no longer need to be reviewed by Internal Audit. This is because either the grant conditions have changed with the requirement for Audit sign off being removed or the grants are no longer being claimed.

Internal Audit

Audit Summaries

Appendix B

Lancashire County Council

Budget Savings – Governance

Budget Savings – Governance				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Substantial	0	0	0	1

An effective structure is in place to ensure delivery of the financial savings agreed by the Council can be tracked, monitored, reported and reviewed, and that the status of each saving can be identified along with any required additional actions or support.

Proposed budget savings are scrutinised and approved by members who also receive updates on progress. The implementation of these savings is overseen, monitored and reported on at directorate level via financial monitoring boards that are attended by directors and senior managers. Key support is provided by the Head of Financial Services (operational) who maintains a savings tracker that details for each saving who the lead director is, the amount to be saved per year, and the latest Red Amber Green (RAG) status that signifies the progress being made. The tracker is presented and updated at the financial monitoring boards and shared with Members at the Scrutiny Management Board.

The work of the Resources directorate financial monitoring board had not always been fully recorded, although there was sufficient evidence that it had taken place. We have agreed an action with the Head of Financial Management (Operational) to more formally record these meetings to ensure its key role in monitoring, challenging and updating savings progress is demonstrated.

This review did not incorporate detailed analysis of the accuracy of the status of savings nor sought to obtain evidence that the saving amount stated had been achieved or not. These are areas that we will review and report on separately in another audit that will aim to provide assurance that the financial savings agreed are achievable, had a material effect on the Council's budget, and delivery was accurately reported by services.

Context

The Council approved savings proposals for 2023/24 totalling £64m as part of a package of savings planned until 2026/27. This was £55m savings identified in each of the Council's directorates and £9m in strategic targets relating to contracts, workforce, design and technology, property and business processes. Members have been updated during the financial year that the savings to be made in 2023/24 had increased to £80m due to new savings being identified and some savings from previous years being delayed as a result of the pandemic.

Cabinet agreed that each directorate will have a Finance Monitoring Board (or equivalent) to ensure the savings assigned to them are delivered on time by challenging and monitoring progress, assisting delivery, and identifying and escalating any issues. Support from Financial Services to all directorates is key to enabling this. If sufficient budget savings are not achieved to address the funding gap, it is possible that the Council is unable to set a balanced legal budget.

Budget Savings – Governance

Scope of Audit

In this 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 areas:

- Formal agreement and scrutiny of proposed savings; and
- The structure for oversight and reporting of savings delivery.

This audit focused on providing assurance that there is a structure and process in place to ensure that delivery of the financial savings agreed by the Council is tracked, monitored, reported and reviewed. And that the status of each saving is identified and updated regularly for reporting to Members. This review did not incorporate detailed analysis of the accuracy of the status of savings nor sought to obtain evidence that the saving amount stated had been achieved or not. These are areas that we will review and report on separately in another audit that will aim to provide assurance that the financial savings agreed have been achievable, had a material effect on the Council's budget, and delivery was accurately reported by services.

Management of the Council's Property Portfolio

Management of the Council's Property Portfolio

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	0

We can provide the above assurance on the management of the council's property portfolio, there are adequate and effective controls in place and property assets were managed effectively conforming with council policies. The Property Asset Management Strategy complies with key regulations and guidance, including the CIPFA Strategic Property Asset Management framework, and the Corporate Strategy as well as the Premises Usage Policy 2023.

The Property Asset Management System (PAMS) identifies and monitors all property assets held by the council and data downloaded from it is used to inform decisions. A process flowchart provided a framework for triaging mailbox requests, and guidance for staff on providing appropriate checks, oversight and the approvals procedure. Various spreadsheets monitored mailbox requests and casework decisions when properties were confirmed as surplus or disposals, and supporting information inclusive of email correspondences were retained in casework files. The Team worked collaboratively with other council services and stakeholders, they obtained additional information from Facilities Management and other sources, as and when required. The Team also worked with Corporate Finance to ensure expenditure is kept within budget.

The revised Community Asset Policy sets out amendments for community ownership of surplus land and buildings. The Policy addressed key areas which included strategic priorities, routes to community ownership and management as well as the framework for transferring assets.

Briefing reports and Cabinet papers providing an update on property assets and projects were escalated to senior service managers in Asset Management and Estates to update and inform decision making and approval. The Capital Board and Executive Management Team provided oversight, evaluation and challenge, reviewing property asset proposals and decisions, financial implications and recommendations. In addition, the Asset Management Head of Service provided regular briefing reports to the Cabinet Member for Resources, Human Resources and Property (LCC Deputy Leader) and with directorate and executive management teams. The service completed overarching corporate key performance indicators (KPIs) and performance reports, but no specific ones on this area. They are reviewing if it would be beneficial to introduce further targets.

Context

The Council's property portfolio consists of just under 2000 assets with a value of approximately £2bn inclusive of, libraries, day and residential care centres, highways and depots, office accommodation, cultural and heritage assets, and schools. The council's Asset Management Service provides strategic management of the council's property portfolio, ensuring they support the principles of the corporate and capital strategies. Key responsibilities include development and prioritisation of capital programmes as well as the management of corporate land and buildings for service delivery.

The Property Asset Management Team adopt measures to manage assets efficiently and effectively, they evaluate and inform on property requests decisions, supporting service delivery and facilitating community use and lettings.

Management of the Council's Property Portfolio
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, procedures and guidance
- Service delivery
- Service quality
- Performance management

Councils' response to the consultancy work on the use of employment agencies

Councils' response to the consultancy work on the use of employment agencies

Overall assurance rating

Moderate

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	0

We can provide moderate assurance over the adequacy and effectiveness of council's response to the review undertaken by KPMG to identify potential savings from the Matrix contract. The Service accepted all of KPMG's recommendations positively and are making good progress to address them, but action is still ongoing to implement a number of the improvement actions identified. An agency action plan had been developed to address and monitor delivery of the recommendations, allocate responsibility and record progress. Some changes to processes have been implemented, such as the introduction of a reporting dashboard on use of agency staff. Several other improvements to existing controls are ongoing and have yet to be embedded. While it is too early to realise the benefits of these changes or to confirm their effectiveness, we can give positive assurance over the action being taken in response to the consultancy's recommendations.

Overall, the changes made to date should help ensure a greater level of detail will be provided by agency workers to support their expense and mileage claims and support timely and accurate reporting on spend and the use of agency workers across the council to determine whether the correct use of agency workers is made and if alternative resources could be utilised, such as apprentices.

Context

The council's service challenge identified potential savings targets across the council, including a minimum target of 2% for third party spend. This also links to the People Services review and strategic savings looking at staffing resources. KPMG were brought in to review the council's third party spend building on experience of identifying savings in this area for other organisations.

The contract with Matrix is due to end in March 2024, it is expected to be extended for a further twelve months to allow a re-tendering exercise to commence. Audit were informed that the contract has changed since it began and there is more use of specialist roles which charge high daily rates, the re-tender will allow the council to challenge and negotiate rates.

Spending on agency workers was similar at £11.02m for 2020/21 and 2021/22, but costs had increased in 2022/23 to £13.47m and a forecast spend of £16m for 2023/24. There are currently over 500 agency workers across the council with a spend of £4.03m up to 12 July 2023, primarily within Adult Social Care who account for 63% of all spend, with 24% on Childrens Social Care, 12% on Resources and 1% on outside core budget in this instance to cover urgent critical need on Fusion.

Councils' response to the consultancy work on the use of employment agencies

Scope of Audit

In this audit we have reviewed the SL&D teams' response to the findings of the consultancy work undertaken by KPMG of the Matrix contract to identify savings due to a potential lack of control and oversight of agency claims.

Section 278 Agreements

Section 278 Agreements				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Substantial	0	0	0	0

The framework of control in place to ensure a section 278 (s278) agreement is formed with developers that wish to make permanent alterations to a public highway and to monitor compliance with such agreements is adequately designed and effectively operated.

s278 agreements only proceed where the proposed works are assessed and agreed by an engineer within the Highways Development Support team, and planning permission and fees are received. The wording of s278 agreements and related performance bonds are overseen by Legal Services. Draft and final engrossment documents are reviewed and approved by the Highways Development Support team and developers prior to being signed and sealed. Developer compliance with the requirements of a finalised s278 agreement are monitored by the Highways Development Support team who will only provide final certification of the works should all the terms be met and fees paid.

Context

A section 278 agreement (or s278) is a section of the Highways Act 1980 that allows developers to enter into a legal agreement with the council (in our capacity as the Highway Authority) to make permanent alterations or improvements to a public highway as part of a planning approval. Such alterations should integrate with the existing highways infrastructure, benefit the public, and ensure accessibility and efficiency for road users. These need to be carried out in a safe manner and completed to a satisfactory standard that doesn't endanger the public and workers nor lead to additional Council expenditure rising from incomplete or unsatisfactory work by a developer.

Work affecting the highway can only begin when both the following have happened:

- A s278 agreement is signed by the developer and the Council (with performance bond or sum agreed), and
- all pre-commencement requirements listed in the s278 agreement have been met and approved by the Council.

The Highways Development Support team assess and instruct Legal Services of the need for a section 278 agreement to be formed with a developer. Legal Services review all requests to determine if they satisfy the legal test and ensure that the s278 agreement that is formed is properly worded and executed so that all parties are clear as to what works are being covered and the agreement can be enforced. The Highways Development and Support team are also responsible for monitoring compliance with the agreement once signed and sealed.

In the period September 2022 to September 2023, Legal Services opened 108 s278 case files. The 10 cases reviewed in this audit had proposed or agreed performance bonds or sums (that reflect the estimated costs of the works) totalling £675,000.

Section 278 Agreements

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:

- Forming the s278 agreement;
- Bonds, performance sums and fees; and
- Monitoring works agreed with developers.

Our audit focused on the work undertaken by Legal Services to draw up the required agreements from the moment of initial instruction from the Highways Development Support team to the signing and sealing of the engrossments (if applicable). Where finalised, we also reviewed the steps taken by the Highways Service to ensure developer compliance with the requirements of the s278 agreement. In the period September 2022 to September 2023, Legal Services opened 108 s278 case files of which one had led to a finalised s278 agreement being formed with a developer. This agreement was included in the sample of 10 s278 cases opened by Legal Services in this period that we reviewed.

DWP Searchlight

DWP Searchlight	
Overall assurance rating	**Audit findings requiring action**

Moderate

Extreme	High	Medium	Low
0	0	2	5

We can confirm that good progress has been made by the council to meet the requirements of the Memorandum of Understanding (MOU) between the council and the Department for Work and Pensions (DWP), which sets out how access to their systems Searchlight, Tell Us Once and Transfer Your File and use of their data should be protected and only used to undertake the lawful business of the council. The council has appropriate policies and guidance in place covering data security available to staff on the council's intranet.

In accordance with the MOU the council maintains records of users with direct access to the systems to verify appropriate personnel security checks had been undertaken. Users with indirect access had been identified and reviewed to verify they had also been subject to the same level of security checks as access to the system will be suspended by DWP if the council has not complied with this requirement of the MOU. The council had taken the decision to remove access for these staff as their functions are not specifically included within the MOU and will be submitting a request to DWP to re-use data ensuring the council is compliant with the MOU in accessing DWP data. Criminal checks no longer require a re-check some of the checks were last undertaken between 2007 and 2019. The system generates management checks to provide assurance to DWP that access to their data is for the legitimate business use of the council, they had also introduced a mandatory automated annual security test in June 2023 to be completed by staff before gaining access to Searchlight.

Context

The Department of Works and Pensions (DWP) has increased data sharing across local authorities, but this access to personal data increases the need for greater security responsibilities. To ensure data security is appropriately managed the Memorandum of Understanding (MOU) between the DWP and the council sets out how the council must manage access to data within the DWP Searchlight, Tell us Once (TUO) and Transfer Your File (TYF) systems, with the emphasis on data security. Searchlight allows staff access to benefit and disability information used by the council's Adult Social Care Financial Assessment team to determine if an individual is required to contribute towards the cost of their care; and the Customer Access Service (CAS), Blue Badge team to support the administration of Blue Badges. Additionally, the Registrars Service use the TUO system which enables individuals to inform the council when someone dies, and this information is shared across the council to cancel any services they received. A small number of staff have access to TYF access to customer data to support Local Welfare Provision delivering specific services to target groups.

The MOU is reviewed annually and signed by officers responsible for staff with access to Searchlight and, for the first time this year the officer with responsibility for the cryptographic and IT security standards and countersigned by the council's Section 151 Officer. Non-compliance with the MOU will result in users being suspended, which would greatly impact on the council's ability to provide the above services. Confirmation of benefits received would need to be provided directly by individuals or their representative which would not be as efficient as the council being able to access this data directly.

DWP Searchlight

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, policies
- Access
- Training
- Monitoring and incident response

Limitations of scope, an in-depth review of the IT specifications within the MOU has not been included as these were being signed off as being complied to by Digital Services.

Effectiveness of the Safeguarding Adults Board

Adequacy of the Safeguarding Adults Board

Overall assurance rating

Moderate

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	0

Overall, we can provide moderate assurance that the control framework for the revised Lancashire Safeguarding Adults Board (LSAB) is adequately designed to mitigate the risks associated with the establishment of governance structures and collaborative working arrangements. A considerable amount of work has been undertaken in recent months to strengthen the control framework, including the development of a structure and terms of reference for the Board, members and subgroups. A three year strategy has been developed, and work is progressing to finalise the budget allocations for the Board, and to develop budget monitoring routines to facilitate a more robust oversight of actual and forecast spend.

Some key controls remain outstanding that the Board plan to implement these by the end of this financial year. These include:

- A communication and engagement strategy to ensure that the Board effectively engages and communicates with the wide range of stakeholders.
- Performance and continuous improvement mechanisms to monitor and evaluate the effectiveness of the Board, and that of its members in achieving objectives.
- A development and training strategy providing a framework setting out training expectations for all stakeholders, to ensure they receive the appropriate level of training required to safeguard people with care and support needs.

Context

The Care Act 2014 requires a local authority to establish a Safeguarding Adults Board which aims to help and protect individuals who it believes to have care and support needs and who are at risk of neglect and abuse and are unable to protect themselves, and to promote their wellbeing. Section 43 of the Act sets out how the Board should seek to achieve its objective, through the co-ordination of members' activities in relation to safeguarding and ensuring the effectiveness of what those members do for safeguarding purposes.

The LSAB is funded via a pooled budget arrangement based on contributions from Lancashire Constabulary, Lancashire County Council and the Lancashire and South Cumbria Integrated Care Board. It is supported by an Independent Chair to oversee the work of the Board, provide leadership, offer constructive challenge, and ensure independence. The day-to-day work of the Board is undertaken by various subgroups and the Safeguarding Business Unit.

The LSAB has undergone structural changes in recent years. An interim Chair was appointed in November 2022, following the previous Chair stepping down, and a permanent Chair was appointed with effect from 9 May 2023. There has also been changes to the Pan Lancashire (Blackburn with Darwen, Blackpool and Lancashire Authorities) arrangements. Previously, the Authorities' three safeguarding adult boards operated with joint Pan Lancashire subgroups. However, each Authority now has its own dedicated subgroups, except for the Pan Lancashire Safeguarding Adult Review Subgroup.

Effectiveness of the Safeguarding Adults Board

Scope of Audit

The scope of this review has involved discussion with key contacts regarding the controls within the following areas:

- The governance and reporting framework surrounding the LSAB
- Collaborative working arrangements
- Communication and engagement
- Performance and continuous improvement

We compared the controls in place to mitigate risks to achieving business objectives, against the controls we would expect to find, based on the Social Care Institute for Excellences guidance to support the implementation of the safeguarding aspects of the Care Act 2014., and the Association of Directors of Adult Social Services in England. (ADASS) guide to support the development of Adult Social Care Self-Assessment. (See results at Appendix A).

Limitation of scope

As stated above, at the time of this review the LSAB was in a state of flux, having recently appointed a new chair, and undertaking a restructure of the governance arrangements including, membership and subgroups. It has therefore been agreed that this review will be undertaken in two parts. This initial review has involved a discussion with the Chair of the LSAB and the Senior Business Manager regarding the current framework of controls in place, and how they can be strengthened. Our opinion is therefore restricted to the adequacy of the current control framework. We will revisit this area later in the financial year, to audit the operation of, and compliance with the control framework, to determine whether it has been appropriately embedded and give an opinion on its effectiveness.

Safeguarding Redesign

Safeguarding Redesign				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Moderate	0	2	1	3

Based on the review findings we can provide a moderate assurance opinion surrounding the adequacy and effectiveness of the Safeguarding Service post the redesign. Our review has concluded that the framework of control is adequately designed and effectively operated overall, but some action is required to enhance aspects of it and ensure that it is effectively operated throughout to ensure that the changes have embedded, and benefits are being realised.

Policies and procedures exist to support the Safeguarding Governance Framework; however, some require update. The risks surrounding the person requiring safeguarding are appropriately considered, although testing established that there is inconsistency in the method for recording those risks, which contravenes the Safeguarding Policy. Testing also established that there is a lack of clarity on managing safeguarding enquiries that require the strategy and closure stages to be independently authorised.

We are informed by the Head of Service (HoS) that the introduction of a new Safeguarding Assessment form in August 2023 (held within the Liquidlogic Adults System (LAS)), should address the above issues. The form includes updated/ streamlined risk assessment and closure practices and supersedes the previous process. As the form is newly implemented, we are unable to confirm its effectiveness in mitigating the identified risks.

There is evidence of safeguarding enquiries being protracted. It is best practice for enquiries to be concluded within one month, and our sample testing concluded that this is largely adhered to with the average time taken being 35 days. There were however exceptions, with one case taking 143 days to complete, and another 103 days, and it is considered that for one of those cases, the delay in responding promptly to the alert could have posed a safeguarding risk to other persons. There is also an inconsistent approach to the closure of safeguarding enquiries, and not all are appropriately closed on LAS.

A comprehensive training framework exists for safeguarding officers, which includes mandatory courses, but review of the training record matrix suggests that the majority of staff have completed less than half of these.

Context

Section 42 of the Care Act 2014 requires that each local authority must make enquiries (or cause others to do so) if it believes an adult is experiencing, or is at risk of, abuse or neglect. This applies where a local authority has reasonable cause to suspect that an adult in its area:

- has needs for care and support (irrespective of whether the authority is meeting any of those needs),
- is experiencing, or is at risk of, abuse or neglect, and
- as a result of those needs is unable to protect himself or herself against the abuse or neglect or the risk of it (Care Act 2014, section 42)

Safeguarding Redesign

When an allegation about abuse or neglect has been made, a qualified social worker leads enquiries to find out what, if anything, has happened. The enquiry will seek to establish whether any action needs to be taken to prevent or stop abuse or neglect, and if so, by whom.

A project to redesign the Safeguarding Adults Service commenced in 2018, and (having stalled due to the impact of the Covid epidemic), came to fruition in March 2021. Various issues led to the redesign including:

- The previous community and Multi Agency Safeguarding Hub (MASH) safeguarding teams did not have a consistent approach to safeguarding, had different management styles and were not geographically aligned.
- There was a significant accumulation of cases in the MASH team (averaging 1000 cases), with no additional resource available to address the backlog.
- The safeguarding enquiry process was inefficient, with the section 42 enquiry process involving multiple individual stages to progress through, and the person at risk receiving multiple contacts from various safeguarding officers.

Consequently, the Head of Service (HoS) has since worked with the safeguarding adults teams to develop and streamline the service, resulting in a single service and management team, and dedicated social workers having responsibility for managing safeguarding cases from start to end. The redesign has also resulted in significant changes to how the service is administered, with the process being streamlined and a Model of Enquiry, for case management has been produced, documenting the process from triage to safeguarding enquiry closure.

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:

- The governance and reporting framework surrounding the Safeguarding Adults Service.
- Case management, including review of a sample of safeguarding cases to determine whether the documented processes and controls are operating effectively in practice.
- Performance management and continuous improvement.
- Staff skills and resources.

Payroll system

Payroll system					
Overall assurance rating	**Audit findings requiring action**				
Moderate		**Extreme**	**High**	**Medium**	**Low**
		0	0	0	0

Overall, we did not identify any significant issues within the main payroll process. Employees were occupying authorised posts and testing did not identify anyone being paid who did not or no longer worked for the organisation. However, we were able to undertake only limited testing in certain areas including payments for maternity pay and use of the recruitment system for appointing employees. This was due to problems accessing information from Oracle. Our 'moderate' assurance opinion is based on findings from the testing we were able to undertake. This confirmed controls were adequate but identified two areas where they were not effective These two areas were a lack of capacity in the Payroll Service to pursue overpayments due to the need to support issues arising from Fusion implementation and insufficient access restrictions to the system for some officers in the Payroll Service.

This review examined transaction processing within the previous version of Oracle (R12) between April 2022 and September 2022, prior to its replacement by Oracle Fusion which at the time of audit had no fully functional reporting suite. We are able to provide moderate assurance on the controls operating over the payroll system during that period.

We have not included any actions in the report as they are largely related to R12 and we expect they would be addressed by the work being undertaken to resolve issues within Oracle Fusion.

Context

The council replaced Oracle R12 with Oracle Fusion at the end of 2022-23. This audit examined transactions on R12 between April 2022 and September 2022 only. It did not examine controls or transactions within the Oracle Fusion system.

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:

- Provision of policies and procedures.
- Persons being paid on the payroll system occupy approved posts and the appointments have been properly authorised.
- Persons leaving the organisation are promptly removed from the payroll system.
- Variable/ overtime/ bank holiday hours and sleep ins are paid correctly.
- Sickness/ maternity/ paternity payments are in accordance with council policy.
- Honorariums are appropriately authorised.

Payroll system

- Exception reports are reviewed prior to payroll runs. Monthly payroll runs are authorised and reconciled.

Limitation to scope

This review did not examine:

- Responsibilities and access levels on the Oracle system.
- Controls within the recruitment system used to appoint new employees.
- Controls around setting up new posts by HR on Oracle.
- Oracle Fusion.

Fostering Payments

Fostering Payments				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Moderate	0	0	8	0

The rates of allowances payable to foster carers have been approved by Cabinet. These are programmed on the Liquidlogic Childrens Social Care system (LCS) and paid accordingly to foster carers. The LCS system has appropriate access restrictions and managers have authorisation limits for authorising payments to foster carers. Care Package Line Items (CPLIs) which specify the types of allowance and duration over which they are to be paid are authorised by managers for each child placement.

Data analysis revealed that CPLIs are not always end dated when a placement ends which results in overpayments. We also identified duplicate CPLIs which results in duplicate payments to foster carers and in one case there were triplicate payments. Sometimes duplicate payments are detected by the Accounts Payable team after the LCS file feeds through to the Controcc system and the duplicate payments are suspended in Controcc. The overpaid amounts are not promptly recovered from the foster carer.

Context

As at August 2023 there were approximately 500 inhouse foster carers and 1300 children placements. Maintenance allowances and foster care fees are paid fortnightly to foster carers. Additionally, birthday, holiday and festival allowances are paid on an annual basis. The amounts are based on the age of the child and LCS is used to administer and authorise payments to foster carers. LCS feeds through to Controcc which in turn feeds through to the Oracle Fusion Accounts Payable system to generate payments.

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:

- The allowances paid to foster carers are agreed by Cabinet and these are at least the national minimum allowances set by the government.
- Allowances are paid in accordance with the policy agreed by Cabinet and only for the duration of the placement.
- There is an appropriate authorisation and verification process for the payment of allowances.
- Changes to allowances (e.g., moving to a different age band) are made correctly.

School Financial Controls Wilson's Endowed Primary School

School Financial Controls Wilson's Endowed Primary School

Overall assurance rating

Moderate

Audit findings requiring action

Extreme	High	Medium	Low
0	0	1	5

Wilson's Endowed Primary School has appropriate governance arrangements, with a standard committee structure and three full governing and resource committee meetings per year. Budget setting, monitoring and financial policy review are delegated to the resources committee. Governors all complete register of interests annually although these had not been completed consistently and not all governors had completed a skills audit. We acknowledge the school has sufficient governor competency to provide effective scrutiny and minutes are sufficiently detailed to record questions and answers on key decisions.

The school has a deficit £-19,781 primarily due to staffing costs, as a decrease in pupil numbers resulted in there being too many staff for the number of pupils in school, combined with recent staff absences which were covered by agency workers. Savings had been identified by the Headteacher to balance the budget within the next four years in agreement with the Schools Finance Team. For example, reducing the number of classes which would then reduce the number of staff. Additional income has been identified for next year as the school is forecasting an increase in the number of SEND pupils.

Several purchases had been made by school staff using their own personal credit/ debit cards. Personal credit/ debit cards should not be used for school purchases and we propose that this practice is ceased as warranties for goods are invalidated and the VAT cannot be claimed back and is incorrectly coded. Orders should be raised directly with the supplier.

Context

As part of the Lancashire County Council's 2023/24 internal audit plan, the Internal Audit Service are reviewing a sample of schools across the county to assess the adequacy of the financial controls and supporting governance arrangements. This report summarises key findings for your school. A further report outlining best practice identified during the audit will be published later this year on the Schools' Portal. Internal Audit's role regarding schools is described in the Scheme for Financing Schools in Lancashire, para. 2.6 (April 2022).

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 follow key risks:

- Governance and operational financial management responsibilities are not clearly understood or carried out, meaning key tasks are not completed correctly or at all, or are not subject to the appropriate scrutiny.
- The school's financial management system does not provide timely or accurate financial information for budget monitoring purposes so

financial decisions are based on incorrect information.
- Inadequate level of knowledge and expertise, resulting in key tasks not being carried out effectively and proposed budgets are ineffective.
- Schools do not set appropriate budgets, meaning academic and organisational objectives and priorities are not delivered.
- Budget targets are not achieved, leaving budget deficits or surpluses not addressed.

School Financial Controls - Barnacre Road Primary School

School Financial Controls - Barnacre Road Primary School				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Moderate	0	0	1	3

Barnacre Road Primary School has appropriate governance arrangements, with a standard committee structure and three full governing body meetings termly with supporting committees including finance & premises and staffing & curriculum. Budget setting, monitoring and financial policy review are delegated to the finance & premises committee. Financial regulations are in place but are out of date and other policies had not been reviewed and approved by the governing body in the past year. All policies should be reviewed and updated in line with the council's model policies, and a review schedule should be maintained. The school now buy into the councils' Schools Financial Services which will give access to the most current policy and guidance. At the time of audit, the school had no access to the model policies on the Schools Portal and on our advice were seeking access through Schools Financial Services. One supplier recorded in a governor's registered business interests had been utilised and this should be discussed at the next full governing body for transparency. The school's governors have sufficient competency to provide effective scrutiny and minutes are sufficiently detailed to capture questions and answers on key decisions.

The school operates as a bank account school, with reconciliation completed weekly and uploaded monthly on the Schools Portal, with any issues identified and resolved in a timely manner. The school carried forward a deficit £-41,260 into 2023/2024 primarily due to staffing cost increases due to the pay award and delaying spend for school facilities which led to higher costs when the school decide to commit to spend. Schools Financial Services are working closely with the Headteacher and the governing body to reduce the budget deficit. The school has sufficient separation of duties arrangements for the ordering of goods and services and is supported by Schools Financial Services with reconciliations and budget monitoring. The school was using personal credit or debit cards for smaller orders but as this means VAT cannot be reclaimed and warranties may be invalid the school's credit card or petty cash should be used instead. We could not find a formal letting's agreement for the Barn Owl before and after school club, which should be in place. The school should also consider reviewing lettings costs annually due to rising running cost such as utilities. The school used a private property contractor for maintenance services but there was no contractual agreement in place. The school has an accurate establishment list and adequate separation of responsibility for review and approval prior to monthly payroll processing.

The school will be converted to an academy with the Bay Learning Trust in February 2024. This will change the governance arrangements and key financial controls and we have considered this in our findings and proposed actions.

Context

As part of Lancashire County Council's 2023/24 internal audit plan, the Internal Audit Service are reviewing a sample of schools across the county to assess the adequacy of the financial controls and supporting governance arrangements. This report summarises key findings for your school. A further report outlining best practice found during the audit will be published later this year on the Schools' Portal. Internal Audit's role regarding schools is described in the Scheme for Financing Schools in Lancashire, para. 2.6 (April 2022).

School Financial Controls - Barnacre Road Primary School

Barnacre Road Primary School (the school) is due to convert to an academy, joining the Bay Learning Trust (the Trust) following the Office for Standards in Education, Children's Services and Skills (OFSTED) inspection that found overall rating was inadequate. This is anticipated to change the control framework as processes shift to be managed centrally by the Trust.

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 follow key risks:

- Governance and operational financial management responsibilities are not clearly understood or carried out, meaning key tasks are not completed correctly or at all, or are not subject to the appropriate scrutiny.
- The school's financial management system does not provide timely or accurate financial information for budget monitoring purposes so financial decisions are based on incorrect information.
- Inadequate level of knowledge and expertise, resulting in key tasks not being carried out effectively and proposed budgets are ineffective.
- Schools do not set appropriate budgets, meaning academic and organisational objectives and priorities are not delivered.
- Budget targets are not achieved, leaving budget deficits or surpluses not addressed.

School Financial Controls - Dalton St Michael's Primary School

School Financial Controls Dalton - St Michael's Primary School				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Substantial	0	0	0	2

Dalton St Michael's Primary School (the school) has appropriate governance arrangements, with a standard committee structure and three full governing body and resource committee meetings per year. Budget setting, monitoring and financial policy are reviewed by the full governing body and all policies were up-to-date and had been reviewed and approved by the governing body in the past year. Governors all complete register of business interests annually and we confirmed a skills audit was with sufficient governor competency across key areas.

The school buys in to the council's full school's finance package, with reconciliation completed monthly by the school's finance officer and approved by the Headteacher. We noted the school has access to a business manager one day a week, and so had an adequate separation of duties for the ordering of goods and services. The council provide payroll services with an accurate establishment list. The budget is prepared annually, and a deficit was brought forward into 2022/23, with an in-year budget surplus. We noted the potential for a deficit was attributed to Oracle Fusion's launch and a substantial overpayment for one employee's payroll. Financial circumstances have since improved with the Headteacher covering for absent teachers.

Context

As part of the Lancashire County Council's 2023/24 internal audit plan, the Internal Audit Service are reviewing a sample of schools across the county to assess the adequacy of the financial controls and supporting governance arrangements. This report summarises key findings for your school. A further report outlining best practice found during the audit will be published later this year on the Schools' Portal. Internal Audit's role regarding schools is described in the Scheme for Financing Schools in Lancashire, para. 2.6 (April 2022).

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 follow key risks:

- Governance and operational financial management responsibilities are not clearly understood or carried out, meaning key tasks are not completed correctly or at all, or are not subject to the appropriate scrutiny;
- The school's financial management system does not provide timely or accurate financial information for budget monitoring purposes so financial decisions are based on incorrect information;
- Inadequate level of knowledge and expertise, resulting in key tasks not being carried out effectively and proposed budgets are ineffective;
- Schools do not set appropriate budgets, meaning academic and organisational objectives and priorities are not delivered;
- Budget targets are not achieved, leaving budget deficits or surpluses not addressed.

School Financial Controls Walton-Le-Dale High School

School Financial Controls Walton-Le-Dale High School

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	2

Walton-Le-Dale High School has appropriate governance arrangements, with a standard committee structure and three full governing body and resource committee meetings per year. Budget setting, monitoring and financial policy review are delegated to the resources committee. We noted that not all policies were up-to-date or had been reviewed and approved by the governing body in the past year. We propose that all policies are updated and a review schedule is added to record the past and next review date. Governors all complete register of business interests annually and while a skills audit had been started it was incomplete as not all competency assessments had been returned. We propose that all governors should complete competency assessment at the next available opportunity and the skills audit should be finished and submitted to the full governing body for review. We acknowledge the school has sufficient competency to provide effective scrutiny and minutes are sufficiently detailed to capture questions and answers on key decisions.

The school operates as a bank account school, with reconciliation completed weekly and uploaded monthly on the school portal, with any issues identified resolved in a timely manner. The budget is prepared annually and has a significant surplus, with the School Forum granting an exemption from claw back to allow for significant building works. The school has sufficient separation of duties arrangements for the ordering of goods and services and is supported by the council's Schools Financial Services with reconciliations and budget monitoring. Lettings are effectively managed, with supporting evidence of insurance retained and minimal debt with most service users paying promptly. The school uses Data Plan to provide payroll services, with an accurate establishment list and adequate separation of responsibility for review and approval prior to monthly payroll processing. The assistant headteacher reviews and approves payroll prior to processing and this is subsequently checked by the Headteacher, although we noted that these checks were behind by two months at time of review.

The school will be transitioned to an academy, joining the Aspirational Futures Trust later this year or early in 2024. We acknowledge that this will change the governance arrangements and key financial controls and have considered this within our findings and proposed actions.

Context

As part of the Lancashire County Council's 2023/24 internal audit plan, the Internal Audit Service are reviewing a sample of schools across the county to assess the adequacy of the financial controls and supporting governance arrangements. This report summarises key findings for your school. A further report outlining best practice found during the audit will be published later this year on the Schools' Portal. Internal Audit's role regarding schools is described in the Scheme for Financing Schools in Lancashire, para. 2.6 (April 2022).

Walton-Le-Dale High School (the school) is due to convert to an academy, joining the Aspirational Futures Trust (the Trust) following two consecutive Office for Standards in Education, Children's Services and Skills (OFSTED) inspections that found curriculum areas required improvement. This is anticipated to change the control framework as processes shift to be managed centrally by the Trust.

School Financial Controls Walton-Le-Dale High School

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 follow key risks:

- Governance and operational financial management responsibilities are not clearly understood or carried out, meaning key tasks are not completed correctly or at all, or are not subject to the appropriate scrutiny;
- The school's financial management system does not provide timely or accurate financial information for budget monitoring purposes so financial decisions are based on incorrect information;
- Inadequate level of knowledge and expertise, resulting in key tasks not being carried out effectively and proposed budgets are ineffective;
- Schools do not set appropriate budgets, meaning academic and organisational objectives and priorities are not delivered;
- Budget targets are not achieved, leaving budget deficits or surpluses not addressed.

School Financial Controls Wellfield Academy

School Financial Controls Wellfield Academy				
Overall assurance rating	**Audit findings requiring action**			
	Extreme	**High**	**Medium**	**Low**
Moderate	0	0	4	0

We have reviewed Wellfield Academy's governance arrangements and financial controls. The school has been supported by Endeavour Learning Trust (the Trust) since 2017 and is expected to convert to an academy and join the Trust later this year or early in 2024. In readiness for this the school has been aligning its policies, procedures, and governance arrangements with those of the Trust; one key change is they no longer hold separate finance/ resources meetings as this is now included in the full governing board meetings held six times a year. We did note that not all policies had been reported in the governing board meetings as evidence of review and approval. While Wellfield is still a local authority-maintained school the governing board should review these changes to ensure governance processes are appropriate for the school. While Endeavour Community manage the school lettings the income should go directly to the school fund and not to the Trust as it does now.

Overall, the school has sufficient separation of duties arrangements for the ordering of goods and services and is supported by the council's Schools Financial Services.

Context

As part of the Lancashire County Council's 2023/24 internal audit plan, the Internal Audit Service are reviewing a sample of schools across the county to assess the adequacy of the financial controls and supporting governance arrangements. This report summarises key findings for your school. A further report outlining best practice found during the audit will be published later this year on the Schools' Portal. Internal Audit's role regarding schools is described in the Scheme for Financing Schools in Lancashire, para. 2.6 (April 2022).

The school is due to convert to an academy and the expectation is they will join the Endeavour Learning Trust (the Trust). Since 2017, the school has been supported by the Trust and buys in services from them rather than the local authority, for example management support, teaching staff and support staff which currently includes two assistant headteachers, a Pastoral Manager and an ICT technician. Additionally, Endeavour Community manage the letting of the school's premises via an online system and monies go directly into the Trusts bank account as opposed to the school fund account.

The school has been served with a notice of concern from the council due to the high value deficit the school has been carrying for nine years, ranging from (£637,000) to (£845,000) over that time, as at 31/03/2023 it was (£763,375) which equates to almost 30% of the total revenue budget for 2022/23. The deficit had been decreasing annually on average by £34,000 from 2017/18, there was a significant deficit of (£89,816) in 2022/23 due to increases in costs for fuel, teachers' pay award and additional teaching staff bought in from the Trust due to an increase in the school's pupil intake for 2023/24. The school will receive additional funding for the increase in pupils, but this is lagged and will be received in April 2024.

Scope of Audit

School Financial Controls Wellfield Academy

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 finance policies
- Budget planning, monitoring and reconciliation
- Expenditure
- Petty cash/ Imprest accounts
- Income
- Payroll

School Financial Controls St. Mary's R.C. Primary School

School Financial Controls St. Mary's R.C. Primary School

Overall assurance rating

Substantial

Audit findings requiring action

Extreme	High	Medium	Low
0	0	0	1

St Mary's R.C. Primary School (the school) has appropriate governance arrangements, with a standard committee structure and three full governing body and resource committee meetings per year. Budget setting, monitoring and financial policy are reviewed by the full governing body and all policies were up-to-date and had been approved in the past year. Governors all complete register of business interests annually and we confirmed a skills audit was undertaken with sufficient governor competency across key areas.

The school buys in to the council's full School's Financial Service's package, with reconciliation completed monthly by the school's finance officer and approved by the Headteacher. The school has sufficient separation of duties arrangements for the ordering of goods and services and contracts with the council to provide payroll services with an accurate establishment list. The budget is prepared annually and has sufficient reserves to cover forecasted in-year deficits. The school successfully appealed clawback on 2022-23 budget, as the council acknowledged on-going issues with the introduction of Oracle Fusion had impacted financial forecasting.

Context

As part of the Lancashire County Council's 2023/24 internal audit plan, the Internal Audit Service are reviewing a sample of schools across the county to assess the adequacy of the financial controls and supporting governance arrangements. This report summarises key findings for your school. A further report outlining best practice found during the audit will be published later this year on the Schools' Portal. Internal Audit's role regarding schools is described in the Scheme for Financing Schools in Lancashire, para. 2.6 (April 2022).

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 follow key risks:

- Governance and operational financial management responsibilities are not clearly understood or carried out, meaning key tasks are not completed correctly or at all, or are not subject to the appropriate scrutiny;
- The school's financial management system does not provide timely or accurate financial information for budget monitoring purposes so financial decisions are based on incorrect information;
- Inadequate level of knowledge and expertise, resulting in key tasks not being carried out effectively and proposed budgets are ineffective;
- Schools do not set appropriate budgets, meaning academic and organisational objectives and priorities are not delivered;
- Budget targets are not achieved, leaving budget deficits or surpluses not addressed.

Appendix C

Internal Audit

Grant Audit Summaries

Lancashire County Council

Appendix C

Supporting Families Grant Quarter 1,2 & 3

Local Transport Capital Block Funding Grant
Grant certification and verification We reviewed Local Transport Capital Block Funding Grant payments made during the 2022-23 financial year, which were split into two separate determination letters set out below. The objective of this review was to confirm total grant amounts were received and expenditure was compliant with grant conditions: • Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) Specific Grant Determination (2022/23) No.31/6002 • Local Transport Capital Block Funding (Pothole Fund) Specific Grant Determination (2022/23): No. 31/6001 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 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 Department for Transport (DfT). The Internal Audit Service considers information and evidence provided by the Finance team in support of grant income and expenditure for 2022-23 is complete, accurate and that grant terms and conditions have been complied with.

Grant funding was allocated to Lancashire County Council by the DfT to provide support to the authority towards expenditure relating to local transport.

Financial Information

The total funding, £34,912,000 was received and receipted by the council, with funding used to support expenditure during 2022-23 on local transport related projects in accordance with the grant conditions.

Scope of Audit

The scope of our work was to confirm receipt of devolved funding and to verify that the expenditure incurred was in accordance with the terms and conditions attached to the grant.

Supporting Families Grant Quarter 1,2 & 3

Supporting Families Grant Quarter 1

Grant certification and verification

We have examined claims made in Quarter 1 of the 2023-24 financial year, in compliance with grant conditions at the request of the Children and Family Wellbeing service to meet the Ministry of Housing, Communities and Local Government (MHCLG) Financial Framework for the Expanded Supporting Families Programme.

Audit testing for May/June 2023 comprised a 10% sample of claims from a total population of 683. We can confirm that in each sample case we tested, the family was eligible for the programme and had worked with the Supporting Families way, and that outcomes achieved were in line with the council's outcome plan.

Supporting Families Grant Quarter 2

Grant certification and verification

We have reviewed the required sample claims made in September 2023 in compliance with grant conditions and at the request of the Children and Family Wellbeing service. The review is to confirm that the claims submitted meet the Ministry of Housing, Communities and Local Government (MHCLG) Financial Framework for the Expanded Supporting Families Programme.

On 5th September 2023, we conducted a review of the data sources which will be used for each of the sub criteria within the new framework, which will allow us to confirm that a claim is valid. We were satisfied that the data validation which TFU conducts is appropriate and thorough and ensures that all the criteria's are met, duplicates are removed, and new claims are added. Additionally, there is a robust process in place in ensuring that when a criteria is closed within the relevant system, it feeds through to the appropriate sub report, once all the sub reports for that criteria are closed, only then the master spreadsheet for that criteria closes.

Audit testing for September 2023 comprised a 10% sample of claims from a total population of 62. These 62 claims will be submitted under the new framework and criteria. In July 2023 we submitted an interim Quarter 2 report which was assessed under the old framework.

Supporting Families Grant Quarter 3

Grant certification and verification

We have examined claims made in Quarter 3 of the 2023-24 financial year, in compliance with grant conditions at the request of the Children and Family Wellbeing service to meet the Ministry of Housing, Communities and Local Government (MHCLG) Financial Framework for the Expanded Supporting Families Programme.

Audit testing for October, November and December 2023 comprised a 10% sample of claims from a total population of 519. We can confirm that in each sample case we tested, the family was eligible for the programme and had worked with the Supporting Families way, and that outcomes achieved were in line with the council's outcome plan.

Supporting Families Grant Quarter 1,2 & 3

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 Ministry of Housing, Communities and Local Government (MHCLG) Financial Framework for the Expanded Troubled Families Programme.

For each claim window, the Supporting Families team submit to the Internal Audit Service (IAS) all claims they consider eligible for submission to MHCLG, and in accordance with the financial framework for the Expanded Supporting Families Programme. They complete a template collating sources of evidence to support the case eligibility including screenshots from Supporting Families spreadsheets populated from case management recording systems and spreadsheets.

Financial Information

Quarter 1 claim included 683 families; these equate to £546,400 for the period reviewed.

Quarter 2 claims included 62 families; these equate to £49,600 for the period reviewed.

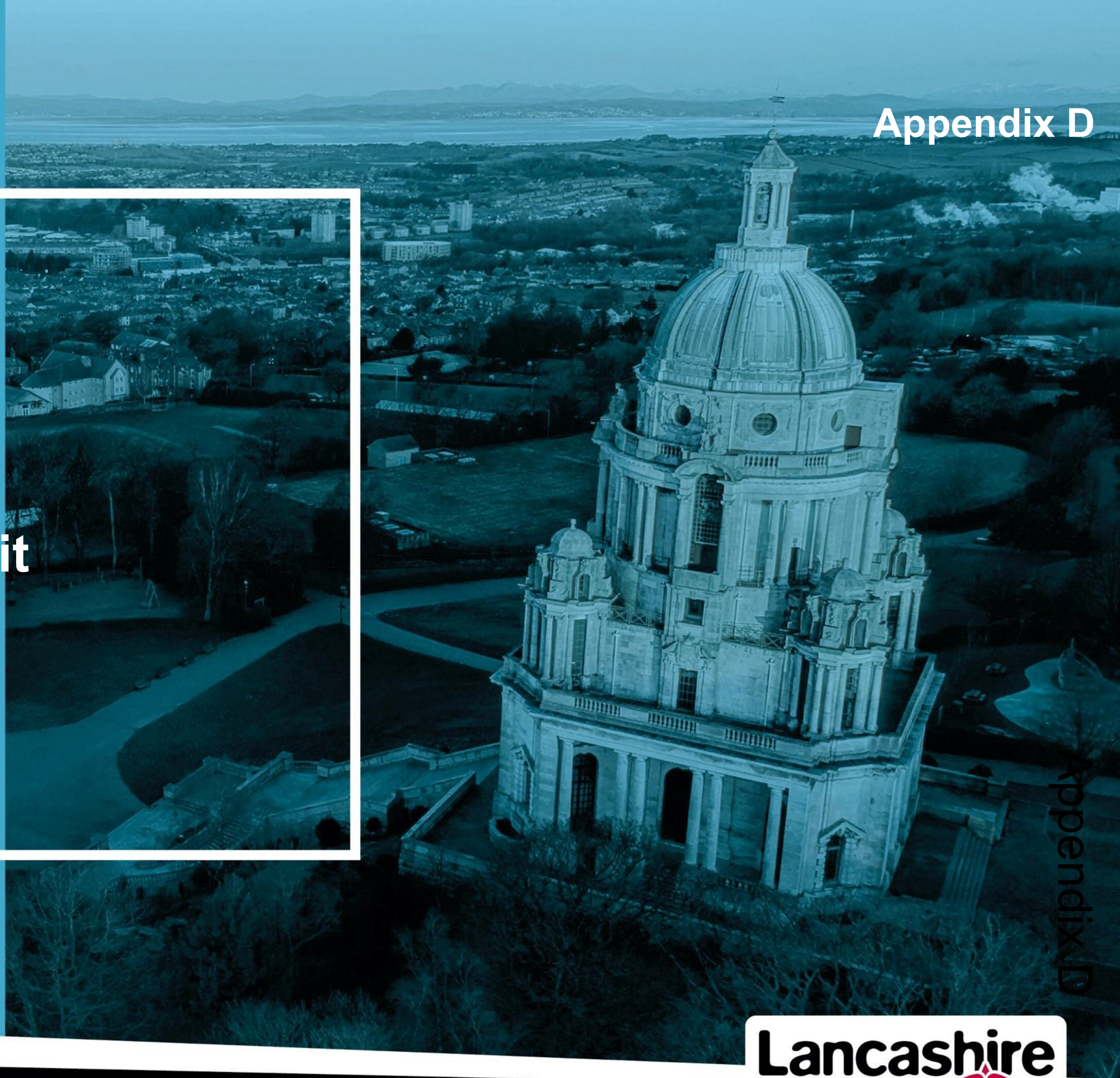
Quarter 3 claim included 519 families; these equate to £415,200 for the period reviewed.

Scope of Audit

The scope of our work was to verify the accuracy of the grant submissions and to verify that the expenditure incurred was in accordance with the terms and conditions attached to the grant.

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.

Appendix D



Internal Audit

Follow-up Audit Summaries

2022/23

Lancashire County Council

Appendix D

Follow up report: Major Strategic Development Projects					
Original audit assurance rating		**Extreme**	**High**	**Medium**	**Low**
	Number of actions			1	
Substantial	Implemented			1	
	Superseded				
	Progressing				
	Not implemented				

Our previous review of major strategic development projects, reported in October 2022, resulted in a substantial assurance opinion. We reported that:

- An overarching governance structure exists ensuring effective responsibility for strategic development programmes and key projects, and roles and responsibilities are clearly identified and executed by suitably experienced teams/ persons.
- There is a defined communication and reporting regime, and project decisions are undertaken in accordance with the Constitution and Scheme of Delegation, and are transparent, appropriately documented, authorised and communicated.
- 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.

Our original review resulted in one medium priority action regarding the development of a post implementation review process, that we are pleased to report has now been implemented.

Follow up report: Highways Equipment Hire

Original audit assurance rating

Substantial

	Extreme	High	Medium	Low
Number of actions		1	3	
Implemented		1	2	
Superseded				
Progressing			1	
Not implemented				

A follow-up audit has been conducted to determine the progress made by Fleet Services implementing agreed actions from the internal audit report for Highways hire equipment (Ref. 2022-34, January 2023). Our original review provided limited assurance over the adequacy and effectiveness of the control framework to provide challenge and oversight of the Highways procurement and equipment hire arrangements, the accuracy and integrity of the Plant Coordination Team' (PCT) database, the transfer of hire requests from the team mailbox to staff browsers and remind operatives of the procedure and their responsibility to report vehicle damage.

Both heads of services accepted that the oversight function was not operating as originally intended and regular meetings were held with the Director to address the need for improvement. Based on information and evidence provided we are now satisfied that action is being taken to address the issues identified in the audit, and that three actions have been implemented and one is still in progress. The comprehensive process map addresses team roles and responsibilities, and information and document flows, enabling the PCT to validate and check equipment requests, effectively monitoring the hire and off hire process, and provide oversight and challenge.

The PCT database spreadsheet controls have been enhanced, however, our testing established there is still a sizeable percentage of inaccurate or missing data, and we were told that the data accuracy and cleansing exercise is still ongoing. The Team process requests exclusively from the mailbox, the Categorised Outlook field provides enhanced controls, recording hire requests status during the process cycle, eliminating transfers to private browsers and improving service delivery. The Stop, Think and Safety programme delivered from January 2023 reminded Highways operatives of established procedures and their responsibilities for reporting loss and damage of hired equipment and vehicles.

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected: N/A;

Governance Risk and Resilience Framework Review
(Appendix 'A' refers)

Contact for further information:
Heloise MacAndrew, Director of Law and Governance, Tel: 01772 534105, Heloise.MacAndrew@lancashire.gov.uk

Brief Summary

This report sets out the findings from the council's assessment of governance risks against the Centre for Governance and Scrutiny's Governance Risk and Resilience Framework.

Recommendation

The Audit, Risk and Governance Committee is asked to:

i) Provide feedback on the report;

ii) Agree the actions set out at Appendix 'A'; and

iii) Agree that the Governance Risk and Resilience Framework review exercise is conducted again in late 2025 or early 2026, following the next county council elections.

Detail

The council is conducting a broad governance review considering learning from various public interest reports which focus on failures in governance at other local authorities. This review includes the initial step of conducting a resilience exercise the outcome of which is the subject of this report. This exercise will in turn help inform the holistic review of the council's Constitution and its approach to shareholder governance of council companies, both of which are already in progress and form part of the broader governance review being led by the Monitoring Officer.

This initial exercise was performed using the risk and resilience framework developed by the Centre for Governance and Scrutiny (CfGS), a social purpose consultancy that seeks to promote good governance, scrutiny and accountability in the public and private sector, including periodic review of governance practice. The framework sets out seven characteristics to help understand and manage governance risk:

1. Ownership of governance and its associated systems;

2. Understanding the unique role that politics plays in governance in local government;

3. Future planning, and insight into what the future might hold for the area or for the council as an institution, and the approach to risk;

4. Mutual roles in support of robust and effective decision-making and oversight, including communication and accountability;

5. Internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices;

6. Integration into governance arrangements an understanding of partnership working and partnerships, and the local community and its needs; and

7. Scrutiny by councillors, and supervision and accountability overall.

Purpose

The aim of this work was to review how the council's governance works in practice, and to identify any potential risks and improvement actions. The findings will contribute to the current review of the Constitution, and the production of a robust Annual Governance Statement. Ensuring that we have a strong governance culture is a priority for all officers and members. This review was undertaken independently by the council's Internal Audit Service at the request of the council's Monitoring Officer to provide evidence of areas of governance strength and identify areas requiring continuous improvement.

Methodology

Views of selected members and senior managers were sought on the council’s governance arrangements, using a questionnaire based on the Centre for Governance and Scrutiny's framework checklist. Responses were followed up in meetings with members and directorate leadership teams. Respondents scored the council's governance arrangements against the seven characteristics and related behaviours and commented on good practice and areas for improvement.

Questionnaires were sent to 20 Executive Directors and Directors and 17 responses were received. Questionnaires were sent to 18 members and 10 responses were received.

This report focuses on areas where a need for improvement was identified. It should be borne in mind that the findings are based on the views and opinions of the responding officers and members and have not been subject to audit testing.

Summary

Overall, the responses from officers and members were positive with a significant majority either agreeing or strongly agreeing with the seven characteristics of good governance.

Where discussions and feedback from officers and members highlighted areas for continuous improvement these are highlighted in the Action Plan provided at Appendix 'A'.

The lowest scoring governance characteristic for officers (57%) and members (60%) was: internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices. This is therefore highlighted as an area for continuous improvement. This is also an important learning from other council's public interest reports. Further data on this issue will be collected as part of the staff survey.

Progressing the recommended actions within the timeframes presented will ensure good governance remains a priority across the Council. Repeating the CfGS Risk and Resilience review is recommended in the autumn of 2025 or spring of 2026, following the next elections as the exercise represents the opinions of respondents at a given point in time.

Appendices

Appendix	**Title**
Appendix 'A'	Action Plan

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Action Plan

Action	Governance Characteristic	Action	Owner	Completion Date
Action 1	1. Ownership of governance and its associated systems 4. Roles and responsibilities in support of effective decision making	Review the Centre for Governance and Scrutiny's best practice standards and consider recommendations for practical changes to existing work systems and processes including the constitution and decision-making systems with specific reference to the clarity of roles and ownership and the scheme of delegation.	Director of Law and Governance	March 2023
Action 2	2. Understanding the unique role that politics plays in governance in local government Political awareness and member engagement	Provide a development session for the Executive Management Team, Cabinet Members, all Directorate Management Teams, and political groups on member and officer protocol and working together including lessons learnt from Public Interest Reports where this has been identified as a cause of council ineffectiveness. Provide officers with political awareness training informed by member input for a shared understanding of motivation and objectives.	Director of Law and Governance	March 2024 Ongoing - March 2024
Action 3	3. Future planning and the approach to risk	The ongoing review of risk management should be used to drive greater understanding and visibility of risk.	Director of Law and Governance	New approach implemented by April 2024
Action 4	3. Future planning and the approach to risk	The ongoing improvements and the council wide approach to change management is embedded including the establishment of the Change and Digital Board.	Director of Organisational Development and Change	April 2024

Action	Governance Characteristic	Action	Owner	Completion Date
Action 5	5. Internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices	The Communications Strategy should be revisited to reflect a balanced approach to internal and external communications and to clarify the role of councillors in dealing with the media.	Head of Communications and Public Affairs	December 2023
Action 6	6. Understanding the local community and its needs	A consistent and targeted approach to engagement with residents and communities should be developed which uses new technology and new ways of working which should include a re-examination of comparator organisations with advice from the Local Government Association.	Director of Organisational Development and Change	April 2024
Action 7	5. Internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices	Awareness of how to raise concerns or emerging issues facing the council and how these are managed and followed up needs to be raised. Profile to be raised of the role of staff voice groups and escalation to strategic boards along with whistleblowing awareness raising.	All Directors	March 2024
Action 8	3. Future planning, and insight into what the future might hold for the area or for the council as an institution	The performance dashboards and outcome focused KPIs are utilised to plan future need.	Director of Policy and Performance	April 2024
Action 9	3. Future planning	The People Strategy and recruitment processes should establish a framework to ensure the council has the operational and leadership skills for the future.	Director of People	April 2024

Action	Governance Characteristic	Action	Owner	Completion Date
Action 10	6. Integration into governance arrangements an understanding of partnership working and partnerships, and the local community and its needs.	Regular training for those representing the council in partnership arrangements and proper processes put in place to monitor financial and project delivery success rate of partnership working.	Director of Law and Governance and Director of Finance	Ongoing
Action 11	5. Internal candour and reflection; the need to face up to unpleasant realities and to listen to dissenting voices 7. Scrutiny by councillors, and supervision and accountability overall	Build on the scrutiny review ensuring self-evaluation and peer review together with Cabinet Member engagement to drive performance.	Director of Law and Governance	2024-2025

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected:
N/A;

Code of Conduct - Annual Report of Complaints
(Appendix 'A' refers)

Contact for further information:
Josh Mynott, Democratic and Member Services Manager, Tel: (01772) 534580,
josh.mynott@lancashire.gov.uk

Brief Summary

This report presents a summary of all complaints received in 2023 against county councillors under the Code of Conduct.

Recommendation

The Audit, Risk and Governance Committee is asked to consider 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; and
- 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 Conduct Committee, should it be necessary to do so.

Complaints 2022

The process regarding one complaint received in 2022 continued into 2023. A meeting of the Conduct Committee was convened on 16 March 2023 and the committee, having regard to the views of the Independent Person, found the subject member to have breached the Code of Conduct. The subject member was required to apologise to the complainant and the Monitoring Officer. The outcome of the Conduct Committee's meeting was reported to Full Council.

Complaints 2023

In general, Lancashire continues to receive relatively few complaints about county councillors. A full summary of complaints received in 2023 is attached at Appendix 'A'.

The Audit, Risk and Governance Committee is invited to consider the report and make any comments or observations about the complaints received or processes around managing complaints.

Appendices

Appendix	Title
Appendix 'A'	Summary of Code of Conduct Complaints 2023

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

None

Date	Complainant	Summary of allegation	Outcome
February 2023	Member of the public	Data protection breach	Breach, no further action required – resolved by councillor amending their social media post which had included personal information. The Information Commissioner's Office confirmed their actions were appropriate and sufficient.
February 2023	Member of the public	Offensive social media post	No breach – councillor demonstrated they had deleted the post before the complaint was received.
February 2023	Member of the public	Failure to respond to emails	No breach – councillor demonstrated they had responded to the correspondence.
June 2023	Member of the public	Failure to continue correspondence	No breach – councillor demonstrated suitable steps had been taken to respond.
July 2023	Parish council	Rude and disrespectful behaviour	Breach, no further action required – resolved by councillor apologising.
August 2023	Member of the public	Data protection breach	No breach – evidence provided to demonstrate there had not been a breach.
October 2023	Member of the public	Rude and disrespectful behaviour	No breach – a minor incident that was quickly resolved and for which both parties bore responsibility.
November 2023	Member of the public	Failure to respond to emails	No breach – councillor demonstrated suitable steps had been taken to provide a response.
December 2023	Member of the public	Conduct on social media	Initial assessment / investigation in progress

Appendix A

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected:
N/A;

Local Member Grants Scheme - Update Report

Contact for further information:
Josh Mynott, Democratic and Member Services Manager, Tel: 01772 534580,
Josh.Mynott@lancashire.gov.uk

Brief Summary

Monitoring of the money awarded under the Local Member Grants Scheme is conducted by Democratic Services. This report provides an update on the outcomes of that monitoring activity, following the Local Member Grants Scheme Annual Report and Update Report which were presented to the Audit, Risk and Governance Committee at its meetings on 24 April 2023 and 16 October 2023 respectively.

This update report covers the period January 2021 to June 2023.

Recommendation

The Audit, Risk and Governance Committee is asked to consider and comment on the Local Member Grants Scheme - Update Report for January 2021 to June 2023.

Detail

On 16 December 2021, Full Council approved the reintroduction of the Local Member Grants Scheme with effect from 1 January 2022. Under the Scheme, each county councillor has been given a specific budget which they can spend to enhance the economic, social, and environmental wellbeing of people who live in their division.

To support the reintroduction of the Scheme and in line with the powers granted by the Local Government and Public Involvement in Health Act 2007, the Leader of the Council has authorised individual county councillors to take formal decisions on behalf of the county council. This legislation does not apply to Cabinet Members as they already have these decision-making powers.

Every decision taken by a county councillor to award a grant under the Scheme is available to view on the county council's website here:

https://council.lancashire.gov.uk/mgDelegatedDecisions.aspx?bcr=1&DM=0&DS=2&K=0&DR=&V=0

Monitoring of the money awarded under the Local Member Grants Scheme is conducted by Democratic Services. Six months after a grant has been awarded, the recipient organisation is contacted to request evidence of their expenditure. This is to ensure the money awarded has been spent in line with the organisation's application and as agreed by the local county councillor(s).

In line with the Audit, Risk and Governance Committee's recommendation, since October 2023 Democratic Services' procedure has been updated so that the appropriate county councillor(s) will be informed when organisations do not provide evidence of expenditure within three months of Democratic Services' first request.

The information below provides the committee with a summary of the outcomes of this monitoring activity, in line with its responsibility for oversight of the county council's governance and risk management.

2021/22

			Satisfactory Evidence of Use		No or Unsatisfactory Evidence of Use	
Month	**Total number of grants awarded**	**Total amount awarded (£)**	**Total no. responses received**	**Total amount (£)**	**Total no. responses outstanding**	**Total amount (£)**
Jan 2022	23	5,710.00	22	5,210.00	1	500.00
Feb 2022	34	8,928.35	33	8,428.35	1	500.00
Mar 2022	52	14,187.02	47	12,737.02	5	1,450.00
Total	**109**	**28,825.37**	**102**	**26,375.37**	**7**	**2,450.00**

For the period from 1 January to 31 March 2022, a response providing satisfactory evidence of expenditure has been received in relation to 94% of grants, equating to 92% of the total value awarded. This information is correct as of 31 December 2023.

The committee will note that a few organisations are still to provide satisfactory evidence of expenditure for the period to March 2022. One member of Democratic Services staff has focussed on contacting these organisations about their grants since the last Audit, Risk and Governance Committee meeting and the evidence requested is still outstanding. A summary of the circumstances is as follows:

- For two grants, the organisation's project start was delayed. They have provided evidence of expenditure for some, but not all, of the money awarded and the outstanding evidence will be provided once the project is completed.

- For the remaining five grants, the organisations have not responded to correspondence from Democratic Services. Given the length of time that has passed since their grant application, it is considered unlikely that these organisations will provide evidence of expenditure.

As highlighted at the last meeting of the Audit, Risk and Governance Committee, organisations which do not provide satisfactory evidence of expenditure are noted by Democratic Services. Should they apply for a Local Member Grant in the future, the decision-making county councillor(s) will be informed that the organisation has previously not provided evidence of expenditure.

2022/23

			Satisfactory Evidence of Use		No or Unsatisfactory Evidence of Use	
Month	**Total number of grants awarded**	**Total amount awarded (£)**	**Total no. responses received**	**Total amount (£)**	**Total no. responses outstanding**	**Total amount (£)**
Apr 2022	34	12,074.98	32	11,124.98	2	950.00
May 2022	64	23,069.78	57	19,717.98	7	3,351.00
Jun 2022	23	9,046.00	18	6,871.00	5	2,175.00
Jul 2022	26	8,985.00	22	8,135.00	4	850.00
Aug 2022	9	3,220.00	6	1,970.00	3	1,250.00
Sep 2022	30	13,065.00	23	9,165.00	7	3,900.00
Oct 2022	23	9,976.70	11	3,596.70	12	6,380.00
Nov 2022	31	14,417.57	23	10,662.60	8	3,754.97
Dec 2022	29	14,606.06	18	7,264.00	11	7,342.06
Jan 2023	21	10,803.00	9	5,198.00	12	5,605.00
Feb 2023	42	17,973.41	28	10,241.55	14	7,731.86
Mar 2023	81	45,920.32	51	26,235.32	30	19,685.00
Total	**413**	**183,157.82**	**298**	**120,182.13**	**115**	**62,974.89**

For the period from 1 April 2022 to 31 March 2023, a response providing satisfactory evidence of expenditure has been received in relation to 72% of grants, equating to 66% of the total value awarded. This information is correct as of 31 December 2023.

2023/24

			Satisfactory Evidence of Use		No or Unsatisfactory Evidence of Use	
Month	**Total number of grants awarded**	**Total amount awarded (£)**	**Total no. responses received**	**Total amount (£)**	**Total no. responses outstanding**	**Total amount (£)**
Apr 2023	52	21,239.98	25	9,332.98	27	11,907.00
May 2023	39	17,197.00	8	1,937.00	31	15,260.00
Jun 2023	44	14,124.98	1	500.00	43	13,624.98
Total	**135**	**52,561.96**	**34**	**11,769.98**	**101**	**40,791.98**

For the period from 1 April 2023 to 30 June 2023, a response providing satisfactory evidence of expenditure has been received in relation to 25% of grants, equating to 22% of the total value awarded. This information is correct as of 31 December 2023.

For grants awarded from 1 July 2023 onwards, organisations have not yet been contacted to request evidence of their expenditure. Updated information for the 2023/24 financial year will be provided in the next annual report to the Audit, Risk and Governance Committee in April 2024.

The total number of grants awarded over the last six months is as follows (correct as of 22 December 2023).

Month	Total number of grants awarded	Total amount awarded (£)
Jul 2023	41	13,763.44
Aug 2023	32	13,964.28
Sept 2023	29	11,733.60
Oct 2023	24	9,923.35
Nov 2023	33	13,028.87
Dec 2023	11	3,970.20
Total	**170**	**66,383.74**

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Democratic Services maintain an effective audit trail of the money allocated to organisations. Monitoring is intended to be proportionate and takes into account that the organisations receiving the money are often small volunteer groups with limited resources, meaning that it is important to keep paperwork requests to a minimum and to be flexible with the type and nature of evidence accepted. Where no reply is received, this is followed up.

In some cases, organisations may never respond to Democratic Service's requests for evidence of expenditure or may provide evidence that does not sufficiently demonstrate how they have spent their grant money. However, these cases are limited, and the Internal Audit Service is satisfied that Democratic Services are taking suitable steps to ensure money awarded under the Local Member Grants Scheme is spent in line with the organisation's application and as agreed by the local county councillor(s).

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

None

Lancashire County Council

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 January 2024

Electoral Division affected: (All Divisions);

Corporate Risk and Opportunity Register - Quarter 4 2023/24
(Appendices 'A' – 'C' refer)

Contact for further information:
Paul Bond, Head of Legal, Governance and Registration Services, Tel: 01772 534676, paul.bond@lancashire.gov.uk

Brief Summary

This report provides an updated (Quarter 4 2023/24) 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.

An Executive Summary is attached at Appendix 'A' and the updated Corporate Risk and Opportunity Register is attached at Appendix 'B'.

The risk entries for Cyber Security, the Oracle Fusion Data Breach, Oracle Fusion Post Implementation Issues, and Building Schools for the Future contain private and confidential information, so are provided at Appendix 'C' and included in Part II of the agenda.

Recommendation

The Audit, Risk and Governance Committee is asked to consider, comment on and approve the Executive Summary and the updated Corporate Risk and Opportunity Register.

Detail

This report provides an updated (Quarter 4 2023/24) Corporate Risk and Opportunity Register together with an Executive Summary for the committee to consider and comment on. The register has been updated 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 the Corporate Risk and Opportunity Register on a quarterly basis, taking account of the current and predicted 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 which are managed by the council's 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 referred to the Executive Management Team (EMT) for consideration for inclusion on the Corporate Register. However, the Executive Management Team may decide not to escalate such a risk onto the Corporate Register and ask that it is managed at an operational level. This may be because the Executive Management Team think 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 a previous meeting of the Audit, Risk and Governance Committee. Consequently, the committee has asked to be informed of future instances when a risk has been considered by the Executive Management Team. For Quarter 4, the Executive Management Team considered no new risks.

Appendices

Appendices 'A' - 'C' are attached to this report. For clarification they are summarised below and referenced at relevant points within this report.

Appendix	**Title**
Appendix 'A'	Executive Summary
Appendix 'B'	Corporate Risk and Opportunity Register
Appendix 'C'	Risk entries for Cyber Security, Oracle Fusion Data Breach, Oracle Fusion Post Implementation Issues, and Building Schools for the Future

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
N/A

Reason for inclusion in Part II, if appropriate

Appendix 'C' to this report is included in Part II of the agenda because it contains exempt information as defined in Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972:

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

- Information relating to any action taken or to be take in connection with the prevention, investigation or prosecution of crime.

Corporate Risk and Opportunity Register

Executive Summary

Quarter 4 2023/24

Angie Ridgwell, Chief Executive

The council's biggest risks remain increasing demand for services aligned to workforce pressures. These risks are mirrored nationally across local government sector and in turn are putting the sector under financial and delivery pressure. Significant work is ongoing to become an employer of choice in Lancashire, continuing the shift towards a substantively permanent workforce that is skilled, productive, healthy, and motivated. Of note is the revised approach to strategic workforce planning launched in November 2023.

Demand management is incredibly challenging as we have fewer direct levers. However, the reduction in children being taken into care is a good example of where the fidelity of the practice model can have significant positive impact, in this case keeping families together and children and young people safe in their own homes. SEND demand continues to increase in value, with a 39% increase in assessments resulting in an increase of 28% in plans issued. This in turn reflects in higher support costs including home to school transport. With adults, we have a backlog of assessments that are being addressed and in all cases – adults and children – we are seeing residents presenting with increasingly complex needs.

The council has a good track record in managing its finances and delivering within budget. However, the current demand levels and cost increases, such as national minimum wage, are not being matched with increased funding. This means that the burden sits with local taxpayers and primarily the council to continue its drive for increasing its efficiency and value for money whilst prioritising spend. To this end, our work with partners will be crucial, especially the Integrated Care Board which has its own challenges.

Across the organisation, risks are being proactively managed with appropriate mitigating actions in place. However, there remain a number of existential threats including demographic changes, environmental and climate change, inflation, and a turbulent geopolitical landscape. There are opportunities too with interest rates, hopefully now peaked, and early signs of growth in the economy. Strong governance and a good line of sight to inform effective strategic decision making and manage both strategic and operational risk is therefore essential; the new governance arrangements under the Executive Management Board and the new Cabinet Committee to oversee our companies will assist with this.

Jacqui Old, Executive Director of Education and Children's Services

We have seen a significant reduction in risks relating to demand for children's social care services (CORP 3), where our rates of new entrants in to care and the number of children in our care have fallen, linked to our Family Safeguarding approach. Consequently, we no longer consider demand pressures for children's social care services linked to very high numbers of children in our care to be a major risk to children's services. Alongside this, we have reassessed the risk of ineffective safeguarding arrangements which result in children being at risk of serious harm and no longer consider that this presents a significant risk, given the level of oversight and audit of our safeguarding services, which continue to provide positive assurance.

Our risks relating to children's social care are now more nuanced, reflecting the challenge in securing good quality homes for a small but significant number of children and young people in our care with the most complex needs, who we have no choice but to place in unregistered homes or who live in very high-cost homes. We are working hard to ensure significantly higher levels of oversight and in working with agency providers, and in developing in-house homes, to meet their needs and to make best use of financial resources.

Children's services continue to manage risks linked to demand pressures relating to special educational needs and disabilities (SEND), where we continue to see significant increases in requests for Education, Health and Care Needs Assessments. In response, we have made short term investment in additional capacity to help undertake assessments and continue to develop additional school places for children and young people, both in SEN units attached to mainstream schools and in securing additional special school places. Alongside this, we are refreshing our Improvement Plan for Inclusion, together with partners, to strengthen the response across the children's system and to ensure that are preventative approaches which will help to manage future demand.

In Education Improvement we have maintained high standards in teaching and learning and we are actively addressing the challenges posed by the influx of students from other areas, which contribute to the risk of insufficient school places in areas of Lancashire. Through collaboration with Asset Management, we are working to ensure that all districts have sufficient school places, allowing children to receive the education they deserve.

Louise Taylor, Executive Director of Adult Services

This quarter the directorate's key risks remain, namely increased waiting times (CORP 3), workforce (CORP 2) and lack of available mental health beds (CORP 10). The winter period is always a time of increased pressure and risks in general across all adult services due to increases in demand, reduced staffing capacity due to illness and the ripple effect of pressures on health and hospital services.

Delays in the procurement and commissioning of mental health services (CORP 10) have exacerbated the pressures on the availability of appropriate mental health provision. This has resulted in increased risks in relation to sourcing the most appropriate provision, at the right time and in the right place. Mitigation plans are in place to support overall management of the risks and a timetable for the procurements has now been agreed.

Some progress has been made in relation to reducing and managing workforce risks (CORP 2). The implementation of the directorate's workforce strategy has led to the directorate's vacancy rate reducing overall from 20% to 15%, sickness rates improving since last year (although there is an expected uptick as winter illnesses start to occur) and turnover has improved. However, there are still pressures and workforce risks across all services, particularly in-house services such as residential homes and hospital teams where vacancy and turnover rates remain stubbornly high. Reducing and managing workforce risks remains a key priority for the directorate.

The directorate's financial risk position remains stable with a relatively small overspend forecast for the year at the end of Quarter 3. Significant headway has been made in relation to the forecast delivery of the directorate's considerable savings programme for 2023/24, however risks remain in relation to demand management and income due from the NHS.

The roll out of the directorate's strengths-based operating model remains a key focus. Plans are in the latter stages of development and include training and development for all staff and a communications plan for staff, key stakeholders, and partners. The new operating model will help the directorate to better manage risks in relation to demand, increasing costs and supporting people to remain safe and well at home.

The new framework contract for people receiving care and support at home went live in November. The framework has reduced risks in relation to the sourcing and commissioning of home care, managing costs (by reducing reliance on costly, off framework arrangements) and has given greater certainty and stability to the market.

For the next quarter, focus remains on our key risks with the impact of winter pressures receiving close monitoring attention.

Mark Wynn, Executive Director of Resources

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2023/24 to 2026/27. However, on current forecasts it will be necessary that additional savings will be required to bring the council to a financially sustainable position (CORP 1). A significant risk factor is in relation to savings delivery, as the 2023/24 budget will be based on the delivery of circa £80m of new / previously agreed savings. Indicative savings targets covering the updated Medium Term Financial Strategy position have been allocated to directorates to identify savings proposals to meet the forecast future gap. The updated Medium Term Financial Strategy and budget proposals (including council tax) were presented to January 2024 Cabinet. incorporating the outcome of the local government financial settlement.

In terms of organisational change (CORP 4), a new Change and Digital Board has been established and is meeting. Further prioritisation of change activity is underway with a view to further consolidation of priorities. A single view of change requirements is developing through collaboration between the Change and Digital Board and the People Board, plus links to the property programme. A single change and programme management service is to be introduced by the end of the year and service redesign proofs of concept will be completed on schedule. Initial work to develop a Resources Directorate redesign has been completed.

The Strategy and Performance service have undertaken significant steps to deliver this year's property savings target and are now working with directorates to secure options for future years. Risks around the Building Schools for the Future PFI initiative (CORP 9) continue to be managed to ensure that we deliver suitable and safe education provision. We continue to identify and address issues and pursue areas where necessary. In relation to education, the challenges around school place planning (CORP 5) continue to be addressed as we work with colleagues and schools to predict future needs. This includes close monitoring of population data and migration/development patterns, allowing us to focus on delivering places where and when needed.

In relation to Oracle Fusion Post Implementation (CORP 8), 16 service improvements have been completed as well as the implementation of a Business-as-Usual operating model. Further work is underway with Mastek, Fujitsu and Digital Services to further minimise risks associated with post implementation issues. The Cyber Security (CORP 6) risk score has reduced from 16 to 12, following the implementation of tools, services with our new security partner and the recent certification for PSN. Other compliance work is under way.

Work on the governance review continues at pace. The first draft of the new Constitution has been shared with the Political Governance Working Group and is now being considered by the political groups. The revised constitution will be presented to Full Council for approval in the New Year. Alongside this, a review of the Scheme of Delegation for officers is also being progressed to reduce risk and clearly define roles and accountabilities. Work continues on the devolution deal for Lancashire and legal services are providing support for the Building Schools for the Future programme (CORP 9) and other major development projects to minimise any risk to the council. The Law and Governance resourcing gap is a risk that is currently being considered. Risks in relation to the Oracle Fusion Data Breach (CORP 7) continue to be monitored whilst remedial work is undertaken.

Our People Strategy (CORP 2) has been developed which gives a coherent and cohesive direction of travel for the business in terms of attraction, recruitment, retention, and development with associated metrics. To help deliver the strategy a new operating model for people services has been agreed to support the business with key strategic people risks and activities. A full review of the contingent workforce has been completed to identify required staffing levels and skills. The recruitment process is to be redesigned and benchmarked against best practice. A revised approach to Strategic Workforce planning was launched November 2023.

Phil Green, Executive Director of Growth, Environment, Transport and Health

The Growth, Environment, Transport and Health directorate remains focused on mitigating risks wherever possible, as set out within the risk registers. The rising costs of home to school transport continues to form part of the budget risk to the council and mitigation of this pressing issue continues to be worked on by various teams, not limited to this directorate.

As the council faces financial pressures and macro-economic conditions continue to pose investment, development and construction risks, there are at the same time increased funding opportunities for infrastructure projects. As a result, there is a greater need to carefully mitigate risks to the delivery of major projects. Detailed assessment of priorities, managing external risk and the allocation of staff is crucial in maintaining delivery as well as a considered approach to securing new funding for projects.

A major opportunity which has gained traction over the last quarter is the significant progress towards a devolution deal and Combined County Authority within Lancashire, with the November signing of the proposed devolution deal strengthening our position to secure greater funding and powers. The devolution deal is subject to public consultation until 26 January 2024, after which a final proposal, including any amendments informed by the consultation results, will require consent from Blackburn with Darwen Council, Blackpool Council and Lancashire County Council by mid-March. Management of the process in the next twelve months is crucial, accepting that some risks such as a General Election in 2024, are beyond the control of the county council.

Risk Description	**CORP1: Financial Sustainability** Failure to deliver a sustainable financial strategy that supports the delivery of the corporate strategy and four priorities.									
Risk Owner	Executive Director of Resources: **Mark Wynn**									
Last Update	Period: Q4 23/24					Target Date: March 24/Ongoing				
Target Score	Amber (12)		Likelihood		**Possible 3**		Impact		**Major 4**	
Current Score	Red (16)		Likelihood		**Probable 4**		Impact		**Major 4**	
Risk Confidence Profile (Likelihood of achieving target score by target date)	**22/23**	**Q1**	**Q2**	**Q3**	**Q4**	**23/24**	**Q1**	**Q2**	**Q3**	**Q4**
Progress	• Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing from 2023/24 to 2026/27. However, on current forecasts it will be necessary that additional savings will be required to bring the council to a financially sustainable position. • The updated MTFS is forecasting a gap of £19.1m by 2026/27 which is less than 2% of the net revenue budget. A significant risk factor is in relation to savings delivery, as the 2023/24 budget will be based on the delivery of c£80m of new / previously agreed savings. • Indicative savings targets covering updated MTFS position have been allocated to Directorates to identify savings proposals to meet the forecast future gap. Budget proposals for 24/25 presented to November Cabinet along with MTFS update. • 2023/24 Quarter 1 monitoring position presented to Cabinet in October showing a forecast small revenue overspend of £7.629m (0.73% of the revenue budget) with pressures on demand led services particularly children's social care and home to school transport being mitigated by offsetting cost reductions identified by services. • The updated MTFS and budget proposals (including council tax) is due to go to January Cabinet incorporating the outcome of the local government financial settlement which is expected in late December.										

Risk Description	**CORP2: Workforce Recruitment and Retention** Unable to attract and recruit candidates and retain staff leading to an inability to deliver services.									
Risk Owner	Executive Director of Resources: **Mark Wynn**									
Last Update	Period: Q4 23/24					Target Date: March 24				
Target Score	Amber (12)		Likelihood		**Possible 3**		Impact		**Major 4**	
Current Score	Red (16)		Likelihood		**Probable 4**		Impact		**Major 4**	
Risk Confidence Profile	**22/23**	**Q1**	**Q2**	**Q3**	**Q4**	**23/24**	**Q1**	**Q2**	**Q3**	**Q4**
Progress	• People strategy developed which gives a coherent and cohesive direction of travel for the business in terms of attraction, recruitment, retention, and development with associated metrics. • New operating model for people services agreed to support the business with key strategic people risks and activities. • Full review of contingent workforce completed to identify required staffing levels and skills. • Recruitment process to be redesigned and benchmarked against emerging and best practice. • Talent attraction team in place as part of People Services operating model • Development of a leadership capability framework • Revised approach to strategic Workforce planning launched November 2023 • Adult Social Care vacancy rate reducing overall from 20% to 15%									

<table>
<tr><td>Risk Description</td><td colspan="10">CORP3: Demand on 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</td></tr>
<tr><td>Risk Owner</td><td colspan="10">Executive Director of Adult Social Care: Louise Taylor Executive Director of Education and Children's Services: Jacqui Old</td></tr>
<tr><td>Last Update</td><td colspan="5">Period: Q4 23/24</td><td colspan="5">Target Date: March 24/ongoing</td></tr>
<tr><td>Target Score</td><td colspan="2">Amber (9)</td><td colspan="2">Likelihood</td><td colspan="2">Possible 3</td><td colspan="2">Impact</td><td colspan="2">Moderate 3</td></tr>
<tr><td>Current Score</td><td colspan="2">Amber (12)</td><td colspan="2">Likelihood</td><td colspan="2">Probable 3</td><td colspan="2">Impact</td><td colspan="2">Major 4</td></tr>
<tr><td>Risk Confidence Profile</td><td>22/23</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td><td>23/24</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td></tr>
<tr><td>Progress</td><td colspan="10">Adult Social Care
• New Living Well at Home framework now incorporated into a single 'Pseudo Dynamic Purchasing System' to enable better utilisation of provider capacity at a fixed price.
• Living Better Lives in Lancashire new operating model is agreed, and operational plan is being formulated.
• Additional resource has been procured to help reduce waiting lists and risk assessment plans for people on waiting lists. This work will start in January.

SEND
• Additional SEN Units continue to be established.
• Agreement to establish new SEN provision in North of the county.
• Staffing options developed and short-term investment secured.
• Refreshed Alternative Provision Strategy 2023-26 agreed by Cabinet September 2023
• SEND Inspection readiness work continues to strengthen oversight.
• Refreshing Improvement Plan.</td></tr>
</table>

<table>
<tr><td>Risk Description</td><td colspan="10">CORP4: Our Improvement Journey
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 4 years of the current MTFS period 2022/23-2025/26</td></tr>
<tr><td>Risk Owner</td><td colspan="10">Executive Director of Resources: Mark Wynn</td></tr>
<tr><td>Last Update</td><td colspan="5">Period: Q4 23/24</td><td colspan="5">Target Date: March 24/Ongoing</td></tr>
<tr><td>Target Score</td><td colspan="2">Amber (9)</td><td colspan="2">Likelihood</td><td colspan="2">Possible 3</td><td colspan="2">Impact</td><td colspan="2">Moderate 3</td></tr>
<tr><td>Current Score</td><td colspan="2">Red (16)</td><td colspan="2">Likelihood</td><td colspan="2">Probable 4</td><td colspan="2">Impact</td><td colspan="2">Major 4</td></tr>
<tr><td>Risk Confidence Profile</td><td>22/23</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td><td>23/24</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td></tr>
<tr><td>Progress</td><td colspan="10">• Revised change governance in place - Change & Digital Board established and meeting.
• Further prioritisation of change activity underway with paper to EMT Dec 23 proposing further consolidation of priorities
• Single view of change requirements developing through collaboration between C&D Board and People Board, plus links to property programme
• Single change and programme management office service to be introduced by end of FY 23, review to commence imminently; includes additional resources to deliver agreed priorities.
• Service redesign proofs of concept on course to complete on schedule by Dec 23, including business case for implementing first element of service redesign.
• Initial work to develop Resources redesign and agreed areas of LCC blueprint on course to complete Dec 23.</td></tr>
</table>

<table>
<tr><td>Risk Description</td><td colspan="10">CORP5: School Places
Insufficient school Places in some parts of Lancashire meaning children and young people are missing out on education.</td></tr>
<tr><td>Risk Owner</td><td colspan="10">Executive Director of Education & Childrens Services: Jacqui Old</td></tr>
<tr><td>Last Update</td><td colspan="5">Period: Q4 23/24</td><td colspan="5">Target Date: March 24</td></tr>
<tr><td>Target Score</td><td colspan="2">Amber (9)</td><td colspan="2">Likelihood</td><td colspan="2">Possible 3</td><td colspan="2">Impact</td><td colspan="2">Moderate 3</td></tr>
<tr><td>Current Score</td><td colspan="2">Amber (12)</td><td colspan="2">Likelihood</td><td colspan="2">Possible 3</td><td colspan="2">Impact</td><td colspan="2">Major 4</td></tr>
<tr><td>Risk Confidence Profile</td><td>22/23</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td><td>23/24</td><td>Q1</td><td>Q2</td><td>Q3</td><td>Q4</td></tr>
<tr><td>Progress</td><td colspan="10">• Ongoing discussions to identify further opportunities and mitigations.
• Developed approaches to better support new arrivals to county/country including support to address language barriers.
• Publicity, including social media has reduced the number of late applications.
• Our website now shows levels of subscription for individual schools and maps of geographical priority areas.
• Officers attend open evening for the most oversubscribed schools, and year 6 parent information sessions are held in the areas with the most pressure for places.
• The expansion of popular schools including Unity College (Burnley), Primet Academy (Colne) and Saints John Fisher & Thomas More RC High School (Colne). The number of places available for Year 7 pupils has been increased, as has the availability of places in higher year groups to accommodate in-year admissions.
• Consultations have taken place in respect of primary and secondary schools in Preston.
• 11 secondary schools increased their intake of pupils to reflect the growth in demand: Longridge High, St Cecelia's RC High, Fulwood Academy, Lostock Hall Academy, Academy@Worden, Albany Academy, Parklands Academy, Bowland High, Clitheroe Royal Grammar, Shuttleworth College, Burnley High.</td></tr>
</table>

Risk Description	**CORP10: Lack of Available Mental Health Beds** The demand for a Mental Health Act (MHA) assessment remains extremely high and has continued to rise since the start of 2021. Despite controls and mitigations being put in place bed delays continue to increase.									
Risk Owner	Executive Director of Adult Social Care: **Louise Taylor**									
Last Update	Period: Q4 23/24					Target Date: March 24				
Target Score	Amber (9)		Likelihood		**Possible 3**		Impact		**Moderate 3**	
Current Score	Red (16)		Likelihood		**Probable 4**		Impact		**Major 4**	
Risk Confidence Profile	**22/23**	**Q1**	**Q2**	**Q3**	**Q4**	**23/24**	**Q1**	**Q2**	**Q3**	**Q4**
Progress	• Community Mental Health Team Transformation supports earlier intervention and support in times of crisis and was rolled out in Quarter 3. • Lancashire & South Cumbria Foundation Trust have an ambitious capital & workforce plan phased over the next 2 years to significantly increase the overall inpatient bed base to address this gap. • The use of Out of Area placements will continue throughout this period of transition.									

Opportunity Description	**Opportunity ID CO1: Sub Regional Place Leadership & Governance** There is an opportunity for Lancashire to secure appropriate sub-regional governance, powers and resource to maximise shared outcomes and priorities (e.g. Combined Council Authority and Devolution Deal(s)) through Central Government legislation, negotiation, reorganisation or other mechanism.									
Risk Owner	Executive Director of Growth, Environment, Transport & Heath: **Phil Green**									
Last Update	Period: Q4 23/24					Target Date: March 24				
Target Score	Light Blue (12)		Likelihood		**Possible 3**		Impact		**Major 4**	
Current Score	Blue (16)		Likelihood		**Probable 4**		Impact		**Major 4**	
Risk Confidence Profile	**22/23**	**Q1**	**Q2**	**Q3**	**Q4**	**23/24**	**Q1**	**Q2**	**Q3**	**Q4**
Progress	• A Devolution Deal was signed by the 3 UTLA Leaders and the Levelling Up Minister in November 2023. Full Council approval for the deal and subsequent consultation was achieved in late November. • The process for securing the Deal and the CCA is ongoing with risks being managed. • Resources required to support the next phase of work, drawing on all UTLAs is being agreed, ahead of a more detailed design of the CCA Governance, Organisational design, and funding proposals. • Resource allocation and recruitment proposals are being considered.									

Scoring Matrix

	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			

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix C

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

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Appendix A

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Agenda Item 20

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