

Lancashire County Council

Audit and Governance Committee

Monday, 29th September, 2014 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item
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1.	Apologies
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2.	Chair and Deputy Chair of the Committee
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Members are asked to note that County Councillor Terry Brown has replaced County Councillor Clare Pritchard as chair of the Audit and Governance Committee.

Members are also asked to note that County Councillor Darren Clifford has been appointed as deputy chair of the committee.

3.	Disclosure of Pecuniary and Non-Pecuniary Interests
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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.

4.	Minutes of the Meeting held on 30 June 2014	(Pages 1 - 6)
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To be confirmed, and signed by the chair.

5.	Internal Audit annual report to Lancashire County Council for 2013/14	(Pages 7 - 38)
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6.	Annual Governance Statement 2013/14	(Pages 39 - 52)
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7.	Approval of the County Council's and County Pension Fund's Letter of Representation 2013/14	(Pages 53 - 62)
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8.	External Audit Lancashire County Council - Audit Findings Report 2013/14	(Pages 63 - 100)
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9. **Approval of the County Council's Statement of Accounts 2013/14** (Pages 101 - 290)
10. **External Audit Lancashire County Pension Fund - Audit Findings Report 2013/14** (Pages 291 - 316)
11. **Approval of the Lancashire County Pension Fund's Statement of Accounts 2013/14** (Pages 317 - 354)
12. **Update on Treasury Management Activity** (Pages 355 - 368)
13. **Public Interest Disclosure Act 1998 (Whistleblowing Act) Summary 2013/14** (Pages 369 - 374)

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 26 January 2015 at 2.00pm at County Hall, Preston.

I Young
County Secretary and Solicitor

County Hall
Preston

Agenda Item 4

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 30th June, 2014 at 2.00 pm in Cabinet Room B at County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	A Schofield
D Clifford	D Stansfield
C Dereli	V Taylor
S Holgate	B Winlow

County Councillor T Brown Chaired the meeting in the absence of County Councillor C Pritchard.

County Councillors S Holgate and D Stansfield replaced County Councillors Clare Pritchard and Geoff Driver on the committee respectively.

Officers in Attendance:

George Graham – deputy county treasurer
Mike Jensen – chief investment officer
Ruth Lowry – chief internal auditor
Karen Murray – director, Grant Thornton
Len Cross – manager, Grant Thornton
Ian Rushworth – audit manager
Roy Jones - assistant county secretary
Cath Rawcliffe – committee support officer

Standing Order 19

County Councillors J Mein and M Green attended the meeting under Standing Order 19.

1. Apologies

None received.

2. Audit and Governance Committee Constitution: Membership; Chair and Deputy Chair; Terms of Reference

Resolved:-

- i) The appointment of County Councillors C Pritchard and T Brown as Chair and Deputy Chair respectively of the Audit and Governance Committee for 2014/15 be noted.
- ii) The membership of the Audit and Governance Committee for 2014/15 be noted.
- iii) The Terms of Reference of the Audit and Governance Committee be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

4. Minutes of the Meeting held on 31 March 2014

Resolved: That the Minutes of the meeting held on 31 March 2014 be confirmed and signed by the Chair.

5. Update on Treasury Management Activity

A presentation was made to the committee by Mike Jensen, chief investment officer.

The report outlined the treasury management activities of the county council throughout 2013/14 and included:

- A review of the economic conditions during 2013/14.
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment.
- Borrowing activity.
- Investment activity.
- Actual results measured against 2013/14 prudential indicators and treasury management indicators.
- An update on the recovery of the investment in Landsbanki hf.

Officers responded to a number of queries raised by the committee in relation to the recovery of the investment in the Icelandic Bank Landsbanki.

Attention was drawn to the Arlingclose quarterly credit risk benchmarking graphs at Appendix A to the report. These showed that the County Council was in line with its strategy of low credit risk and high investment return.

Resolved: - That the review of treasury management activities for 2013/14 to date as shown at appendix A to the report now presented, be noted.

6. External Audit Lancashire County Council Audit Plan 2013/14

Karen Murray, director, Grant Thornton, presented a report on the nature and scope of work that the Authority's external auditor was planning to carry out to discharge its statutory responsibilities, compliant with the Audit Commission Act 1998 and the Code of Audit Practice for Local Government.

The plan set out the main risk areas which the audit would focus on and how the audit team planned to obtain the necessary assurances. The risks related to the three key elements of the accounts being:

- Operating expenses;
- Employee remuneration; and
- Property, plant and equipment

The plan also set out the criteria forming the focus of the Value for Money Conclusion and the results of interim audit work.

In response to questions raised by the committee, it was confirmed that the external auditor was unable to issue the audit certificate to close the 2012/13 at this time. The committee was reassured that this would not impact on the accounts for 2013/14.

Resolved:- That the report be noted.

7. External Audit - Update report June 2014

Karen Murray, director, Grant Thornton, presented a report on the progress to date on the 2013/14 Audit Plan for the Council and set out the accounting and auditing issues relevant to the 2013/14 financial statements and their preparations.

The report included details on recent publications which it was felt could be helpful to the Committee in discharging its responsibilities. It was noted that a hard copy of the publication - 'Understanding your accounts – member guidance' would be provided to the members prior to their next meeting.

Resolved:- That the report be noted.

8. Response of the Audit and Governance Committee Chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing

The committee considered a response to Grant Thornton's request for information to support its compliance with international standards on auditing and quality control.

The Chair of the Audit Committee was asked to provide information in respect of Lancashire County Council relating to:

- fraud and internal control;
- laws and regulations; and
- litigation and claims.

A response to the commission had been prepared for consideration by the committee and was set out at Appendix A to the report. Officers advised that the response should also relate to the Lancashire County Pension Fund in addition to the County Council. It was therefore agreed that an amended response would be prepared for the Chair of the committee to sign on behalf of the committee.

Resolved: That, subject to the above amendment, the response to Grant Thornton's request for information to support its compliance with international standards on auditing and quality control, as set out at Appendix A to the report now presented, be approved and signed by the Chair of the committee.

9. Provisional Internal Audit Plan for 2014/15

The committee considered the provisional Internal Audit Plan for the Council for 2014/15, as presented by Ruth Lowry, Chief Internal Auditor.

It was noted that the Internal Audit Service planned to provide a total resource input to the county council of approximately 2,450 audit days, including an allocation of 400 days for investigations. It was anticipated that approximately 775 days would also be provided to external organisations within Lancashire including the pension fund, the Police and Crime Commissioner and a number of the district councils.

It was noted that the internal audit resources may be further reduced during the year as vacancies were held open in readiness to meet the council's revised spending targets. Therefore, the resources deployed on investigations would largely depend on the investigations which arose during the year and, like the previous year, it may be necessary to undertake these at the expense of internal audit work.

Appendix 'B' to the report provided a provisional list of the work to be undertaken under the annual audit plan for 2014/15.

Resolved: That the provisional internal audit plan for 2014/15 be approved.

10. Urgent Business

There were no items of urgent business.

11. Date of Next Meeting

Resolved: That the date of the next meeting of the committee to be held on 29 September 2014 and future meetings of the committee, be noted.

12. 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 paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

13. Counter fraud and special investigations annual report 2013/14

(Exempt information as defined in Paragraphs 1, 2 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

Ian Rushworth, Audit Manager, presented a report on a summary of the work performed by the Internal Audit Service during 2013/14 to support management in preventing, detecting and investigating fraud and corruption.

It was noted that no single issue had been identified that would have a material impact on the county council's overall control environment.

A copy of the annual report was presented at Appendix 'A'.

Resolved: That the 2013/14 counter fraud and special investigations report as now presented, be noted.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Audit and Governance Committee

Meeting to be held on 29 September 2014

Electoral Division affected: All

Internal Audit annual report to Lancashire County Council for 2013/14

(Appendix A refers.)

Contact for further information:

Ruth Lowry, (01772) 534898

Executive Summary

The annual report to Lancashire County Council is included at Appendix A to this report.

The Committee has considered periodic reports of progress throughout the year that support this overall report and the conclusion that limited assurance can be provided over the council's systems of internal control and governance.

Recommendation

The Committee is asked to consider the Internal Audit Service annual report for 2013/14.

Background and advice

The Internal Audit Service complies with the professional standards of the Chartered Institute of Public Finance and Accountancy, which established Public Sector Internal Audit Standards with effect from 1 April 2013. These are drawn from the Chartered Institute of Internal Auditors' International Professional Practices Framework, comprising a definition of internal auditing, a Code of Ethics, and International Standards.

The Public Sector Internal Audit Standards and supporting Application Note require a chief internal auditor to deliver an annual internal audit opinion and report that can be used to inform the council's governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The work on which this report is based is in accordance with the annual internal audit plan agreed by the Audit Committee on 24 June 2013, and has been reported in progress reports to each meeting of the Audit Committee during 2013/14.

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit 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
Not applicable.		

Reason for inclusion in Part II, if appropriate: Not applicable.

**Lancashire County Council
Internal Audit Service**

**Annual report of the Chief Internal Auditor
for the year ended 31 March 2014**



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Annex A: Audit assurance levels and classification of agreed actions

Annex B: Summary of internal audit assurance assignments 2013/14

Annex C: Scope, responsibilities and assurance

Annex D: Detailed analysis of internal audit assurance assignments 2013/14

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service undertook during 2013/14 and the key themes arising from it. It provides my overall opinion on the council's internal control, governance and risk management based upon the work the Internal Audit Service performed under its audit plan for 2013/14.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) require the chief internal auditor to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex C to this report.

Interim reports

- 1.4 This report builds on the matters reported in previous years which remain relevant, and matters that have been the subject of discussions throughout 2013/14 and subsequently with the Management Team and the council's senior management.
- 1.5 I have also reported summaries of key areas of audit work to the Audit and Governance Committee as they have been completed during the year.

Ruth Lowry
Chief Internal Auditor
Lancashire County Council

2 Summary assessment of governance, risk management and internal control

Overall opinion

- 2.1 On the basis of the programme of work for 2013/14, I can provide only **limited** assurance overall that there is a generally sound system of internal control, adequately designed to meet the council's objectives and applied consistently in practice. Weaknesses in the council's systems' design and inconsistent application of controls put the achievement of its objectives at risk and, in particular, significant weaknesses in the council's governance were revealed during the year.
- 2.2 There has been no improvement in the council's overall internal control framework for 2013/14 when compared to 2012/13. The overall assurance I have provided across high, moderate and low risk audits for 2013/14 is set out at paragraph 3.2 below but, in summary:
- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
 - The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.
- 2.3 It is important at the outset to clarify the exceptional context and circumstances of this report for the council during 2013/14. Members of the senior management team, and the council's statutory officers in particular, together with myself were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed, the remuneration of the Chief Executive Officer of its joint venture company was discovered, the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation, and the relationship with its strategic partner was renegotiated.
- 2.4 These matters alone indicate fundamental weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. It should be noted that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.
- 2.5 My opinion on the council's governance, risk management and internal control is clearly supported by the work undertaken by the Internal Audit Service throughout the year. This work was undertaken in accordance with the agreed audit plan, and with amendments during the year as reported to the Audit and Governance Committee. The work in this plan has been subjectively designated as being of high, moderate or low risk and I have reflected this categorisation in my opinion and this report.
- 2.6 The level of assurance I have been able to provide has gradually deteriorated over recent years. I reported last year that the results of individual audit

assignments were almost evenly spread between substantial/ full assurance and limited/ nil assurance. This year that balance has tipped, and only limited or no assurance has been provided over the majority of the control systems audited during the year, albeit that the greatest deterioration has been in areas of relatively low risk. Although the council is continuing to make strenuous efforts to improve corporate procedures and controls, at the same time and for a number of reasons, controls across a range of systems and services are either inadequately designed for their current purposes or are ineffectively operated in practice.

- 2.7 After a number of years in which management and staff resources have been reduced, services restructured, and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

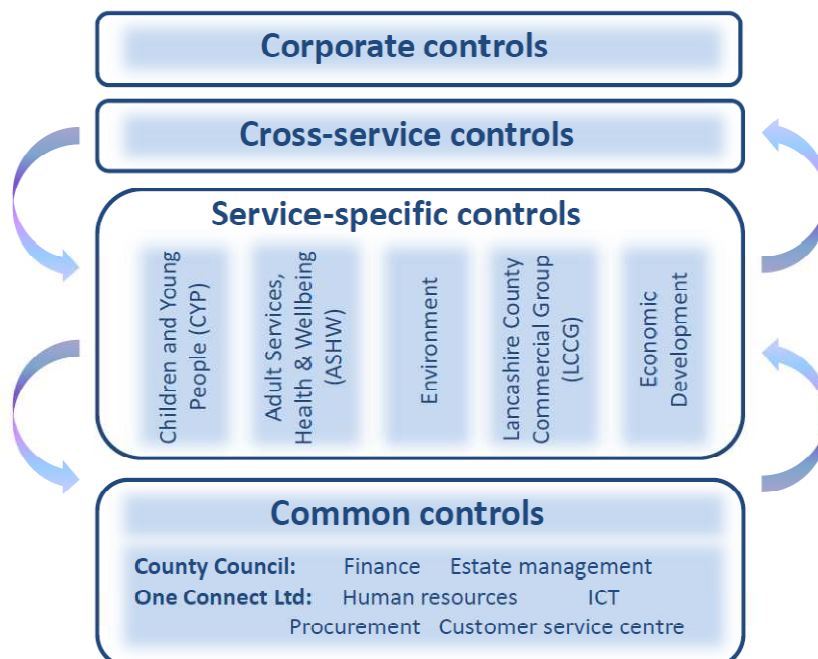
Background

- 2.8 An explanation of the levels of assurance the Internal Audit Service provides are set out in Annex A, and of the scope of our work in Annex C. Annex B provides a summary of each assurance assignment the team has undertaken during the year and the level of assurance we have given for each. I have provided more detailed summaries of individual pieces of audit work throughout the course of the year in my progress reports to each meeting of the Audit and Governance Committee, and Annex D provides details of the findings of each assignment throughout the year at the time our work was completed.

The council's control framework

- 2.9 Our work has been organised in accordance with the Internal Audit Service's understanding of the council's controls as follows:
- Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
 - Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams.
 - Common controls: These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the risks of its day to day operations that are operated in common across the whole organisation.
 - Service-specific controls: The controls designed to manage the risks arising in individual service areas.

The council's control framework



Follow-up of our previous work

- 2.10 We have undertaken work during the year to ascertain management's progress in implementing the actions agreed as a result of earlier years' reviews. Whilst some progress is being made to implement these action plans, restructuring and the work associated with making significant cost savings, and the loss of management capacity, has again meant that some management teams have not acted within the timescales they intended. The Audit and Governance Committee noted a number of such delays in January 2014 and received feedback and assurances from the executive directors for Children and Young People and Adult Services, Health and Wellbeing in March 2014 on some of these areas.

Management's responses to our findings

- 2.11 Each of the issues I have raised during the year has been discussed with the relevant service managers as well as with members of the council's Management Team so that pragmatic solutions have been found to address the control issues identified. Action plans have been agreed and the Internal Audit Service will follow up our findings during the course of 2014/15.
- 2.12 In March 2014 the executive directors for Children and Young People, and for Adult Services, Health and Wellbeing presented explanations and assurance to the Audit and Governance Committee over the progress those directorates were making to enhance internal controls where weaknesses had been identified. This additional assurance is therefore available to the Committee.
- 2.13 The Management Team does not believe that the council's operational performance has been adversely impacted by the issues set out in this report.

3 Summary of the assurance provided by the Internal Audit Service

3.1 A summary of all the assurance the Internal Audit Service has provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups, which has not been directed at providing controls assurance. A full table of all the audit work completed or almost completed for 2013/14 is included at Annex D.

3.2 The Internal Audit Service aims to focus only on areas of risk to the council but nonetheless covers a range of the council's activities, some of which represent greater risk than others overall. A subjective assessment has been made of the risk associated with each area audited, and this is shown in Annex B. The assurance provided over areas of high, moderate and relatively low risk is as follows:

2013/14	Total	Assurance			
		Full	Substantial	Limited	None
High risk	12	0	6	6	0
Moderate risk	16	0	8	7	1
Low risk	17	0	5	10	2
	45	0	19	23	3

3.3 The areas of highest risk over which we can provide only limited or no assurance are:

- Information governance arrangements;
- Funds flows between the council and OCL (now BTLS, and with revised systems in place since our audit work was conducted);
- Performance data quality, and monitoring of OCL's performance (again, now BTLS);
- ICT network user management;
- Procurement;
- Adult direct payments initial assessments.

3.4 Areas of moderate risk over which we can provide only limited or no assurance are:

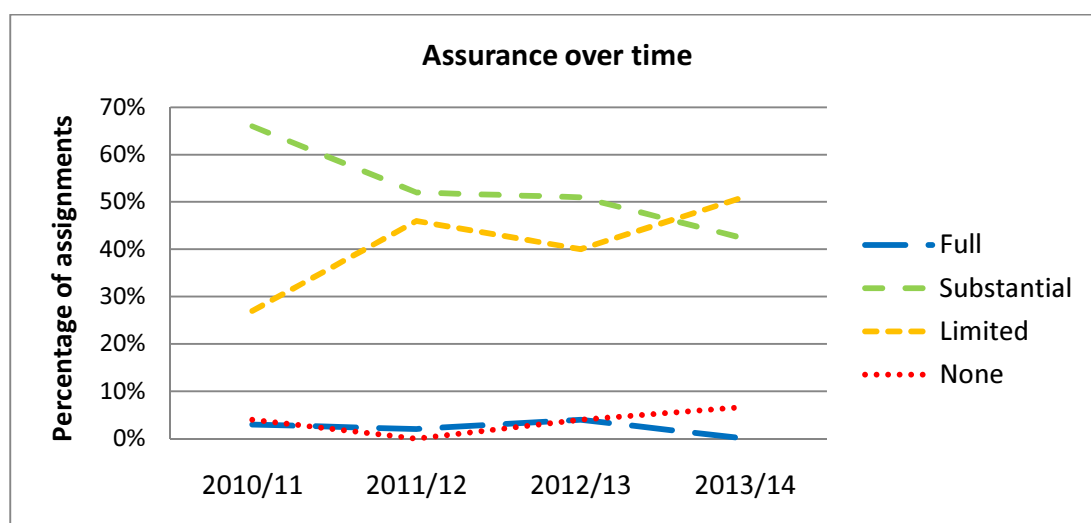
- Accounts receivable and debt recovery;
- Establishment hierarchies on the HR system;
- Adult social care supervision arrangements;
- Children's social care case file audit process;
- Children's mental health provision;

- Children's social care Independent Reviewing Officers;
- Working Together With Families programme; and
- Management of the capital programme.

3.5 The Internal Audit Service has provided assurance under the current classification for the last four years and the results are as follows:

	Total assignments/ opinions	Assurance			
		Full	Substantial	Limited	None
2013/14	45	0 (0%)	19 (42%)	23 (51%)	3 (7%)
2012/13	47	2 (4%)	24 (51%)	19 (40%)	2 (4%)
2011/12	48	1 (2%)	25 (52%)	22 (46%)	0 (0%)
2010/11	67	2 (3%)	44 (66%)	18 (27%)	3 (4%)

3.6 The same information may be presented graphically as shown below:



Wider sources of assurance available to the county council

3.7 Assurance has been provided to the council by Grant Thornton as the council's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2012/13 in November 2013, and gave unqualified opinions on both the annual financial statements and the council's value for money arrangements. A copy of the report is available at: <http://mgintranet/ieListDocuments.aspx?CId=728&MId=2861&Ver=4> (item 4). The external auditor's annual audit letter for 2013/14 is expected to be available in September 2014.

3.8 Data sharing between the council and NHS bodies is necessary to support the council's provision of public health services. During the year the Health and Social Care Information has assessed the council's responses to the NHS

Information Governance Toolkit and determined that they are sufficient, with a score of 87%, to allow NHS bodies to share data with the council.

4 Key issues and themes

- 4.1 I set out below the key issues and themes arising from the internal audit work undertaken during the year. The council's Management Team is taking these issues very seriously and has responded with robust plans to ensure that they are addressed during the current and future years.
- 4.2 The issues arising immediately from the manner in which contracts were tendered and awarded to BT Group companies have already been addressed. The renegotiation of the council's contract with BT plc has from 1 April 2014 resulted in the replacement of the jointly owned One Connect Limited (OCL) with a new company wholly owned by BT plc, BT Lancashire Services Ltd (BTLS). The council's former Chief Executive was suspended in August 2013 and subsequently left the organisation on 31 October 2013. On 1 November 2013 I reported the process by which the council's fleet service contract was tendered, and also the concerns raised by the payments in June and July 2013 to the then Chief Executive Officer of OCL, to the police. The police investigation is still continuing and is likely to continue for some time.
- 4.3 Each of these issues has absorbed a considerable amount of senior management (and internal audit) time and continues to do so at a time when the council is working to a challenging transformational agenda. The significant reduction in government funding in recent years has already necessitated an unprecedented number of voluntary redundancies across the organisation at all officer grades, and more will follow as the council's budget is reduced further.
- 4.4 Seven audits, of 45 in total, were of controls operated over the council's relationship with OCL or were affected by this relationship and, since we provided limited or no assurance in each case, the overall balance of assurance has clearly been impacted by this. However the concerns underpinning my overall opinion on the council's control framework do not solely relate to the control issues arising in relation to OCL.
- 4.5 The Audit and Governance Committee is aware of issues around information governance that have been affected by the council's relationship with OCL and, until recently, a lack of clarity over the responsibilities and resources for this area. There is now a very clear appreciation of the risks around information governance and the control framework has already been strengthened. Progress has clearly been made in designating a senior information risk owner, in the recent appointment of a Head of Information Governance, and in developing the council's policy framework, although further work is still required to raise the general level of awareness of information security requirements and to implement properly effective controls.
- 4.6 The council continues to demonstrate considerable ambition in developing its services, at the same time as cost savings necessitate further service reductions and redesign. There is a strong underlying drive for improvement and, although some developments are subject to delay, other key developments took place during the year that will improve the council's controls. The ongoing

- replacement of the Integrated Social Services Information System (ISSIS) with a system provided by Liquidlogic, for example, will facilitate greatly improved access controls and therefore information security as well as improved operational support and controls over service provision.
- 4.7 However concerted efforts will be necessary to improve a number of other areas of control. The control framework is reliant upon considerable management effort to remedy gaps as they are identified rather than on the operation of planned controls. Although there appears to be a firm desire to improve the council's controls as weaknesses are identified, our follow-up work on a number of areas indicates that action is not generally being taken as management intended.
- 4.8 The implementation of the financial system, Oracle, two years ago was designed around the principles of standardisation, automation, consolidation and simplification, and further work on this system and the operational procedures around it should ensure more consistent and efficient control across the whole of the council. Similar design principles were not employed for the implementation of the separate Oracle human resources/ payroll system. There are at present no effective processes to maintain a current record of the staff establishment and its hierarchies, although this is necessary and would support control improvements in a range of other areas too. For example, ensuring human resources information and establishment details are complete, accurate, and adequately maintained would enable areas of lower financial risk to be subject to more limited monitoring and a stronger focus on high risk areas of the budget.
- 4.9 Insufficient consideration was given to the relationship of the human resources/ payroll system to the financial system, and the need to ensure that both these and other systems are operated more effectively together is recognised. The Oracle human resources/ payroll system currently has some inbuilt control weaknesses and a lack of adequate validation controls and there have been a number of cases of overpayments to staff of amounts in addition to normal salary payments. The use of outdated data tables in the expenses system has also resulted in significant numbers of overpayments to staff of travel claims.
- 4.10 Limitations to the reports available to managers from the Oracle human resources/ payroll system impede managers' access to useful, accurate and timely management information, for example where staff have more than one employment contract with the council, or information relating to staff annual leave.
- 4.11 Controls over the significant numbers of additional payments to staff (primarily overtime and additional allowances) and expense payments, are also strongly reliant upon management understanding what those controls are and their ability to operate them effectively. However this understanding is generally inadequate and managers across the council generally lack proficiency and understanding in using both of the Oracle and expenses systems. There is a clear need to establish more closely the council's expectations of its managers in a number of areas, but particularly in relation to managers' responsibilities in operating controls relating to payments to staff.

- 4.12 There has been an awareness of these weaknesses and others for some time, but an inability to address them whilst the human resources/ payroll system was managed within the strategic partnership, despite considerable and repeated management effort. Work has now begun to address these issues, although later than intended. The Assistant Chief Executive and a number of senior officers are working with the Human Resources team to improve the human resources/ payroll system's controls, as well as improving the effectiveness of the management information available from the Oracle financial system, and controls that are reliant on the actions of managers across the council. Action still remains to be taken to reclaim the overpayments made to staff through errors in the expenses and payroll systems.
- 4.13 As the council redesigns its services and management structures, it will have the opportunity to reconsider its current operational policies in light of its more limited resources. It will be necessary to establish new expectations of the operational standards the council aims to achieve and the degree of risk that is acceptable in designing its controls, as compliance with operational policy in a number of areas is not currently being achieved in practice. In particular, targets for the review of children's social care case files and the Independent Reviewing Officers' caseloads in CYP, and targets for the professional supervision of staff in ASHW are not currently being met. Work is already under way to develop a new supervision policy framework for both ASHW and CYP, and this presents the opportunity to design achievable and effective policies in light of current and future resources.
- 4.14 It is intended that work will also be undertaken to set out more closely the council's expectations of its managers in operating effective control mechanisms. This will include specifically the need for every member of staff to be aware of the need to operate robust control processes and the action they should take in the event that they are asked to circumvent such processes since a number of basic controls over the human resources/ payroll system were overridden during this year and earlier, but the whistle-blowing helpline was not used by any member of staff involved.

5 Implications for the annual governance statement

- 5.1 In making its annual governance statement the council considers the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The council should therefore reflect the challenges it faced during 2013/14, and will continue to face in future, drawing on the matters set out in section 3 above.

6 Counter fraud and investigatory work

- 6.1 The Internal Audit Service provides a counter fraud and investigatory service to management, which is distinct from internal audit but is related in considering the council's controls and in the skill sets required.

Special investigations

- 6.2 The Internal Audit Service has spent a considerable amount of time on a number of special investigations, largely arising from whistle-blowing and similar

calls. We have worked closely with the Human Resources team as well as service teams on a number of financial investigations and related disciplinary procedures, and the volume of work arising from these has been considerable.

- 6.3 We are required to report any individual instances of fraud or financial loss exceeding £10,000 to the council's external auditors. Three cases arose during the year which exceed this level, concerning:
- The payments made to the former Chief Executive Officer of OCL;
 - Additional payments and expenses for staff seconded into the NHS; and
 - Overtime payments.
- 6.4 As noted above, investigations are continuing into the matters reported to the police in November 2013. Work also continues in relation to payments made via sub-contractors by a manager within Lancashire Highway Services, which were reported last year.
- 6.5 The need remains to clearly set out the council's expectations that its staff meet the high ethical standards of behaviour expected in public service, although work is beginning to address this. For example a message to all staff on the intranet in June 2014 reinforced the need to comply with the Code of Conduct.

Counter fraud activity

- 6.6 As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative. This is a two-yearly exercise that matches electronic data sets held by public sector organisations to highlight potentially fraudulent activity. More information is provided in the annual report on counter fraud and investigations activity.

7 Internal audit performance

- 7.1 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the council as a whole are set out above.

Internal audit plan 2013/14

- 7.2 Overall, we have provided the assurance the council requires, and in particular we have completed our work on the council's corporate financial and ICT systems on which the external auditor can take assurance. We have provided 45 individual audit assurance opinions and details of these are set out in Annexes C and D. We have also followed up the action plans agreed during the previous year and have undertaken a number of other projects that have not resulted in controls assurance, or which have resulted in the certification of grant funding claims.
- 7.3 However as reported during the course of the year, a number of high profile issues impacted on the audit plan, including the suspension and departure of the former chief executives of both the council and OCL, and a number of other matters relating to the council's strategic partnership with BT plc. The audit plan

therefore slipped behind schedule in some areas and a number of audit reviews have been deferred into 2014/15, or have been superseded.

Internal audit performance review

- 7.4 In order to place reliance on the work of the Internal Audit Service it is important that the council receives assurance regarding its quality. This is also a professional requirement. The Internal Audit Service therefore undertook a self-assessment in 2012 against the professional standards in place during at the time (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006). This self-assessment was verified externally by the Council's external auditor, and the Audit Commission's findings were reported to the Audit and Governance Committee in September 2012.
- 7.5 The Audit Commission concluded that:
- 'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.
- 'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'
- 7.6 Like the rest of the council, the Internal Audit Service will be subject to further restructuring, and a reassessment against the Public Sector Internal Audit Standards published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) in 2013 will be necessary in due course.

A Audit assurance levels and classification of agreed actions

Audit assurance

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Actions proposed by the Internal Audit Service

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

B Summary of internal audit assurance assignments 2013/14

B.1 The work completed during the year is set out in the table below. Each control area audited has been given an overall relative risk weighting to indicate the degree of risk associated with it, although this is a subjective assessment.

Audit areas	Risk weighting	Assurance			
		Full	Substantial	Limited	None
Corporate controls					
Corporate governance					
Officers' declarations of interests, gift and hospitality	Low	Audit work is incomplete			
Information governance					
Corporate information governance arrangements	High			✓	
Working in strategic partnership					
Funds flow between LCC and OCL	High			✓	
Performance data quality and monitoring of OCL by LCC	High			✓	
Legislative compliance					
Compliance with the Working Time Directive	Low			✓	
Business continuity and emergency planning					
Corporate arrangements for emergency planning – follow-up		N/A: previously substantial			
Cross-service controls					
Health and safety of lone workers	Moderate		✓		
Reablement service	Moderate	Audit work is incomplete			
Safeguarding children's transport	High		✓		
Common controls					
Financial controls					
Accounts receivable and debt recovery	Moderate			✓	
Accounts payable	Moderate		✓		
Budgetary monitoring and control	Moderate	Audit work is incomplete			
Cash and banking	Moderate		✓		
Expenses payments	Low				✓
General ledger	High		✓		
Oracle Release 12: implementation of further modules	Low		✓		
Payroll	High		✓		
Payroll: additional payments	Low			✓	
Treasury management	High		✓		
VAT	Low		✓		
HR controls					
Hierarchies in the Oracle HR/ payroll system	Moderate			✓	
Leave and absence management	Low			✓	
ICT controls					
Database security	Low			✓	

Audit areas	Risk weighting	Assurance			
		Full	Substantial	Limited	None
Email usage	Low		✓		
Helpdesk	Moderate		✓		
ICT assets	Low				✓
Network user management	High			✓	
Security of mobile devices	Low			✓	
Procurement controls					
Procurement controls	High			✓	
Service-specific controls					
Adult Services, Health and Wellbeing					
Care decision making panels	High		✓		
Direct payments initial assessments	High			✓	
FACE resource allocation within individual budgets – follow-up	Moderate	N/A: previously substantial			
Non-residential care system	Moderate		✓		
Payment and monitoring system	Moderate		✓		
Social care case referrals management	Moderate		✓		
Social care supervision	Moderate			✓	
Support planning	Moderate	Audit work is incomplete			
Benefits Service					
Care and Urgent Needs Support Scheme	Low			✓	
Customer Service Centre					
Care Connect	Moderate		✓		
Children and Young People					
Adoption and fostering allowances – follow-up	Moderate	N/A: previously substantial			
Case file audit process	Moderate			✓	
Child mental health provision	Moderate				✓
Children's centres performance monitoring	Low	Audit work is incomplete			
Children's centres – follow-up	Low	N/A: previously substantial			
Children's residential homes	Low	Audit work is incomplete			
Independent Reviewing Officers	Moderate			✓	
Lancashire Music Service	Low			✓	
Lancashire Safeguarding Children's Board – financial admin.	Low			✓	
School budget formula – follow-up	Moderate	N/A: previously substantial			
School Performance and Financial Monitoring – follow-up	Moderate	N/A: previously substantial			
Targeted youth support	Low		✓		
Working Together With Troubled Families programme – 2nd phase	Moderate			✓	
Working Together With Troubled Families programme – claim submitted in January 2014	N/A	The Department for Communities and Local Government specifically requested this audit, and audits of earlier claims are also now under way.			

Audit areas	Risk weighting	Assurance			
		Full	Substantial	Limited	None
Schools and sixth form colleges					
School audit visits and follow-up (52 in total)	Moderate	1	42	6	3
These assessments are not included in the total for the county council					
Thematic school review: schools operating a non-LCC payroll	Low	Audit work is incomplete			
Thematic school review: schools opening a bank account	Low	Audit work is incomplete			
Environment					
Capital programme management	Moderate			✓	
Use of contractors by the Highways Service	Moderate	Audit work is incomplete			
Waste contract performance measures	High		✓		
Grant audits: Citizen's Rail, CIVINET, ENVIREO, Interreg IVB SusStations (NWE), Local Transport Capital	N/A	N/A: all claims certified			
Lancashire County Commercial Group					
Building cleaning	Low		✓		
School Catering: stock control, consumption and performance	Low			✓	
School catering: income	Low			✓	
Grant audit: Bus service operators grant	N/A	N/A: two claims certified			
Total of all assurance assignments (45)		0	19	23	3

C Scope, responsibilities and assurance

Approach

- C.1 The scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- C.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- C.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- C.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- C.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- C.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit and Governance Committee. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations to the scope of our work

- C.7 There have been no limitations to the scope of the audit work.

Limitations on the assurance that internal audit can provide

- C.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Further, there is no certainty that internal

controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- C.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- C.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit and Governance Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- C.11 This report may be made available to other parties, such as the external auditors and BT Lancashire Services Ltd. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

Control	Audit review and risk rating	Audit scope	Comments	Assurance
Corporate controls				
Governance				
	Officers' declarations of interests, gifts and hospitality. <i>Low risk.</i>	Follow-up of agreed action plan.	Our original review of this area was undertaken in October 2011 and resulted in an overall limited assurance and eight actions were agreed with management. We subsequently undertook a re-review of this area in May 2013 and found that although some control improvements had been implemented, we were still able to provide only limited assurance. We have again followed up the agreed action plan, and are discussing our findings with management.	Incomplete
Information governance				
	Overall corporate arrangements. <i>High risk.</i>	Information gathering and assessment.	As the Committee is aware, considerable efforts are now being made to improve the council's information governance arrangements, and the Internal Audit Service is actively supporting this work, including seconding a team member into the information governance team. During the year the council achieved the standards required by the NHS toolkit and to support data sharing, and an information governance manager started work in September 2014. However, at present, more than limited assurance cannot be given that the council's risks are adequately understood and managed. There have been 75 internally reported breaches during 2013/14 and the first two months of 2014/15, and eight serious breaches of information security have been reported to the Information Commissioner's Office.	Limited
Working in strategic partnership				
	Funds flow between LCC and OCL. <i>High risk.</i>	RACE-based review.	Our work focussed on the arrangements in place during the year between LCC and OCL, but also on ensuring robust controls over the new arrangements between LCC and BTLs. We have highlighted the controls that will need to be in place in future. Monthly charges between the two organisations largely relate to the costs of LCC's staff seconded into the company, but the controls in place could not ensure that these costs were complete and accurate: LCC did not hold adequate information about the costs and locations of its seconded staff and there were regular discrepancies between the lists of staff held by LCC and OCL. The checks undertaken by LCC could not identify significant changes to payments from month to month, for example payments of arrears or pay awards. Other charges relate to the costs of ICT equipment and systems' development, and reliance was placed on OCL to charge only when appropriate. Insufficient information was available to ensure that only valid charges made for goods and services.	Limited
	Performance data quality and monitoring of One Connect Limited (OCL) by LCC. <i>High risk.</i>	RACE-based review.	The arrangements for monitoring OCL's performance were established on the principle that LCC and OCL operated in partnership and limited resources were made available to undertake robust scrutiny of the detailed reports across the varied service areas provided by OCL. Not all performance targets were clearly defined, were not appropriate or complete, and did not adequately cover the breadth of the services provided. No performance targets were monitored and reported for the HR Service, and the ICT Service contractual targets should have been supported by agreed delivery milestones for key projects which could be more effectively monitored. The arrangements in place to check the accuracy of the figures reported were inadequate: one of the Payroll contractual targets for example was inaccurately calculated and reported, and was unquestioned although it showed 100% achievement. There were difficulties in validating a contractual performance target for the Procurement Service and the forecast savings for a number of procurement projects. Information on agreed performance targets provided to the Cabinet Committee for the Strategic Partnership was insufficiently detailed and limited the means by which the committee could effectively challenge and scrutinise the performance of the services provided.	Limited
Legislative compliance				
	Assessment of the council's compliance with the Working Time Directive. <i>Low risk.</i>	Data analysis and support to management.	We have undertaken data analysis that suggests that the council employs a number of staff on multiple contracts, or who have additional contracts with the county's schools, or who work additional hours above their contracted hours, and who therefore work on average in excess of 48 hours per week. In three cases we believe that members of staff have worked in excess of 60 hours per week. These findings were discussed with OCL's HR team but, to date and following the transfer back to LCC of the HR service, no further action has been taken to develop more effective controls and support to management.	Limited
Business continuity and emergency planning				
	Corporate arrangements for emergency planning. <i>High risk.</i>	Follow-up of agreed action plan.	A comprehensive emergency planning framework has been developed and, in particular, the risk assessment process and emergency planning carried out with the Lancashire Resilience Forum demonstrate good practice. Work is continuing to ensure that business continuity plans are effective and to develop the links between the council's business continuity arrangements and those of OCL relating to the services they provide to the council.	N/A: previously substantial

Control	Audit review and risk rating	Audit scope	Comments	Assurance
Cross-service controls				
Lone workers				
	Health and safety of lone workers. <i>Moderate risk.</i>	RACE-based review.	Detailed guidance and procedures, and generic risk assessments are available relating to lone workers. Significant work has been undertaken by the Corporate Health, Safety and Wellbeing Team in certain operational areas of the council to assess the implementation and operation of arrangements relating to lone workers within services: specific audits of lone workers have been undertaken within the Environment Directorate as well as generic health and safety audits covering lone worker protocols across other directorates. Various local arrangements and procedures are in place across the council, although they do not cover every area that employs lone workers. These local arrangements establish different practices in different directorates and services, but these are generally appropriate to local circumstances. We have been unable to establish in all cases that staff members are aware of and compliant with the local procedures or that the procedures are kept under regular review and are therefore current. However there are some examples of good practice that could usefully be taken and implemented across the whole council under corporate procedures. We also found that a number of risk assessments for lone workers have not been undertaken. There are a number of different support systems in place to monitor the safety of lone workers, using different hardware and software packages. It was intended that the project to rationalise telecare for vulnerable adults would also provide appropriate support to lone workers, but this project is currently in abeyance.	Substantial
Reablement service				
	The commissioning and provision of reablement. <i>Moderate risk.</i>	RACE-based re-review – previously limited assurance.	A review of the arrangements for the assessment of service users and the associated support plans started in early 2014 and a report is being prepared but will be completed in 2014/15.	Incomplete
Transport				
	Safeguarding children's transport. <i>High risk.</i>	RACE-based re-review – previously limited assurance.	This work related to the 2012/13 audit plan and the controls in place are now satisfactory, where we were previously able to provide only limited assurance. The council comprehensively checks Disclosure and Barring Service (DBS) clearance of employees and drivers of taxis and buses who are involved in the transport of service users: our sample testing did not identify any exceptions. A database is maintained of cleared drivers which is used to monitor whether external operators have sufficient cleared drivers to operate their contracts, and random checks ensure that external operators are using DBS cleared drivers where required.	Substantial
Capital programme management				
	Capital programme management. <i>Moderate risk.</i>	RACE-based review.	The scope of this audit was intended to include all services, but work has been undertaken only within the Environment directorate in 2013/14. Audit work addressing the other directorates will be undertaken in 2014/15 and the results of this work are included within the Environment Directorate below.	-
Common controls				
Financial controls				
	Accounts receivable and debt recovery. <i>Moderate risk.</i>	Compliance testing.	Our work was initially focused on the Oracle accounts receivable system but its scope was increased to consider the effectiveness of the processes for recovering debt owed to the council and the methods used for collecting income. Whilst we did not identify any significant issues in relation to raising invoices, there are a number of issues relating to the recovery of overdue debt. Debt has increased over a number of years to a total value of £48.4 million, of which £14.3m relates to debt over 180 days old, as at January 2014. This position has been accurately and appropriately reported to both senior managers and members within the Council within the last 12 months. A number of factors have contributed toward this increase, including a change in policy to collect client contributions to residential care costs, a fall in the number of direct debit agreements obtained from service users, difficulties in collecting income owed by the predecessors of the clinical commissioning groups, and limitations in the reporting functionality of the Oracle financial system. In addition, the automated income recovery actions, such as reminder letters, built into the Oracle financial system have not operated fully in practice. This has placed greater reliance for recovering debt on the Debt Management Team than initially intended, which itself has experienced periods of long term staff absence and unfilled vacancies during the year. The County Treasurer's management team has been proactive in addressing the rising level of debt. Requests have been made for improvements to the functionality of the Oracle system, efforts have been made to increase the number of payments secured by direct debit, and the contract for external debt collection services has been re-tendered. A new contract for corporate debt collection is in place and began in April 2014, although a contract for care debt has not yet been awarded. The council's debt management policy is being updated and supporting guidance developed to enable its implementation, although these are subject to implementation of developments to the Oracle system, a review of current collection strategies, and clarification of the roles and	Limited

Control	Audit review and risk rating	Audit scope	Comments	Assurance
			responsibilities of the Debt Management Team and Legal Services in the recovery process.	
	Accounts payable. <i>Moderate risk.</i>	Compliance testing.	We have compliance tested orders raised throughout the year. In summary, across all directorates, we analysed 60 creditor invoice payments with purchase orders, 60 payments processed without a purchase order, and 15 individual payment requests through the Payment Request Online system (PRO). We have provided substantial assurance overall, but some minor control issues remain. In particular there are still delays in payment processing when an invoice does not match the order raised in the Oracle financial system and requisitioners do not respond in a timely manner to automated reminders to deal with the variance. It is also clear that the PRO system is not being used appropriately by some services. It should be used to initiate payments when there is no invoice, but it is also being used to avoid the council's 'no order no pay' policy, or when invoices could be processed as non purchase order payments.	Substantial
	Budgetary monitoring and control. <i>Moderate risk.</i>	RACE-based review.	Work on this area has only recently started and will be completed in 2014/15.	Incomplete
	Cash and banking. <i>Moderate risk.</i>	Compliance testing.	We have provided substantial assurance overall. The income identification and allocation process is effective, but there is scope to improve its efficiency, and to make better use of the IT system rather than manually printing, distributing and storing large volumes of information that is already held electronically.	Substantial
	Expense payments. <i>Low risk.</i>	Compliance testing directed by data analysis.	This work was initiated by concerns raised by an employee who realised that they were receiving payment for mileage claims at the incorrect rate: we have been unable to provide assurance that this system operates adequately. We analysed the mileage rates paid to employees and identified overpayments totalling approximately £300,000 relating to approximately 1,300 staff, caused by the use of outdated data tables for various groups of established posts. A recovery policy has been proposed and has been considered by the Management Team, and the tax implications for individuals will also be considered, but as at July 2014 no further action has been taken to recover the overpayments.	Nil
	Oracle release 12 - ongoing implementation and further work on the controls established in phase 1 and phase 2. <i>Low risk.</i>	RACE-based review.	Work has continued on this project, including work on the new fixed assets and procurement modules, and we have provided substantial assurance over the testing performed for both systems. However the contracts and sourcing modules have still not gone live as expected due to delays in agreeing ICT support arrangements.	Substantial
	General ledger. <i>High risk.</i>	Compliance testing.	Significant progress has been made in assigning responsibility for, and reconciling, balance sheet codes during the year, although this work is not yet complete. Action was agreed to improve controls over journals and this is already being implemented. It was also agreed that users' access permissions should be reviewed regularly, although the recent decision to implement an identity management system will also address this.	Substantial
	Payroll. <i>High risk.</i>	Compliance testing.	Unusual payments were made to OCL's former chief executive and, in addition, processes have not operated in accordance with county council policies in relation to three senior OCL managers below director level. This includes the appointment of three senior managers at salaries outside the county council's pay spine and the payment of mileage expenses to one of these which do not adhere to county council policy and are not supported by appropriate documentation. However our testing has indicated that these practices were limited to OCL and were not systemic throughout the council. In particular we can provide assurance that all permanent and temporary amendments to standing payroll data within our sample of the council's senior managers (grade 13 up to executive directors) were appropriate and supported by authorised documentation, and that we identified no other inappropriate high value or one-off payments. Improved controls are now in place over the monthly payroll, with the introduction in February 2014 by the County Treasurer's Directorate of a validation and authorisation process independent from BTLs. Adequate and effective procedures were in place for the payment of new starters during the year, and for the accurate and timely processing of information provided by external clients. However a number of processing errors have led to incorrect payments being made. Whilst the amounts involved are not high value, the number of errors identified has increased over the previous year. Of particular concern is the 9% error rate in our sample for terminations, given the increasing numbers of staff who will be leaving the council over the coming years.	Substantial
	Payroll data analysis – Oracle self-service, supporting additional payments to staff. <i>Low risk.</i>	Database interrogation.	This work was planned after concerns were brought to our attention relating to substantial payments made to staff in addition to normal salary payments, for example for overtime and work-related allowances. A report was issued and discussed with OCL senior managers in December 2013 and action has been agreed in principle to address the issues raised. A number of key controls are not being applied consistently across service areas and within the Oracle system, and there is a general lack of understanding amongst managers and staff regarding the operation of the self-service system. Our additional limited testing found a significant number of incorrect payments. Net overpayments of approximately £4,000 were made during the period January to March 2013 in three of the 10 teams we visited, including £2,000 of duplicate payments. Another investigation undertaken after this review identified overpayments of approximately £18,000 to three employees. (Continued on next page).	Limited

Control	Audit review and risk rating	Audit scope	Comments	Assurance
	Treasury management. <i>High risk.</i>	RACE-based review.	<p>It is clear that managers are not consistently validating claims made by staff before approving them and a significant number of errors occur, including the use of incorrect element codes, incorrect calculations of hours worked, claims made against incorrect scale points for employees with multiple roles, and duplicate entry of claims.</p> <p>The Oracle system itself has inbuilt control weaknesses, in that weekend enhancements are able to be claimed on weekdays, and bank holiday enhancements can be claimed on non bank holiday dates, and there is a lack of validation controls within the system that could otherwise highlight inappropriate inputs.</p> <p>Managers generally lack proficiency and understanding in using the Oracle system. The Oracle e-learning facility relating to the input and approval of pay claims provides a good reference guide but completion of the e-learning modules is not compulsory, and the managers we contacted during this review were either not aware of them or had not been requested to complete them. During January 2014 courses were offered to managers and staff on the Oracle self-service system, although these are purely voluntary.</p> <p>We have provided substantial assurance over the majority of the controls operated in respect of the council's treasury management function. Bond transactions during this period complied with the investment strategy in terms of required credit rating, limits on individual transactions and total amount invested per instrument type.</p> <p>However there was insufficient oversight of the appropriateness of bond purchase and sale activity in the period April to June 2013. The chief investment officer arranges bond purchases and sales and, in the absence of adequate separation of duties over bond transactions, senior management oversight of weekly investment reports should provide a compensatory control. However reports of bond transactions were not submitted to the county treasurer and deputy county treasurer during this period. Investment transaction data is not aligned to the instrument groupings as defined by the investment strategy matrix, and no cumulative totals per instrument type are maintained. This information should be readily available to support regular investment decisions, to ensure that the maximum limits for each instrument type are not breached. We have suggested that the reporting and compliance arrangements operating for the Lancashire Pension Fund could also be used to support senior management to further improve the treasury management function's overall governance.</p>	Substantial
	VAT. <i>Low risk.</i>	Compliance testing.	<p>We have provided substantial assurance over the adequacy and effectiveness of the controls that identify, account for and recover VAT. We identified a small number of issues relating to updating the procedure notes and possible improvements to the VAT reports following the implementation of the Oracle release 12 system which will help to further improve control.</p>	Substantial
HR controls				
	Hierarchies in the Oracle HR/ payroll system. <i>Moderate risk.</i>	Follow-up of agreed action plan.	<p>This review was postponed a number of times during 2013/14, as problems with the system and its data were unresolved. These problems remain, although a solution could be made available in part if an identity management system is implemented. There is a general awareness that data held on the Oracle HR/ payroll system is unreliable and that there is no effective system to maintain it. Therefore, although we have been unable to conduct a full audit of this area, the council can take only limited assurance at best over the adequacy and effectiveness of this system.</p>	Limited
	Leave and absence management. <i>Low risk.</i>	RACE-based review.	<p>This work is contingent on obtaining appropriate reports from the Human Resource service, and discussions about these have now been on-going for approximately two years; they have still not been made available. On this basis, again, although we have been unable to conduct a full audit of this area, the council can take only limited assurance at best over the adequacy and effectiveness of this system.</p>	Limited
ICT controls				
	Change management. <i>Moderate risk.</i>	Compliance testing.	<p>Work on this area will be impacted by the planned implementation of an identity management system and has not been undertaken during the current year.</p>	-
	Database security. <i>Low risk.</i>	Compliance testing.	<p>We re-performed a number of tests on the ISSIS, Oracle Enterprise Resource Planning and EXOR databases, which support the council's work on social care, finance and human resources functions, and management information in the Environment Directorate respectively.</p> <p>Database security is just one element of information governance and, as we have reported previously there is a need to define overall security standards, for example requiring regular and systematic review of access rights. In the absence of such standards overall assurance cannot be provided over the security of the council's databases.</p> <p>Action has been taken to lock any user accounts using only default Oracle passwords. However there are still weaknesses in the logical access controls applied to key databases, in particular user privileges with potentially excessive access permissions. At the time of our work, database auditing was active for ISSIS, LIVE and Oracle ERP but not for EXOR, and the audit options for ISSIS were not consistent with those for LIVE and Oracle ERP. Clearly action to remedy the deficiencies in ISSIS would not have been productive during 2013/14.</p>	Limited

Control	Audit review and risk rating	Audit scope	Comments	Assurance
	Email usage. <i>Low risk.</i>	Compliance testing and follow-up of agreed action plan.	We are able to confirm the substantial assurance we provided previously over the security of email usage by officers. We again found evidence of breaches of corporate policy, including the use of social media sites and online shopping and auction sites, but notably less than previously. We previously recommended that the risks associated with email usage be considered as the council's information governance arrangements are reviewed, and as noted above progress is now being made on this.	Substantial
	Help desk. <i>Moderate risk.</i>	RACE-based review.	Documented procedures are in place that provide an efficient and effective service to customers.	Substantial
	IT assets. <i>Low risk.</i>	Compliance testing.	Work on this area will continue into 2014/15 but, following work to locate various ICT assets during 2013/14 and discussions with the ICT Services team, it is clear that controls over ICT assets is inadequate.	Nil
	Network user management. <i>High risk.</i>	Compliance testing.	The ICT Services team is reliant on the council's managers to complete documentation accurately and on a timely basis to request enabling, amendment and deletion of users' Active Directory accounts. This is not happening. Of the network accounts for all the individuals whose employment with the council ended between 1 June and 31 August 2013, approximately 50% were not disabled and there is a risk of unauthorised access to council data. Of the new user accounts sampled 39% were enabled after the employee's start date. Incomplete or inaccurate achieve forms meant that only 22% of change records could be matched with any degree of certainty against Active Directory organisational units. The need for an identify management system has been identified as part of the council's improvement of information governance and security and no further actions have been agreed.	Limited
	Password security. <i>Moderate risk.</i>	Compliance testing.	Work on this area will be impacted by the planned implementation of an identity management system and has not been undertaken during the current year.	-
	Security of mobile devices. <i>Low risk.</i>	RACE-based review.	We are satisfied that the security products deployed for mobile devices are fit for purpose although it was not possible to confirm that every product has been implemented and thoroughly security tested. Whilst the council's information governance and assurance requirements are subject to review it will be important to ensure that the current and any future arrangements for mobile devices meet the appropriate standard.	Limited
Procurement controls				
	Procurement. <i>High risk.</i>	Compliance testing.	In light of the limited assurance we have previously given and the issues that arose during the year relating to the procurement of both fleet services and telecare contracts, amongst others that have been reported to members, we can continue to provide only limited assurance over the adequacy of the council's controls over procurement.	Limited
Service specific controls				
Adult Services, Health and Wellbeing				
	Care decision-making panels. <i>High risk.</i>	RACE-based review.	We sought to determine the adequacy and effectiveness of making adult social care decisions through the panel process focusing on panel membership, frequency of meetings, criteria used for making decisions, the consistency of decisions across client groups and geographical areas and the transparency of decision making within the case management system. We also considered the efficiency and effectiveness of how the panel process is managed, including the timeliness of decisions and the feedback of quality issues identified; and how these areas impact on the customer journey and staff development. Finally, we considered the robustness of the controls introduced to ensure that the panel process is used in all relevant cases in accordance with the scheme of delegation. Whilst we can provide substantial assurance over the adult social care panel decision making process and the associated administrative support function, we identified a number of areas where controls should be improved to address the quality issues identified by the panel, and to ensure that decisions made outside the panel are appropriate, transparent and consistent with the scheme of delegation. Although we have not identified any significant examples of non-compliance, given the intention to increase the financial responsibility of operational managers in the future, improvements in the management of quality issues will be necessary.	Substantial
	Direct payments initial assessments. <i>High risk.</i>	RACE-based re-review.	We have reviewed the progress made by in implementing the actions agreed following our previous internal audit work and our report issued in December 2012. Good progress has been made and the controls we tested were generally operating satisfactorily. However in a sample of 20 direct payments made to service users with learning disabilities, a mental capacity assessment had been completed in just three of 17 relevant cases. Furthermore, of nine direct payment agreements, only two were signed as approved by the relevant person. We have therefore again been able to provide only limited assurance over direct payments processes and controls, as there is still a significant risk that the council is failing appropriately to demonstrate compliance with its responsibilities under the Mental Capacity Act. The risk has been recognised by the directorate and action is now being taken to address it. We have agreed with the directorate that mental capacity will be given prominence in the mandatory direct payment training	Limited

Control	Audit review and risk rating	Audit scope	Comments	Assurance
			programme that is currently being developed.	
	FACE ('Functional Analysis in Care Environments') – resource allocation within individual budgets. <i>Moderate risk.</i>	Follow-up of agreed action plan.	FACE is a company that designs assessment tools for social and health care, and the council has purchased FACE software which sits within ISSIS. The key element of the new software is a resource allocation model linked to the overview assessment, with the aim of producing a more objective and efficient calculation of individual service user budgets. We have reviewed the progress made in addressing the actions agreed in our report of July 2013. This has been slower than was originally anticipated and as a result revised dates for implementation have been agreed. One of the key concerns at the time our original report was being finalised was that a high number of staff were not routinely using FACE, despite having completed the relevant training. We understand however, that this position is now improving since staff have been given the clear message that failure to utilise the FACE software will affect the volume of data that is able to be migrated to the Liquid Logic Adult Services system. We are also aware that the learning disability resource model has recently gone live.	N/A: previously substantial
	ISSIS replacement: advice and support re controls over configuration, security and implementation. <i>Moderate risk.</i>	Advice and support.	The Internal Audit Service was represented on the project board. During the year our input was coordinated with work on the CYP project board.	-
	Non residential care system ('NRCS'). <i>Moderate risk.</i>	Compliance testing.	We tested a sample of 25 new non residential care and 25 residential care agreements approved during the period April 2013 to August 2013 to confirm that financial approval was timely and appropriate, payment was at the correct rates and related to the service provided, adjustments to payments were reasonable and accurately processed, and the assessment and approval of the care package were undertaken by different officers. In addition we verified that a sample of 10 non residential care case payments and 10 residential care case payments were correctly reflected in the Oracle accounts payable and general ledger systems.	Substantial
	Payment and monitoring system ('PAMS'). <i>Moderate risk.</i>	Compliance testing.	This work identified no significant issues. However one advance payment had been made to a care provider but not reflected on the residential care payment system, and the care home itself brought this to the team's attention. Very few payments in advance are made and the implementation of the Liquid Logic system will result in changes to the process. We have therefore been able to provide substantial assurance over the financial controls over the residential and non-residential care systems.	Substantial
	Social care case referrals management. <i>Moderate risk.</i>	Compliance testing.	Compliance testing has been undertaken on a sample of 25 referrals and 25 closed cases during the period April 2013 to November 2013 covering all three ASHW geographical areas. All referrals in the sample had been allocated to an appropriately qualified worker based on the nature of the cases, and all the closed cases were closed by an appropriate officer.	Substantial
	Social care supervision. <i>Moderate risk.</i>	RACE-based review.	We can provide only limited assurance that controls designed to ensure staff in the Personal Social Care (PSC) and the In-House Adult Disability Provider (IHADP) teams are supported in maintaining their professional and personal development by the consistent application of appropriate supervision arrangements. There are a number of areas of good practice, including the availability of comprehensive policy and procedure documentation, the development of supervision frameworks to support newly qualified social workers and the mental health professionals managed within the NHS, the frequency and documentation of senior manager supervision, and access by the PSC staff to a well developed 'learning circle' programme. However testing of a selection of formal supervision records from both the PSC and IHADP services shows inconsistent operational compliance with policies, most notably in terms of the frequency of appropriate one-to-one supervisions, the rescheduling of cancelled meetings due to sickness or work commitments, the lack of supervision contracts, and the failure to ensure that all formal and any informal supervision meetings are recorded. Specifically in relation to PSC, we also noted the absence of a documented audit approach, including the completion of case critiques as required by the Quality of Recording policy. This has been partially recognised by the directorate and actions have already been taken in a number of areas to address the issues raised in this report. A supervision training course and evaluation programme within the IHADP service for all managers with supervisory responsibility has been commissioned, and 'Good Practice Guidance and Policy for Supervisory Managers' has been developed. The decision to use the Advance Practitioner resource within PSC across the directorate should allow more equal access to professional case supervision, and a joint ASHW/CYP supervision policy framework has been agreed. The current policy framework is ambitious, but compliance is clearly not being achieved in practice. As the new joint ASHW/CYP supervision policy framework is implemented and the directorate supervision policies are updated, the type and frequency of supervision arrangements that can realistically be delivered should be considered, especially as resources are further reduced. In particular there may be a need to promote more team or group supervision.	Limited
	Support planning. <i>Moderate risk.</i>	RACE-based review.	This review was added to the plan during the year and began in January 2014. It is still ongoing, and its scope has been increased to cover alternative methods of provision of support planning.	Incomplete

Control	Audit review and risk rating	Audit scope	Comments	Assurance
Benefits service				
	Care and Urgent Needs Support Scheme administration of community care grants and crisis loans. <i>Low risk.</i>	Compliance testing.	Although we were unable to undertake a full RACE-based review as intended, we assessed the user acceptance testing programme undertaken before the new ICT system went live. The timescale for this project was very compressed as the software was unavailable until very close to the go-live date and there was therefore insufficient time to complete a full testing programme. As a result, we can only provide limited assurance that the system met the service's requirements before implementation. However, we understand that the system is now operating satisfactorily.	Limited
Customer service centre				
	Care Connect. <i>Moderate risk.</i>	RACE-based review.	We have provided substantial assurance over the adequacy and effectiveness of the controls in place in respect of the Care Connect Service contact centre, which has been delivered under the management of OCL. Good practices are in place to ensure that the screening and referral of enquiries/ contact by service users of child and adult social care are timely and appropriate. There is just one contractual performance target in place, and this is the number of telephone calls answered by the Care Connect Service. This does not reflect the work undertaken in respect of emails, which would be a more appropriate indicator of the Service's performance. This issue is also addressed by the review of LCC performance management of OCL.	Substantial
Children and Young People				
	Adoption and fostering allowances. <i>Moderate risk.</i>	Follow-up of agreed action plan.	Although some progress has been made, a number of actions remain outstanding, in particular the need to ensure that a regular review of allowances is undertaken to ensure the needs of the child and/ or families continue to be met.	N/A: previously substantial
	Case file audit process. <i>Moderate risk.</i>	RACE-based re-review.	We were previously able to provide only limited assurance over this area, and our work has now been delayed until the second half of 2014/15 whilst the service implements the actions agreed. It is intended that the implementation of the second phase of the Liquid Logic system will resolve the control issues previously identified, but until then we can still provide only limited assurance.	Limited
	Child mental health provision. <i>Moderate risk.</i>	RACE-based re-review.	We were previously able to provide no assurance over this area and, since we have been advised that a further review of this area will demonstrate that the planned improvements, in particular in the information provided to effectively monitor the service, have not been completed during 2013/14, we can continue to provide no assurance.	Nil
	Children's centres performance monitoring. <i>Low risk.</i>	Due diligence.	We are undertaking a due diligence audit of a number of Children's Centres which are in the process of transferring to LCC from the NHS, but this work will continue into 2014/15.	Incomplete
	Children's centres. <i>Low risk.</i>	Follow-up of agreed action plan.	Several of the agreed actions are no longer applicable due to changes in funding arrangements, but where appropriate, action has been taken by management.	N/A: previously substantial
	Children's residential homes. <i>Low risk.</i>	Follow-up of agreed action plan.	This work has begun but will be completed during 2014/15.	Incomplete
	Independent Reviewing Officers. <i>Moderate risk.</i>	RACE-based re-review.	The actions agreed following our last audit review have not yet been fully implemented and, in addition, further issues have been identified. In particular we noted previously that high priority ('starred') recommendations are not fully logged and the log is not adequately monitored to ensure that actions are taken as required. It is still the case that not all actions on the log are fully documented or implemented in a timely manner, although we understand that all the recommendations had been implemented. Other outstanding matters relate to the need for Independent Reviewing Officers to complete actions within the required timescales. Further, there is a need to ensure that cases are not allocated to ceased workers or managers. A similar issue has previously been raised in a separate report on Case Management. We found two service users allocated to a Quality and Review Manager who had left the council but the cases had not been reallocated. These cases have since been reallocated and we understand that a report will be produced in future to identify all cases allocated to staff who have left the council.	Limited
	Lancashire Music Service. <i>Low risk.</i>	RACE-based review.	This work was added to the audit plan following concerns raised with the Internal Audit Service by the directorate. Lancashire Music Service provides tuition in schools and music centres throughout the county and provides curriculum support, music workshops and specific music programmes for schools in Lancashire. The service uses a number of specialist self-employed music tutors who have been paid on the production of invoices for the work undertaken. However the HMRC's Employment Status Indicator tool suggests that the HMRC may consider these workers to be employees with the consequent risk of financial penalties for the council. The physical security and maintenance of the musical instrument assets is generally good, but the storage and disposal of IT equipment are insecure.	Limited
	Lancashire Safeguarding Children's Board – financial administration.	RACE-based re-review.	Limited progress has been made to implement the actions agreed to support the more effective financial management of the LSCB.	Limited

Control	Audit review and risk rating	Audit scope	Comments	Assurance																																								
	<i>Low risk.</i>																																											
	Liquid Logic and ContrOCC system implementation. <i>Moderate risk.</i> School budget formula. <i>Moderate risk.</i>	Advice and support.	As previously reported, the Internal Audit Service was represented on the project board and our input was coordinated with work on the Adult Services, Health and Wellbeing project board.	N/A																																								
	School Performance and Financial Monitoring. <i>Moderate risk.</i> Targeted youth support. <i>Low risk.</i>	Follow-up of agreed action plan.	We have completed our follow-up work and all agreed actions have been implemented.	N/A: previously substantial																																								
		Follow-up of agreed action plan.	We have completed our follow-up work. The actions agreed to improve controls over monitoring schools in financial difficulty and identifying schools approaching financial difficulty have yet to be fully implemented.	N/A: previously substantial																																								
		RACE-based review.	Targeted Youth Support exists to offer additional appropriate support to vulnerable young people with complex needs. Although our testing was limited, we can provide substantial assurance on the effectiveness of the arrangements in place. We identified a small number of areas where controls should be strengthened, in particular the need to ensure that all 'tier1' and 'tier 2' cases have a caseload adviser, and that the adviser has active access permissions to the management information system. We were unable to confirm that caseload management and staff supervision are undertaken sufficiently frequently but plan to undertake a more substantial review of professional supervision in 2014/15.	Substantial																																								
	Working Together With Troubled Families programme. <i>Moderate risk.</i>	RACE-based review: second phase.	Only limited progress has been made in addressing the actions agreed in 2012/13, leaving some unmitigated risks to the programme. We previously provided limited assurance over the processes supporting the programme, in particular data management and the need to obtain access to data from different organisations including central government. The second phase of our work confirmed this assessment. Although significant steps have been taken to improve data extraction for the payment-by-results claim and to maximise the claim, certain criteria for the programme have yet to be finalised and agreed with central government. The programme was aiming to have begun working with 1,841 families by 31 March 2014. As at 30 September 2013, the programme had begun working with 1,136 families and was therefore at risk of receiving delayed or reduced funding for 2014/15. Families participating in the project should, where appropriate, provide written consent that their details can be shared with partner organisations, but there are inconsistencies in the processes to obtain and record consent. Tracker forms should also be completed by the lead professionals to identify initial needs and then to track performance against agreed targets, but only two tracker forms were completed in a sample of ten. We understand that the management team is now addressing the actions arising from our work, and a follow-up audit is scheduled in 2014/15.	Limited																																								
	Working Together With Troubled Families programme – funding claim submitted in January 2014.	Grant certification audit.	At the request of the Department for Communities and Local Government we have audited the figures in the January 2014 funding claim. After some adjustment of the claim we have been able to state that the claim is accurate and made in accordance with the Financial Framework for the Troubled Families Programme. We have since been asked to undertake audits of the earlier claims too, and that work is ongoing.	N/A																																								
Schools and sixth forms																																												
	School reviews. <i>Moderate risk.</i>	Whole-school reviews.	Work has been completed as follows: <table border="1" data-bbox="1478 1381 2398 1629"> <thead> <tr> <th rowspan="2">School type</th> <th rowspan="2">Number of audits</th> <th colspan="4">Level of assurance</th> </tr> <tr> <th>Full</th> <th>Substantial</th> <th>Limited</th> <th>None</th> </tr> </thead> <tbody> <tr> <td>High school</td> <td>14</td> <td>0</td> <td>13</td> <td>1</td> <td>0</td> </tr> <tr> <td>Primary school</td> <td>32</td> <td>0</td> <td>25</td> <td>5</td> <td>2</td> </tr> <tr> <td>Special school</td> <td>4</td> <td>1</td> <td>2</td> <td>0</td> <td>1</td> </tr> <tr> <td>Nursery school</td> <td>2</td> <td>0</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>Total</td> <td>52</td> <td>1</td> <td>42</td> <td>6</td> <td>3</td> </tr> </tbody> </table>	School type	Number of audits	Level of assurance				Full	Substantial	Limited	None	High school	14	0	13	1	0	Primary school	32	0	25	5	2	Special school	4	1	2	0	1	Nursery school	2	0	2	0	0	Total	52	1	42	6	3	
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	Follow-up of school reviews. <i>Moderate risk.</i>	Follow-up review.	We identified three schools where there are significant control weaknesses and we can give no assurance. In these cases our audit report has been shared with the School Improvement Challenge Board (SICB) and a decision made on whether the school should be given special support: such support will be provided to one of these three schools. This school will be subject to additional support and monitoring, and if appropriate action is not taken then the council may consider removing its delegated financial responsibility. We follow up the implementation of all agreed actions where we have given a school limited or no assurance. The majority of such schools have been audited in full during the year and the remaining schools are scheduled to be audited before the end of the current school year.	-																																								

Control	Audit review and risk rating	Audit scope	Comments	Assurance
	Schools with public sports facilities. <i>Low risk.</i>	Thematic review	This work was carried forward from 2012/13 and is now complete. Our findings were shared with all schools with sports facilities during September 2013, but the circumstances of each school we visited were specific to those schools and we identified no common themes.	-
	Schools operating a non-LCC payroll. <i>Low risk.</i>	Thematic review	This work is nearing completion but will be completed during 2014/15.	Incomplete
	Schools opening a bank account. <i>Low risk.</i>	Thematic review	This work has begun and but will be completed during 2014/15.	Incomplete
	Online payments. <i>Low risk.</i>	Thematic review	Preparatory work on this review began, but is now awaiting the results of a pilot study being done with schools by the Schools Financial Services team.	-
	Education Funding Agency grant certification.	Grant certification audit.	The County Treasurer is obliged to confirm that all the funding received by the council from the Education Funding Agency (EFA) and Skills Funding Agency (SFA) for transfer to the local authority controlled learning providers and maintained school sixth forms has been accurately and fully paid to them. We therefore undertook work at a high school and a sixth form college to assess the completeness and accuracy of their data returns to the Education Funding Agency, and we reviewed the Bursary Fund records to ensure that adequate systems were in place to administer the 16-19 Bursary Fund payments to learners in accordance with the EFA's guidance. Although we were able to provide full assurance over the school's data, the data provided by the sixth form college was inaccurate and subject to a number of errors, and we can provide no more than limited assurance. This will be reported by the County Treasurer to the EFA at the end of the financial year and has already been reported to the college. We have previously issued a newsletter to all schools with sixth forms advising them of common errors and best practice, and we will refresh and re-issue this guidance to schools in advance of the next census return.	N/A
Environment				
	Capital programme management. <i>Moderate risk.</i>	RACE-based review.	For the period prior to January 2014, active monitoring of the capital programme was limited to its maintenance elements only (approximately 40% of the total). Definitive lists of the schemes included within the programme were not available, and no record of the external funding agreed to support schemes was not provided to the Commissioning and Capital & Grants teams to enable them to claim it. Although the IT system ('CMS') is capable of recording multi-period projects and costs over more than one financial period, this facility is not currently used, and multi-period capital projects outside CMS amount to £16.2 million. The only figures on CMS that are reconciled to the council's financial system are the highways maintenance schemes (and at the time of our work there was a discrepancy of more than £2 million between the two systems), and there is a resulting risk that the figures being monitored through CMS are inaccurate. Projected expenditure reported on CMS is not routinely re-forecast during the course of the work, and it is not clear that overspends are, or can be, adequately identified on a timely basis. The directorate's management team ('EDMT') recognised deficiencies in this area some time ago and put in additional staff resources to ensure that data on the capital monitoring position is of good quality and is considered by EDMT on a regular basis. This has taken some time but confidence in the information is now high within the directorate. It is recognised however that this is due to a high level of staff resource, and that the current IT systems are not wholly fit for purpose. EDMT has commissioned a new project management system for implementation in April 2016 which, together with the introduction of Oracle Projects, will improve the position further in the longer term.	Limited
	Waste contract performance measures. <i>High risk.</i>	RACE-based review.	We can provide substantial assurance over the arrangements operated by Global Renewables Lancashire Ltd (GRLL) in liaison with LCC to report GRLL's performance under the waste PFI contract. GRLL has established adequate controls to ensure that any non-compliance with performance standards is correctly reported and the appropriate deductions made to contract payments, and our testing confirmed that these controls are generally operating effectively. Members of LCC's own waste management team have worked with GRLL to ensure that the performance reporting system is effective, both by sharing their observations of areas of potential non-compliance, and in setting up the online report that helps to ensure that any non-compliance is reported promptly. This opinion is based on the procedures in place during 2013/14, when the Memorandum of Understanding between LCC and GRLL was operating and both parties were working during to address disputed areas of the contract. At this point, it should be noted that the contract with GRLL has been terminated, and the ownership and responsibility for running the two waste processing facilities has been taken over by the council and Blackpool Council.	Substantial
	Use of contractors by the Highways Service. <i>Moderate risk.</i>	RACE-based review.	This work is ongoing and has been further complicated by a related whistle-blowing case. It will be completed during 2014/15.	Incomplete
	Grant audit: Citizen's Rail.	Grant certification audit.	This work has been completed.	N/A

Control	Audit review and risk rating	Audit scope	Comments	Assurance
	Grant audit: CIVINET.	Grant certification audit.	This work has been completed.	N/A
	Grant audit: ENVIREO.	Grant certification audit.	This work has been completed.	N/A
	Grant audit: Interreg IVB SusStations (NWE).	Grant certification audit.	This work has been completed.	N/A
	Grant audit: Local Transport Capital	Grant certification audit.	This work has been completed.	N/A
Lancashire County Commercial Group				
	Building cleaning. <i>Low risk.</i>	RACE-based review.	We have provided substantial assurance over the internal controls supporting the Building Cleaning service.	Substantial
	School catering: stock control, consumption and performance management. <i>Low risk.</i>	RACE-based review.	We have provided limited assurance over the processes and controls in place to manage school catering. Although controls within school kitchens are good, the more central controls were not operating as effectively. A number of reports are available within the IT system that would assist in stock and performance management, but these are not being fully utilised and could help detect unapproved products and products charged at non-contract prices.	Limited
	School catering: income. <i>Low risk.</i>	RACE-based review.	We have provided limited assurance over the effectiveness of the controls in place to securely collect, bank and record income from catering services provided to schools. As above, although controls within school kitchens are good, the more central controls were not operating as effectively. Our testing confirmed that the majority of income recorded as collected is banked in full, daily basis with only immaterial differences. However the income recorded in the service's IT system, and that recorded on the general ledger has having been banked is not reconciled, and any discrepancies will not therefore be identified. LCCG's cash handling procedures designed to protect members of staff from allegations of impropriety are not consistently followed. The income due for catering support to events is not fully invoiced, and information provided both to schools (for example setting out any rebates applied or additional charges incurred) and to LCCG's managers (particularly for cash sales data) are occasionally inaccurate. One of the schools visited was operating an overdraft facility, which contravenes LCCG's policy.	Limited
	Bus service operators grant.	Grant certification audit.	This claim is made twice-yearly and both claims have been audited.	N/A
Counter fraud service				
Counter fraud				
	School income testing.	Compliance testing directed by data analysis.	This work has identified schools that have not banked income for a particular period, and an unannounced visit has been made to one school.	N/A
	Review of supplier payments.	Compliance testing directed by data analysis.	We have analysed suppliers with consecutive invoice numbers to identify whether there are any suppliers who appear only to work for LCC (as was the case in an earlier fraud against the council). None have been identified.	N/A
National Fraud Initiative				
	National Fraud Initiative testing.	Investigation of data matches.	Historically the NFI exercise has identified matches between the council's pensioners and the DWP's list of deceased persons. The number and value of the pension errors/ frauds is less than in previous years, although the Your Pensions Service is still investigating a number of the matches. In addition, the council is participating in real time NFI matches and therefore errors and frauds are being detected at an earlier stage. The NFI exercise has also identified two council employees who were also working for other organisations. When these cases have been investigated we have identified concerns that the individuals have claimed to be working for both organisations at the same time. However, due to poor time recording records we have not been able to prove this. Recommendations have been made for the services concerned to improve their supporting records. The NFI exercise is run every two years and council data will be submitted later this year as part of the 2014/15 exercise.	N/A
Reactive work				
	Responsive work to support management.	Individual investigations.	We have supported management, and continue to provide on-going support, on a number of investigations and disciplinary procedures.	N/A

Audit and Governance Committee

Meeting to be held on 29th September 2014

Electoral Division affected: None

Annual Governance Statement 2013/14

(Appendix A refers)

Contact for further information:

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roy.jones@lancashire.gov.uk

Executive Summary

It is a requirement of the Accounts and Audit Regulations 2011 that all relevant bodies, of which the Council is one, approve an Annual Governance Statement (AGS). The AGS forms part of the County Council's Annual Statement of Accounts.

The AGS once approved by the Committee will be signed on behalf of the County Council by the Leader and Chief Executive.

Recommendation

The Committee is asked to consider and approve the AGS for the County Council, as set out at Appendix 'A', for signature by the Leader and Chief Executive and for inclusion in the County Council's Statement of Accounts for 2013/14.

Background and Advice

The Accounts and Audit Regulations 2011, requires all relevant bodies, of which the County Council is one, to prepare and approve an Annual Governance Statement. A requirement of the AGS is that reviews must be conducted of the governance arrangements in the authority. The AGS describes the governance arrangements in the authority and the process by which the review of those arrangements have taken place. The AGS will be included within the County Council's Statement of Accounts to be considered by the Committee at Item 9 on the Agenda

The Council's Management Team have given very careful consideration to the Council's Annual Governance Statement for 2013/14. The draft AGS presented by the Management Team at Appendix 'A' for the Committee's consideration, reflects the findings of Chief Internal Auditor in her Annual Audit Report presented at Item 5 on the Agenda, and her conclusion of a limited assurance overall of the Council's systems of internal control.

The Management Team, and the Chief Internal Auditor in reaching her conclusions, acknowledges that the Council has over the past twelve months experienced exceptional challenges which have absorbed and diverted a considerable amount of

senior leadership time. These circumstances, which are highlighted in the AGS and the Annual Audit Report, have had a significant impact upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor. It is particularly recognised that Members of the senior Management Team, and the council's statutory officers in particular, together with the Chief Internal Auditor, were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed; the remuneration of the Chief Executive Officer of its joint venture company was discovered; the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation; and the relationship with its strategic partner was renegotiated.

The Chief Internal Auditor has concluded that these matters alone indicate weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. The Chief Internal Auditor notes that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.

The Chief Internal Auditor has pointed to a gradual deterioration over recent years of the level of assurance she has been able to provide, and to the previous even spread between substantial/full assurance and limited/nil assurance. That balance has now tipped to only limited/nil assurance now being provided over the majority of control systems for 2013/14. This change of balance is primarily accounted for by reduced assurance in lower risk areas. In summary:

- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
- The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.

The Chief Internal Auditor has recognised that after a number of years in which management and staff resources have been reduced, services restructured and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

The Council's Management Team has given serious and careful consideration to the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The Management Team continues to give a very strong commitment to ensure that basic controls are maintained and, particularly in those cases highlighted by the Annual Report of the Chief Internal Auditor, significantly improved. All outstanding actions will now form part of the Chief Internal Auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance will achieve at least a substantial assurance assessment in the Chief Internal Auditor's report for the year ending 31 March 2015.

The Council's Leadership and Management Team acknowledge that the exceptional events of 2013/14 have been a diversion that has had an impact on the Council's

control environment. However, they are committed to ensuring that robust governance remains at the heart of the Council's business and will ensure that areas of concern highlighted by the Chief Internal Auditor's Annual Report will be rectified.

The AGS, once approved by the Committee, will be presented to the Chief Executive and Leader for signature.

The Audit and Governance Committee are asked to formally approve the AGS for 2014/15 for inclusion in the County Council's Statement of Accounts.

Consultations

Executive Directors individually and the Management Team.

Risk management

Risk management implications are highlighted in this report and within the AGS.

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

Paper	Date	Contact/Directorate/Tel
Delivering Good Governance in Local Government – Guidance Note for English Authorities	2007	Roy Jones, Office of the Chief Executive, 01772 533619
Delivering Good Governance Addendum - 2012		
Reason for inclusion in Part II, if appropriate		
N/A		

Lancashire County Council

Annual Governance Statement 2013/2014

1. The council's responsibilities

- 1.1. Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3. The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Council will review this code during 2014/15.

2. The purpose of the governance framework

- 2.1. The governance framework comprises the systems and processes, culture and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3. The governance framework has been in place at Lancashire County Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

3. The council's governance framework

- 3.1. The following paragraphs highlight some of the key elements of the council's governance framework, and areas where work is being undertaken to improve this.

Leadership and management

- 3.2. The council has, as required by statute, a head of paid service (the Chief Executive), a monitoring officer (the County Secretary and Solicitor), and a 'section 151 officer' (the County Treasurer). Each role operates in accordance with the relevant statutory and professional guidance.
- 3.3. On 5 August 2013 the former Chief Executive was suspended in order to facilitate a disciplinary investigation in relation to conduct issues including the process for letting a contract. Arrangements were immediately put in place to ensure that the council was effectively managed in his absence. The former Chief Executive's contract of employment was subsequently terminated by mutual consent and arrangements were then put in place to appoint a new Chief Executive, the appointment taking effect from 20 February 2014.
- 3.4. The Council has, over the past twelve months, experienced exceptional challenges which have absorbed and diverted a considerable amount of senior leadership time, circumstances which have impacted upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor's Annual Report. Along with the issue referred to at paragraph 3.3 these challenges include:

Organisational/Service challenges and Budgetary Pressures

- A change of political leadership in May 2013, resulting in a minority Administration and changes of operational policy and direction.
- Significantly increased demand for both adults' and children's services continues to impose strains on resources and service delivery. New legislation around adult social care and special educational needs will exacerbate these problems.
- The need for the Council to achieve reductions in funding of £300 million by 2017/18, requiring a wholesale transformation of the Council's operating model, which can be best summed up as creating a 'new' Lancashire County Council. The development and implementation of this council wide new structure has been led by Management Team and has involved, and will continue to involve, extensive consultation with staff and trade unions.
- A key element of the 'new' council structure is a voluntary redundancy offer to secure necessary savings on staff costs, with the intention of losing up to 2,500 staff on a voluntary basis. Whilst

applications from staff in key service areas such as safeguarding are generally not being approved, the unprecedented number of voluntary redundancies across the council at all officer grades has resulted in an overall reduction in capacity which does not yet reflect the "new", council structure.

Issues relating to the former Strategic Partnership

- Both Cabinet and the Audit and Governance Committee have received detailed reports concerning the failure of One Connect Limited ("OCL") to deliver services to a satisfactory standard and to achieve procurement savings. This has resulted in the successful renegotiation of the council's strategic partnership and contract with BT plc to form a new company wholly owned by BT: BT Lancashire Services Ltd, and the return to the Council of the majority of services formerly provided by OCL.
- An ongoing police enquiry into a number of issues referred by the Council including the process for letting a contract for the council's fleet services and payments made to the former Chief Executive Officer of OCL.
- The development of a new overarching procurement strategy to replace the procurement arrangements previously undertaken by OCL.

Successes

- The introduction of a new core IT system for both adult and children's social care services.
- The renegotiation of the Council's major waste treatment PFI contract, providing for the future delivery of the service by a company owned by the County Council and Blackpool Council and achieving significant cost savings.
- The successful delivery of major economic development initiatives for the County including the Preston, South Ribble and Lancashire City Deal; the Lancashire Growth Deal; and the progressing of the Lancashire Enterprise Zones.

3.5 These exceptional challenges and demands, particularly those involving the County Council's former arrangements with OCL, have had a major impact on the work of Executive Directors and Senior Managers and have diverted significant senior management time away from core tasks.

3.6 The issues that have emerged over recent months, resulting in the fundamental re-negotiation of the Council's strategic partnership with BT, suggest that the Chief Internal Auditor's opinion for 2012/13, that the Council's system of internal controls was substantial, must now be regarded as debatable in view of the adequacy of controls for which OCL were responsible, as demonstrated in the current Annual Report.

- 3.7 Meanwhile a number of key aspects of the report for 2013/14 which relate to high risk areas of operation can be attributed to failures in the delivery of services by OCL. These have now been addressed by the renegotiation of the Strategic Partnership arrangement with BT and the consequent return of many key services to the Council. The actions taken will result in improved performance and an improved control environment whilst at the same time delivering savings. As the Chief Internal Auditor's Annual Report notes, these issues alone, which correctly identify weaknesses in the Council's control environment that inevitably lead to the conclusion that only limited assurance can be provided in the 2013/14 report.
- 3.8 Other issues identified in the Annual Report for 2013/14 have already been addressed, Executive Directors having reported remedial actions to the Audit and Governance Committee. However, it is important to note that these remedial actions do not form part of the current assurance judgement as whilst action plans have been agreed with Internal Audit, the implementation of them has yet to be audited to enable the Chief Internal Auditor to satisfy herself that her concerns have been addressed. It is intended that this work will now form part of the Chief Internal Auditor's Audit Plan for 2014/15 and that there will be regular reports to Management Team to ensure that the Council's control environment is sound and applied consistently to ensure the successful delivery of corporate objectives.

Decision-making and conduct

- 3.9. The council operates a leader and cabinet model of executive government with a Cabinet of eight members including the Leader and Deputy Leader of the Council. The responsibilities of the individual Cabinet Members are outlined in the council's constitution. However, Full Council has agreed that a fundamental review be undertaken of the Council's current political governance arrangements to consider whether there is a justifiable case for the adoption of a committee system or a form of "hybrid" model, which has started to be seen in some local authorities, or the retention of the Cabinet model. For that purpose Full Council agreed to establish a cross party member/officer working group which will report back to Full Council in December, identifying possible options tested against a number of design principles and in particular taking into account the impact of the implementation of the Council's new operating structure.
- 3.10 The scheme of delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level. The Scheme of Delegation, along with the council's Financial Regulations, are to be reviewed to ensure that they remain effective. However, Full Council has approved in principle changes to the current Scheme such that chief officers would have delegated authority to take all decisions within their area of responsibility, other than matters reserved to Cabinet/Cabinet Members/committees. This significant change in

approach will be one of the issues looked at in the context of the possible introduction of a new governance model and the Council's new operating structure.

- 3.11 The Council operates a decision making protocol, which is regularly reviewed to ensure the legal and financial probity of decisions of the Council, the executive and committees. New software has been introduced to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.
- 3.12 The code of conduct for members and the terms of reference of some of the council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee. Councillors and staff are reminded of the requirements on a regular basis. The council also has a protocol for councillor/officer relations.

Arrangements for scrutiny

- 3.13 The council has four scrutiny committees. The Scrutiny Committee, whose coverage includes the council's crime and disorder partnership and flood risk management. The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial changes in health service delivery and scrutinising the work of the NHS more generally. The Education Scrutiny Committee scrutinises any issues around education.

Since May 2013 the council has also operated an Executive Scrutiny Committee which considers in advance any key decisions to be taken by Cabinet and Cabinet Members, and all other reports (non-key decisions) to be considered by Cabinet. As part of the arrangements for this latter Committee a Budget Scrutiny Working Group has also been established to have oversight of the budget setting process.

Financial arrangements

- 3.14 The council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010).

The County Council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the County Council to significantly reduce the level of its annual revenue expenditure. The Council's financial planning and management

arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

Communicating and reviewing the Council's vision for communities and service users

- 3.15 The Council's new Administration have developed a Strategic Direction document with the intention that this is an interim statement of Policy, the intention being to develop a Corporate Strategy to sit alongside its budget for the period 2014-2017.
- 3.16 To measure the effectiveness and delivery of the council's ambitions, the Council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the Chief Executive and Executive Directors. The council's Management Team is currently working to embed more effective performance measures across a wide range of its services.
- 3.17 The council engages with the communities of Lancashire in a number of ways:
- High profile communication campaigns to encourage communities to take up our services or help change behaviours;
 - Use of traditional and new media channels to keep residents informed of our activities;
 - Encouraging elected members to use social media;
 - Webcasting of council and committee meetings;
 - Member representation on neighbourhood management boards across Lancashire;
 - Using our residents' panel Living in Lancashire to inform priorities and measure service experience;
 - Talking regularly with service users and communities to understand their service needs; and
 - Consulting on changes we are planning to make.

Whistle-blowing and counter fraud arrangements

- 3.18 The council has a whistle-blowing procedure in place, which has been publicised to staff. Reports on its use and outcomes are presented to the Audit and Governance Committee. The Internal Audit Service undertakes data analysis in areas likely to be susceptible to fraud, supports the biennial National Fraud Initiative data matching exercise, and provides support to managers in investigating allegations of fraud, theft or impropriety.

Audit arrangements

- 3.19 The council has an Audit and Governance Committee which operates in accordance with professional guidance and receives appropriate training. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process.
- 3.20 The council has a well-regarded Internal Audit Service that operates in accordance with professional standards and is a key element of the corporate governance framework.

Risk management

- 3.21 The council seeks to manage its risks well, and Management Teams across the council identify, assess and manage risks effectively. There is good general awareness of risk and the need to demonstrate risk management.

Internal control

- 3.22 During 2013/14, the Chief Internal Auditor provided reports to the Management Team and their senior Management Teams on progress on strengthening the County Council's internal control framework. The Chief Internal Auditor has also regularly reported key areas of audit work to the Audit and Governance Committee which has taken an active role in reviewing the Council's internal control effectiveness.
- 3.23 In her Annual Report for 2012/13 the Chief Internal Auditor provided a substantial assurance overall that there was a generally sound system of internal control. In reaching this conclusion she highlighted a number of weaknesses, and the Management Team committed itself to address those areas and ensure the Council was well governed. In her Annual Report of 2013/14 the Chief Internal Auditor has provided limited assurance overall on the Council's control framework. In reaching this conclusion she has pointed to a gradual deterioration over recent years of the level of assurance she has been able to provide. She has pointed to the previous even spread between substantial/full assurance and limited/nil assurance and that the balance has now tipped to only limited/nil assurance now being provided over the majority of control systems for 2013/14. This change of balance is primarily accounted for by reduced assurance in lower risk areas. In summary:
- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
 - The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.

The Chief Internal Auditor has recognised that after a number of years in which management and staff resources have been reduced, services restructured, and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

- 3.24 The Chief Internal Auditor has emphasised the exceptional context and circumstances for 2013/14 in her Annual Report. Members of the senior management team, and the council's statutory officers in particular, together with the Chief Internal Auditor, were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed; the remuneration of the Chief Executive Officer of its joint venture company was discovered; the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation; and the relationship with its strategic partner was renegotiated. The Chief Internal Auditor has concluded that these matters alone indicate fundamental weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. The Chief Internal Auditor notes that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.
- 3.25 Each of the issues raised by the Chief Internal Auditor during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed where required and will be followed up by the Audit Service.
- 3.26 The Audit Service undertook work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Whilst some progress has been made to implement the action plans as agreed, the Council's major restructuring; the work associated with making significant cost savings, and the loss of management capacity, has meant that not all remedial actions have completed within the timescales intended. The Audit and Governance Committee has noted a number of these delays and received direct feedback from the relevant Executive Directors.

Key Issues

Set out below are key issues that have arisen from internal audit work. The Chief Internal Auditor has acknowledged that the council's Management Team is taking these issues very seriously.

- 3.27 The Audit and Governance Committee is aware of issues around information governance and that these have been fundamentally affected by the council's relationship with OCL. Significant progress has however been made during 2013/14 to strengthen the council's information governance arrangements and control framework, with the

information governance function now being managed within Democratic Services. The Council has designated a Senior Information Risk Owner (the County Secretary & Solicitor) and a Head of Information Governance has recently been appointed. Action is being taken corporately to raise awareness amongst the council's staff of their responsibilities in relation to information governance (IG) and work is ongoing to ensure that the Council's Information Assets are properly protected and managed. Over the next 12 months a major review of the Council's IG policy framework will be undertaken to ensure it remains fit for purpose particularly in the light developing structural changes.

3.28 The Council continues to demonstrate ambition in developing its services, notwithstanding the fact that major reductions in government funding require the council to make significant cost savings. It is recognised that there is a strong drive for improvement and, whilst some developments are subject to delay, other key developments have taken place during the year that will improve the council's controls, including the ongoing replacement of the Integrated Social Services Information System with a system provided by Liquidlogic.

3.29 The Chief Internal Auditor has highlighted that the Council's control framework is seen to be reliant upon considerable management effort to remedy gaps as they are identified. Follow-up work on a number of areas indicates that action is not generally being taken as management intended, and that there is a need to improve a number of areas of control as highlighted below:

- A number of in built control and operational weaknesses have been highlighted with the Council's Oracle human resources/ payroll system. These have resulted in a number of issues including inaccurate recording of a number of over payments to staff. There are limitations to the reports available to managers from the Oracle human resources/payroll system which impede managers' access to useful, accurate and timely management information. Managers across the council generally lack proficiency and understanding in using the system. In view of these issues Management Team have established a Project Group to address these issues so that the system provides accurate management information and is operationally effective.
- Compliance with operational policy in a number of areas is not currently being achieved in practice. In particular, targets for the review of children's social care case files and the Independent Reviewing Officers' caseloads in CYP, and targets for the professional supervision of staff in ASHW are not currently being met. Work is however already under way to develop a new supervision policy framework for both ASHW and CYP.

Compliance with legislation, regulations, policies and procedures

3.30 In an organisation of the size and complexity of Lancashire County Council, it will be never be possible to provide absolute assurance that compliance with all applicable laws and regulations is achieved. However, processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

Training and development

3.31 A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. Officer training is overseen through a corporate performance and development review process.

4 Review of Effectiveness and a Programme of improvement

4.1 The council's Management Team has given serious and careful consideration to the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The Management Team continues to give a very strong commitment to ensure that basic controls are maintained and, particularly in those cases highlighted by the Annual Report of the Chief Internal Auditor, significantly improved. All outstanding actions will now form part of the Chief Internal Auditor's Audit Plan for the current year with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance will achieve at least a substantial assurance assessment in the Chief Internal Auditor's report for the year ending 31 March 2015.

4.2 The council's Leadership and Management Team acknowledge that the exceptional events of 2013/14 as highlighted above, particularly those set out in paragraph 3.4 have been a diversion that has had an impact on the Council's control environment. However, they are committed to ensuring that robust governance remains at the heart of the Council's business and will ensure that areas of concern highlighted by the Annual Report will be rectified.

Signed:

.....

Leader of Lancashire County Council

Chief Executive of Lancashire County Council

Date

Date

Agenda Item 7

Audit and Governance Committee

Meeting to be held on 29th September 2014

Electoral Division affected: All

Approval of the County Council's and County Pension Fund's Letter of Representation 2013/14

(Appendix 'A' & 'B' refers)

Contact for further information:

Abigail Leech, 01772 530808, County Treasurer's Department

abigail.leech@lancashire.gov.uk

Executive Summary

According to International Standards on Auditing (UK and Ireland) 580; the external auditors, Grant Thornton, are required to obtain written representations from those charged with governance and management of the county council; on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist.

The County Council's Management Representation Letter is attached at Appendix A and the County's Pension Fund Management Representation Letter is attached at Appendix B.

The County Treasurer and the Chair of the Audit and Governance Committee sign the Management Representation Letter on behalf of Lancashire County Council and Lancashire County Pension Fund and forward it to the external auditors after obtaining agreement from the Audit and Governance Committee.

Recommendation

The Committee is requested to discuss and agree the management representation letters at Appendix A and Appendix B.

Background and Advice

The regulations governing the production of the annual accounts require that the 2013/14 accounts should be approved on or before the 30th September 2014 and the Management Representation Letter should be made available to the external auditors (as part of the audit evidence) before the audit report is issued.

Consultations

Within the International standards on Auditing (UK and Ireland) the county council is required to provide the Management Representation Letter to the external auditors.

Implications:

This item has the following implications, as indicated:

Risk management

The Management Representation Letter needs to be discussed and agreed by the audit committee on or before the 30 September 2014, before the audit report is issued.

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

Papers	Date	Contact/Directorate/Ext
Management Letters of Representation	2013/14	Abigail Leech, County Treasurer's Tel : 01772 530808
International Standards on auditing (UK and Ireland) 580		

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Karen Murray
Director
Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER, M3 3EB

Phone: 01772 534701
E-mail: gill.kilpatrick@lancashire.gov.uk

Your ref:
Our ref: CT/GK/SS
Date: 29 September 2014

Dear Karen

Lancashire County Council

Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of **Lancashire County Council** for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial transactions during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities in accordance with applicable law and the CIPFA/LASAAC code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

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

Financial Statements

- i We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- ii Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- iii We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

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- iv We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- v 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.
- vi All events subsequent to the date of the financial statements of which we are aware and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- vii We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- viii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

- ix We have communicated to you all deficiencies in internal control of which management is aware, including all items raised within the Annual Counter Fraud report, the Chief Internal Auditors Annual Report and the Annual Governance Statement.
- x All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xi We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

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

Approval

The approval of this letter of representation was minuted by the Council's Audit & Governance Committee at its meeting on **29th September 2014**.

Signed on behalf of the Council

Gill Kilpatrick

County Treasurer

29th September 2014

County Councillor Terry Brown

Chair of the Audit and Governance Committee

29th September 2014

Appendix B

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

Phone: 01772 534701
E-mail: gill.kilpatrick@lancashire.gov.uk

Your ref:
Our ref: CT/GK/AL
Date: 29th September 2014

Dear Sirs

Lancashire County Pension Fund Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with your audit of the financial statements of Lancashire County Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

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

Financial Statements

- 1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.
- 2 We acknowledge our responsibility for the design and implementation of a system of internal control to prevent and detect error and fraud.
- 3 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 4 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

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- 5 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- 6 All events subsequent to the date of the financial statements of which we are aware and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- 7 The financial statements are free of material misstatements, including omissions. There are no unadjusted immaterial misstatements referred to in the Audit Findings Report.
- 8 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. 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.
- 9 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- 10 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

- 11 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 unrestricted access to persons from whom you determine it necessary to obtain audit evidence.
- 12 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.
- 13 All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 14 We are not aware of any fraud or suspected fraud affecting the Fund involving:
 - 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.

15 We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

16 We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

17 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. lee

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

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.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 29th September 2014.

Yours faithfully

Gill Kilpatrick CPFA

County Treasurer

County Councillor Terry Brown

Chair of the Audit and Governance
Committee

Audit & Governance Committee

Meeting to be held on 29 September 2014

Electoral Division affected:

All

External Audit

Lancashire County Council - Audit Findings Report 2013/14

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

karen.l.murray@uk.gt.com

Executive Summary

The external auditor is required to report to you their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to the:

- audit of the annual accounts of Lancashire County Council and their proposed opinion on those accounts;
- value for money conclusion

Recommendation

The Committee is asked to:

- take note of the adjustments to the financial statements and the other issues raised by the auditor which are set out in the report;
- approve the letter of representation on behalf of the Council before the auditor issues their opinion.

Background and advice

Attached at Appendix 'A' is the external auditor's annual findings report for Lancashire County Council for the 2013/14 audit. The report has been produced in accordance with the Audit Commission's statutory Code of Audit Practice for Local Government bodies.

Karen Murray, Director will attend the meeting to present the report and respond to questions.

Consultations

The report has been agreed with the Council's Management.

Implications

This item has the following implications, as indicated:

N/A

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
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N/A		
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The Audit Findings for Lancashire County Council

Year ended 31 March 2014

September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

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Section 1: Executive summary

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02. Audit findings

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Lancashire County Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 11th June 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the Annual Governance Statement
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. However, the Annual Governance Statement was not received until 18 September 2014.

Overall, the draft Statement of Accounts was prepared to a good standard and there have been improvements in the quality of the supporting working papers.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments which affect the primary financial statements or the Council's reported financial position at 31 March 2014. However, there have been two material adjusted misstatements to comparatives in the Comprehensive Income and Expenditure Account and several further adjustments to correct significant misstatements and misclassifications, mostly affecting disclosure notes.

A number of other changes have been made in response to audit findings to more fully meet disclosure requirements, improve consistency within the Statement of Accounts and correct trivial arithmetical and presentational errors.

Officers have continued to improve the quality of the financial information contained within the Statement of Accounts by removing non-material disclosures and information that is not required.

Further details are set out in section 2 of this report.

Executive summary

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we are unable to conclude that the Council has proper arrangements in place to secure value for money.

Our conclusion takes account of the balance between those areas where the Council's arrangements are demonstrably strong, and those areas of corporate and financial governance where the Council has recently identified a number of fundamental weaknesses in its arrangements.

In particular, the Council has identified weaknesses relating to:

- two procurement processes;
- the relationship with and operation of the Council's strategic partnership and associated joint venture company;
- salary payments made to the then Chief Executive of the joint venture company.

In addition, the Council's Chief Internal Auditor has given an overall opinion of limited assurance in respect of her work for the year. This reflects the relatively high proportion of reviews undertaken across the Council where the level of assurance was assessed as either none or limited.

We recognise that these governance issues have emerged in the year but that they relate to arrangements, decisions and actions taken in previous years. It is a positive sign that the Council has identified the issues and is dealing with them appropriately. The actions arising include:

- referring matters to the police for investigation – this remains on-going; and
- renegotiating the relationship with the strategic partner – this includes transferring a number of services back in house from 1 April 2014.

Further details are set out in section 2 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. Our focus is on whether the financial controls in their totality are sufficiently robust to mitigate; i.e. prevent or detect, material misstatement. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Controls

Our work has not identified any control weaknesses which we wish to highlight for your attention beyond those which have already been identified by the Council and reported by the Chief Internal Auditor. In her 2013/14 Annual Report the Chief Internal Auditor concluded:

"I can provide only limited assurance overall that there is a generally sound system of internal control, adequately designed to meet the council's objectives and applied consistently in practice. Weaknesses in the council's systems' design and inconsistent application of controls put the achievement of its objectives at risk and, in particular, significant weaknesses in the council's governance were revealed during the year".

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with Council's Chief Executive and County Treasurer.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 30th June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 30th June 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion on the Council's statement of accounts.

Our audit opinion is set out in Appendix A.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams • Review of any unusual significant transactions 	<ul style="list-style-type: none"> • Our audit work has not identified any issues in respect of revenue recognition.
2.	<p>Management over-ride of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<ul style="list-style-type: none"> • The findings of our review of journal controls and testing of journal entries has not identified any significant issues. • We are aware that there is an on-going police investigation. In this context we have not identified any evidence of management override of controls that we wish to bring to your attention. • We set out later in this section of the report our work and findings on key accounting estimates and judgments.



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess the whether those controls are designed effectively • Sample testing of operating expenses and year end creditors / accruals including agreement to source documents 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess the whether those controls are designed effectively • Sample testing of employee remuneration expenses, including employer contributions • Completion of comprehensive proof in total review procedures to assess whether employee remuneration for the Council is in line with expectations • Review of senior officer remuneration disclosures and substantive testing to supporting records 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess the whether those controls are designed effectively • Sample testing of revaluation adjustments, including agreement to valuation report. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.</p> <p>Grants and contributions are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments and the grants or contributions will be received.</p>	The recognition of revenue by the Council is in line with recognised accounting guidance and in line with CIPFA's recommended approach	 GREEN
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – group account considerations useful life of capital equipment – revaluations – accounting for school assets – pension fund assets and liabilities – revaluations 	<p>The judgements and estimates included within the financial statements have been based on a sound rationale. The judgements and estimates are supported where necessary by advice given by professional experts including Mercers who provide assurance around the Council's share of the Lancashire County Pension Fund assets and liabilities.</p> <p>Accounting policies disclosure note 1g states that:</p> <p>"Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years"</p> <p>We are satisfied that the carrying amount of Property, Plant & Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</p>	 GREEN

Assessment

● (red) Marginal accounting policy which could potentially attract attention from regulators



● (amber) Accounting policy appropriate but scope for improved disclosure

● (green) Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

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Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates (cont'd)</p>		<p>In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</p> <p>This paragraph of the Code, which is based on IAS16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. <p>We would normally expect this 'short period' to be within a single financial year. The Council may wish to consider how its policy demonstrates compliance with the Code.</p>	<p style="text-align: center;"> GREEN</p>
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>While minor changes have been made to the accounting policies note to the accounts, our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;"> GREEN</p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Primary financial statements impact
	Primary financial statements	
1	The CIPFA Code of Practice on Local Authority Accounting for 2013/14 (the Code) includes revisions to the accounting treatment for pension costs as a result of changes to IAS 19 Employee Benefits. This is a change in accounting policy and applies retrospectively. The main changes involve a reallocation of amounts charged in the Comprehensive Income and Expenditure Statement (CIES), including reporting of the net interest position on the net defined benefit liability. Since comparatives show the gross position for interest income on plan assets and interest cost on the defined benefit obligation, gross income and expenditure included in Financing and Investment Income and Expenditure were overstated by £99.4m. Comparatives in the Amounts Reported for Resources Allocation Decisions note were also affected.	<p>Yes – gross income and expenditure comparatives for Financing and Investment Income and Expenditure in the CIES have both reduced by £99.4m.</p> <p>The net expenditure position and deficit for the year are unaffected.</p>
2	Through discussions with officers, our investigation of significant variances to the previous financial year identified that the gross income and expenditure position impacting on the non distributed costs line was incorrectly reported in 2012/13. While this error has no effect on net expenditure, gross income and expenditure comparatives were overstated by £39.0m. Related comparatives in the Amounts Reported for Resources Allocation Decisions note were also affected.	<p>Yes – gross income and expenditure comparatives for non distributed costs in the CIES have both reduced by £39.0m.</p> <p>The net expenditure position and deficit for the year are unaffected.</p>

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Adjusted misstatements

Detail	Primary financial statements impact
Disclosure notes	
3 The amount for the 'final DSG for 2013/14 before academy recoupment' in the Dedicated Schools Grant disclosure note related to 2012/13. As a result , this amount was overstated by £23.9m.	No - the impact is limited to the Dedicated Schools Grant disclosure note.
4 Legally committed capital expenditure as at 31 March 2014 of £74.5m only reflects expenditure that the Council expects to incur in 2014/15. As a result, this amount is understated by £67.5m.	No - the impact is limited to the Future Capital Spending Commitments disclosure note.
5 Amounts in the valuation table for land and buildings in the Property, Plant and Equipment disclosure note incorrectly related to 2012/13. As a result , there was a £28.1m inconsistency with the gross book value of land and buildings shown elsewhere in the Property, Plant and Equipment disclosure note of £2,081.3m.	No - the impact is limited to the Property, Plant and Equipment disclosure note.
6 The £29.7m accumulated absences creditor was incorrectly excluded from creditors related financial liabilities at amortised cost in the Financial Instruments disclosure note.	No - the impact is limited to the Financial Instruments disclosure note.
7 £34.7m of cash and cash equivalent balances were incorrectly excluded from the total amortised cost and fair value of loans and receivables in the Fair Value of Financial Assets and Liabilities disclosure note. A further £2.6m of balances were incorrectly excluded from the total amortised cost of financial liabilities.	No - the impact is limited to the Fair Value of Financial Assets and Liabilities note disclosure note.
8 The fair value calculation of the PFI liabilities as at 31 March 2013 incorrectly excluded £48.8m of liabilities in respect of 2013/14 due to a formula error. Additionally, following a change in the basis for determining the fair value of LOBO borrowing as at 31 March 2014, comparatives have been increased by £23.6m to ensure consistency.	No - the impact is limited to the Fair Value of Financial Assets and Liabilities note disclosure note.

Misclassifications

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

Detail	Primary financial statements impact
Primary financial statements	
<p>1 £29.1m of other comprehensive income was incorrectly classified as "other movements in the Movement in Reserves Statement (MIRS)". In addition, the presentation of the CIES has been amended to include £285.7m of items that will not be reclassified to the "(Surplus) or Deficit on the Provision of Services" within the total for other comprehensive income. Comparatives are also affected by these issues.</p>	<p>Yes – other comprehensive income in the MIRS has increased by £29.1M to include other movements which have been removed. Changes to the CIES are presentational.</p> <p>The deficit for the year and total comprehensive income are unaffected.</p>
Disclosure notes	
<p>2 In the Private Finance Initiative (PFI) Schemes disclosure note, £19.2m of contingent rentals were incorrectly classified within payments for services rather than interest charges in the future payments analyses for all of the PFI schemes</p>	<p>No - the impact is limited to the Private Finance Initiative (PFI) Schemes disclosure note.</p>
<p>3 The transfer of two academies with a combined net book value of £7.0M has been included in the Capital Adjustment Account disclosure note within amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES rather than the reversal of charge re transfer of academies.</p>	<p>No - the impact is limited to the Capital Adjustment Account disclosure note.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention, beyond those which have already been identified by the Council and reported by the Chief Internal Auditor.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit & Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our audit work identified no material omissions in the financial statements, although a number of changes to defined benefit scheme related disclosures to reflect the changes in the Code. The descriptions for related entries in the CIES and supporting notes have also been amended to match the revised terminology introduced by the Code. The Council has also amended the presentation of the CIES to separately disclose Public Health Services, responsibility for which was transferred from NHS Primary Care Trusts to local authorities with effect from 1 April 2013 under the Health and Social Care Act 2012, as an acquired operation. A number of changes were made to disclosure notes to improve internal consistency and compliance with the requirements of the Code, as well as to correct trivial arithmetical, typographical and presentational errors. However, officers have demonstrated a strong desire to further improve the quality of the financial information contained within the Statement of Accounts. Notably, the Council has continued to remove non-material disclosures and information that is not required by the Code so that only key information is included with related party transaction and financial instrument related disclosures seeing the most change.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are unable to conclude the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

This conclusion takes account of the balance between those areas where the Council's arrangements are demonstrably strong, and the area of corporate and financial governance where the Council has recently identified a number of fundamental weaknesses in its arrangements.

We recognise that these governance issues have emerged in the year but that they relate to arrangements, decisions and actions taken in previous years. It is a positive sign that the Council has identified the issues and is dealing with them appropriately. The actions arising include:

- referring matters to the police for investigation – this remains on-going; and
- renegotiating the relationship with the strategic partner, including transferring a number of services back in house

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

The Council performs well in respect of the key indicators of financial performance. For example, the Council has maintained the County fund balance at £36m at 31 March 2014 and its net assets (the amount by which the Council's total assets exceed total liabilities) were £831.7m at this date.

Value for Money

The need for the Council to take £300m of annualised costs out of the annual revenue budget by March 2018 represents a considerable challenge. However the Council is well placed to meet that challenge with £424.9m of usable reserves, including a County Fund of £36m at 31 March 2014. This will support a mix of strategic investment, service transformation, downsizing and "invest to save projects" as the Council restructures and re-configures services in the coming years to create the operating model for the "new" Lancashire County Council.

The Council has strong arrangements in place for financial planning. Like many other council's Lancashire continues to operate within an increasingly challenging financial environment. Against this back drop, the Council set a balanced budget for 2013/14 and delivered a £3.1m underspend against this. The Council has a clear financial strategy articulated through its three year budget and annual review. There are clear links between the budget and the Council's corporate priorities and these are subject to regular review and refresh.

Financial control across the Council is good and it has a good track record of delivering its savings plans. Over the last three year financial planning cycle the Council has delivered savings of £220m. A considerable amount of work has been done to understand, mitigate or redesign demand led services to ensure they are appropriate and affordable for the people of Lancashire.

Reports are provided to Cabinet on a regular basis and these report variances against budget together with the reasons and any planned corrective action. Members are well informed about the financial position and are able to provide robust challenge on financial matters.

However, 2013/14 has been a difficult year for the Council. Fundamental weaknesses in it's overall arrangements for corporate and financial governance have been identified. In particular, the Council has identified weaknesses relating to:

- two procurement processes;
- the relationship with and operation of the Council's strategic partnership and associated joint venture company; and
- salary payments made to the then Chief Executive of the joint venture company.

In addition, the Council's Chief Internal Auditor has given an overall opinion of limited assurance in respect of her work for the year. This reflects the relatively high proportion of reviews undertaken across the Council where the level of assurance was assessed as none or limited. In 2013/14 this was 58%, an increase from 44% in the previous year.

The Council's Leadership and Management Team is committed to addressing the weaknesses that have been identified. In a number of areas, progress has already been made, for example in strengthening the Council's arrangements for information governance and in establishing a Project Group to improve the quality of management information available from the HR/payroll system.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

The Council has robust arrangements in place to ensure that resources are prioritised. In particular, the Council has worked hard to deliver key elements of its agenda including:

- the Preston City Deal – work is now underway to deliver the infrastructure required for this key element of the County's economic regeneration ambition; and
- taking on responsibility for public health and working with partners to deliver the "Better Care Fund". The Lancashire Better Care Fund Plan has now been approved by the NHS England Local Area Team (LAT), although officers and partners recognise that a great amount of work is still needed to put in place the structures and process needed to ensure the plan can be delivered.

The Council has also challenged itself in the way it delivers services. This is evident in the:

- way in which it renegotiated the contract with its strategic partner, bringing some services back in house; and
- recent decision to seek a consensual termination of the waste management contract whereby the Council took ownership of the two waste disposal facilities in Thornton and Leyland and the operating company.

The Council continues to adopt a flexible and challenging approach to the way it delivers its services. The Council still needs to formally approve (and then deliver) the 'service offer' it will make from a budget that, by 2017/18, will be £300m per annum less than at present. However progress to date has been good and will allow a balanced budget to be set for the medium term in February 2015 in line with the normal timetable.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	<p>Overall, the Council continues to perform well.</p> <p>The Council has a strong balance sheet. At 31 March 2014, the County Fund balance had been maintained at £36m in line with the County Treasurer's advice to members. The Council has a further £255m available in earmarked revenue reserves. These includes reserves totalling £103m set up to meet the costs of organisational change going forwards.</p> <p>The Council continues to deliver against its three year budget. The revenue outturn position for the year was an underspend of £3.1m after allowing for contributions to reserves. Capital expenditure for the year was £139.4m in line with the Council's revised plans.</p> <p>The Council's net assets (the amount by which the Council's total assets exceed total liabilities) are £1,103.2m at 31 March 2014 compared with £863.7m for the previous year.</p> <p>The Council's working capital ratio (which indicates whether the Council has enough current assets to meet its immediate liabilities) is low and has decreased from the previous year. However, this is consistent with the Council's overall treasury management strategy whereby the Council holds a significant element of its investment portfolio in bonds. These have long term maturity dates but are highly liquid financial instruments. The Council is therefore capable of meeting its current liabilities.</p> <p>The County's schools hold balances of £55.9m at 31 March 2014. This has increased from £51.5m in the previous year. The Council has a policy in place to "claw back" excessive balances and as a result £0.24m is being recycled to the schools budget.</p>	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Strategic financial planning	<p>The Council's overall strategic financial plan is clearly set out. The Council has a balanced budget for the current year together with a three year budget plan to 2017/18. This identifies a total savings need of £300m by 2017/18.</p> <p>The Council has identified its corporate priorities and these underpin the three year budget to 2017/18. The plans take account of the impact of a range of external and internal factors such as reductions in central government funding, legislative changes, the economic climate, including pay and price inflation, and demand for its services. The assumptions made by the Council are soundly based. The impact of capital spending is also taken account.</p> <p>Taking account of the savings planned for the current year, the Council has identified the need for further savings of £161m in the period from 2015 to 2018. Work is well underway to ensure a balanced budget can be set for 2015/16 and going forwards. This includes the planned use of reserves to support the creation of a new operating model for the Council. The Council currently has £103m earmarked to support downsizing.</p> <p>Despite the financial challenges, the Council's reserves also allow for some investment in its priority areas. This includes £29m for strategic investments, modern apprentices and local welfare support. A further £65.8m as been earmarked to deliver priorities at directorate level.</p> <p>The Council has well developed processes for service and financial planning to rely on. Although the level of savings required in the medium term is significant, the Council is well placed to deliver. Historically, the savings required by the Council have been delivered in full, often earlier than planned.</p> <p>Savings plans are subject to robust assessment and sensitivity analysis.</p> <p>The Council looks to the future to identify pressures which may subsequently emerge and which could present a financial risk.</p>	Green	Green

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	<p>There is clear leadership from senior officers and members in considering and setting the budget. The level of understanding of the financial challenge is good at both member and officer level.</p> <p>There is regular reporting to Cabinet by the County Treasurer on the financial position. The reports are clear and informative, providing an appropriate level of detail about the Council's revenue position and capital programme. The reports include information about emerging financial pressures and any corrective action to be taken. The reports make clear the impact on the year end position and how this has changed from the previous period. This is important in allowing members to assess whether the corrective actions are delivering, and to provide effective review and challenge.</p> <p>There is a good level of engagement with stakeholders including partners and employees. The Council has just ended its employee consultation on a new management structure.</p> <p>However, 2013/14 has been a difficult year for the Council. Fundamental weaknesses in it's overall arrangements for corporate and financial governance have been identified. In particular, the Council has identified weaknesses relating to:</p> <ul style="list-style-type: none"> • two procurement processes; • the relationship with and operation of the Council's strategic partnership and associated joint venture company; and • salary payments made to the then Chief Executive of the joint venture company. <p>We recognise that these governance issues have emerged in the year but that they relate to arrangements, decisions and actions taken in previous years. It is a positive sign that the Council has identified the issues and is dealing with them appropriately. The actions arising include:</p> <ul style="list-style-type: none"> • referring matters to the police for investigation – this remains on-going; and • renegotiating the relationship with the strategic partner, including transferring a number of services back in house 	Green	Red

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	<p>The Council has good controls in place to ensure it can deliver its financial plans.</p> <p>There are strong arrangements in place to support the delivery of the Council's financial plans. Effective budget monitoring is undertaken by both budget holders and finance staff. Variances are identified and are followed up to ensure corrective action can be taken .</p> <p>The Council has worked hard to ensure it delivered savings on a recurrent basis and as quickly as possible. It has taken action to understand and manage the pressures on demand for some services. For example, a significant amount of work has been done to reduce demand for adult social care services. However, increasing demand remains a key risk for the Council and is an area kept under regular review.</p> <p>Where savings plans have looked to be "at risk" corrective action, or alternative plans, are identified.</p> <p>The Council's finance team was restructured during 2013. As a result, the available capacity has been clearly focussed on strategic financial planning, financial monitoring and financial reporting (including technical accounting).</p> <p>The Council has an effective Internal Audit function in place. Internal Audit produces a risk based annual plan which is agreed by the Council's Audit and Governance Committee. The Committee then receives regular reports on progress delivering the plan, including the findings of work undertaken to date.</p> <p>The Council's Chief Internal Auditor has given an overall opinion of limited assurance in respect of her work for the 2013/14 year. This reflects the relatively high proportion of reviews undertaken across the Council where the level of assurance was assessed as none or limited. In 2013/14 this was 58%, an increase from 44% in the previous year. It covers a wide range of service areas and indicates that the Council's control framework has not been operating as management intended.</p> <p>The Council's Leadership and Management Team is committed to addressing the weaknesses that have been identified by Internal Audit. In a number of areas, progress has already been made, for example in strengthening the Council's arrangements for information governance and in establishing a Project Group to improve the quality of management information available from the HR/payroll system.</p> <p>The Audit and Governance Committee will have a key role to play going forwards in ensuring that actions are being taken in response to audit reports.</p> <p>The Council does not have a formal risk management framework although the Audit and Governance Committee does receive reports twice a year summarising the significant risks currently being considered by the Leadership and Management Team.</p>	Green	Amber

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Prioritising resources	<p>The Council has a good understanding of its costs and performance across services.</p> <p>There is clear managerial and political leadership provided for the way the Council prioritises resources. This is driven by the Council's corporate planning processes and is subject to regular review.</p> <p>The Council has worked hard to direct resources to deliver key elements of its agenda including:</p> <ul style="list-style-type: none"> • the Preston City Deal where work is now underway to deliver the infrastructure required for this key element of the County's economic regeneration ambition; and • taking responsibility for public health and working with partners to deliver the "Better Care Fund". The Lancashire plan has been approved by the NHS England Local Area Team (LAT), although officers and partners recognise work is still needed to put in place the structures and processes necessary to ensure it can be delivered. <p>The Council is willing to challenge the way in which it does things. This is evident in the way in which it renegotiated the contract with its strategic partner to address concerns about cost and quality. As a result, some services have been brought back in house and the rest, which are now provided by BTLS, have been respecified.</p> <p>Over the last few years, the Council has been seeking to address the relatively high costs of its waste management service. The cost pressures have sat alongside performance levels which have been below those required by the Council. The Council has worked with the operator over a number of years and in a range of ways to address these issues before reaching a decision to seek a consensual termination of the contract. At the end of July 2014, the Council took ownership of the two facilities and the operating company. The Council also secured a contingency against any capital expenditure required following transfer of the assets. The is expected to deliver significant revenue savings to the Council. We will work with the Council to consider the accounting treatment in advance of the closedown for 2014/15 accounts.</p> <p>Looking forward, the Council continues to adopt a flexible and challenging approach to the way it delivers its services. The Council still needs to formally approve (and then deliver) the 'service offer' it can make from a budget that will, by 2017/18, be some £300m per annum less than at present. However, progress to date has been good and will allow a balanced budget to be set for the medium term in February 2015 in line with the normal timetable.</p>	Green	Green

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	151,560	151,560
Grant certification	1,190	1,190
Total audit fees	152,750	152,750

Fees for other services

Service	Fees £
Waste PFI Contract	20,528

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical

Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Our independence is not compromised by the agreed work on the waste PFI contract since:

- it is restricted to reviewing the financial models used to prepare information and we are not be part of any decision making process
- the work is conducted by a separate team within Grant Thornton which is overseen by a separate engagement lead

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Lancashire County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. 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 2013/14.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

give a true and fair view of the financial position of Lancashire County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience we have considered the following matters:

- weaknesses highlighted in two procurement processes;
- the relationship with, and operation of, the Council's strategic partnership and associated joint venture company;
- salary payments made to the then chief Executive of the joint venture company
- the Council's Chief Internal Auditor has given an overall opinion of limited assurance in respect of her work on the Council's system of internal control for the year.

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Lancashire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by the Council in 2013. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Karen Murray
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor
 Grant Thornton UK LLP,
 4 Hardman Square,
 Spinningfields, Manchester M3 3EB

*** September 2014



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Audit and Governance Committee

Meeting to be held on 29th September 2014

Electoral Division affected: All

Approval of the County Council's Statement of Accounts 2013/14

(Appendix 'A' refers)

Contact for further information:

Abigail Leech, 01772 538102, County Treasurer's Directorate

abigail.leech@lancashire.gov.uk

Executive Summary

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The 2013/14 accounts should be approved on or before the 30 September 2014.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2013/14; the Statement itself is attached as Appendix A.

The regulations governing the process require that the Chair of the Committee that approves the accounts must sign and date them.

Recommendation

The Committee is requested to review and approve the County Council's Statement of Accounts for 2013/14 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

1. Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to this Committee.

The regulations governing the production of the annual accounts require that the 2013/14 accounts should be approved on or before the 30th September 2014.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2013/14; the statement itself is attached as Appendix 'A'.

2. Preparation of the Statement

The Statement of Accounts has been prepared in accordance with the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A number of accounting adjustments agreed with the external auditor (shown in the Auditor's Audit Findings report in a separate item on this agenda) are reflected within the statement.

3. Main Components of the Statement

The table immediately below sets out the main component parts of the Statement and their purpose. Following the table is a commentary on the key issues from the Statement.

ITEM	PAGE	BRIEF EXPLANATION
Introduction	1	Sets out the financial context in which the authority operates in the year, with a summary of the final end of year position and the outlook for the future. Also notes any changes and significant items in this year's accounts.
Auditor's Report	8	The external auditor's opinion on our accounts for 2013/14.
Statement of Responsibilities	11	Sets out the responsibilities of the County Council and the County Treasurer in relation to the production of the Statement of Accounts.
Annual Governance Statement	12	Sets out assurances on our governance arrangements and the way we manage our affairs.
Movement in Reserves Statement	21	Provides details of the movement in reserves held by the authority.
Comprehensive Income and Expenditure Statement	23	A summary of the revenue expenditure and income of the Council, analysed by service in accordance with the Code. This statement consolidates all gains and losses experienced by the authority during the financial year.
Balance Sheet	25	Our assets and liabilities at 31 March 2013, 31 st March 2014, and how these are funded.

Cash Flow Statement	27	An analysis of revenue and capital cash movements during the year.
Notes	28	Supporting information which sets out further details and explanations of many entries within the financial statements listed above.
Statement of Accounting Policies	28	Details compliance with the Code and the policies adopted for the preparation of the accounts on an IFRS basis detailed in disclosure note 1.
Other Funds and Reserves	123	Presents information on trust funds (not part of the Council's accounts).
Lancashire County Pension Fund accounts	125	Presents the accounts of the Pension Fund (not part of the Council's accounts).
Glossary of Terms	170	Explains terms used in the Statement

4. Status of the Statement of Accounts

Details of the Council's spending and income in 2013/14, and how it compared with the budget, was reported to the Cabinet on 5 June 2014. That same spending and income is reported here, in the Statement of Accounts, in a different format which complies with the Code.

The main differences between how the year end position is presented to Cabinet (i.e. the "management accounts") and the formal Statement considered here by this Committee include:

- The way services are set out in the Comprehensive Income and Expenditure Statement (page 23) follows the compulsory Service Reporting Code of Practice. However, the way services are shown in the management accounts reflect how they are actually organised in directorates within the Council.
- The overall report on the management accounts to the Cabinet includes the actual cost of employer's pension contributions. However, the Comprehensive Income and Expenditure Statement and Balance Sheet shown here in the statement of accounts include significant changes for the requirements of International Financial Reporting Standard 19 (IAS 19) on the treatment of pension costs. For example, the deficit (surplus) position on the Continuing Operations line shown in the Comprehensive Income and Expenditure Statement has the actual costs of employer's pension contributions removed, being replaced by notional costs calculated by the Actuary of the current costs of future retirement benefits which have been earned in the year. The effect of these notional costs are then reversed in the Movement in Reserves Statement against the County Fund, leaving the effect on the County Fund balance the same in both methods of presentation. Note 6 (page 52) sets out the details of these transactions. IAS 19 assumes that all pension liabilities will crystallise at the

same moment in time. In reality this is highly unlikely and the Pension Fund has in place a plan to recover the overall fund deficit over 19 years, which represents a more realistic position.

5. Financial Statements

5.1 General

There are some presentational changes between the draft and final accounts as a result of an exercise to de-clutter the disclosure notes. The exercise was undertaken in conjunction with Grant Thornton, the external auditors; with the aim of making the accounts more user- friendly.

5.2 Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Council. They are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Between 2012/13 and 2013/14 usable reserves have decreased by £32 million.

The MIRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year, and is analysed by:

- a) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.
- b) The increase or decrease in the net worth of the authority as a result of movements in the fair value of our assets.
- c) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

5.3. Comprehensive Income and Expenditure Statement (CIES)

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority in the financial year. As authorities do not have any equity in their Balance Sheets, the total overall movement of gains and losses in the CIES should reconcile to the overall movement in net worth in the Balance Sheet.

The CIES is presented in two sections:

- a) (Surplus) or Deficit on the Provision of Services – this is the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

- b) Other Comprehensive Income and Expenditure – this shows other changes in net worth which have not been reflected in the (Surplus) or Deficit on the Provision of Services. This includes items such as movements in the fair value of assets and actuarial gains or losses on pension assets and liabilities.

5.4. Balance Sheet

The Balance Sheet summarises the Council's financial position at 31st March each year. The top half contains the assets and liabilities that it owns, or has accrued with other parties. As local authorities do not have equity, the bottom half is made up of reserves that show the full breakdown of the authority's net worth and is analysed as follows:

- a) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the County Fund Balance, earmarked revenue reserves and the Capital Receipts Reserve).
- b) Unusable Reserves, which include accounting detail relating to gains and losses, timing differences and adjustments for the difference between proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. Revaluation Reserve, Pension Reserve, Capital Adjustment Account, Financial Instrument Adjustment Account, Collection Fund Adjustment Account, Accumulated Absences Account and Available for Sale Financial Instruments Account). All unusable reserves are explained in disclosure note 33.

The main Balance Sheet movements from 31st March 2013 to 31st March 2014 are highlighted below (see paragraphs 5.4.1 to 5.4.4).

5.4.1 Long term assets increased by £248.5million – the major changes are explained below:

- a) Property Plant and Equipment has increased by £27.6million, which is mainly due to revaluation of assets, expenditure in year, depreciation charges, reclassification of items from work in progress to Property Plant and Equipment and items reclassified as items Held for Sale, offset by disposals.
- b) Long term investments have increased by £219.7million. The 2013/14 treasury management strategy continued to reduce credit exposure to banks by reducing bank deposits and investing in UK Government, supranational and highly rated corporate bonds. The maturity date of the bonds purchased is typically more than one year forward and therefore they are classified as long term investments. There is a corresponding reduction in short term investments (see paragraph 5.4.2a below),

- c) Intangible fixed assets have increased by £5.7million relating to an increase in the value of software utilised by the Council following completion of a number of system upgrade projects.
- d) Long term debtors reduced by £2.0million in-line with the repayment of transferred debt.
- e) Investment properties decreased by £2.6million.

5.4.2 Current assets decreased by £212.7 million, the most significant areas are shown below:

- a) Short term investments decreased by £234.2million in line with the treasury strategy of holding the bonds of highly rated institutions rather than taking additional credit risk in the form of bank deposits (see para 5.4.1b above).
- b) There has been a £19.0million decrease in short term debtors, in the main this was because in 2013/14 there were no investment debtors; all investments settled before the year end.
- c) Cash and cash equivalents have increased by £25.8million. This reflects the cash which is being held in call accounts in order to meet the day to day operational demands of the organisation.
- d) Payments in advance have increased by £8.9million mainly due to a timing issue on the ASH&W residential payment run.
- e) Assets held for sale have increased by £5.3million as a result of an increased number of properties meeting the appropriate definition, as the Council reduces the overall size of its portfolio.
- f) Inventories, i.e. stocks increased by £0.5million.

5.4.3 Current liabilities increased by £72.9 million, the major changes are shown below:

- a) Short term borrowing increased by £119.3million in-line with treasury management strategy to utilise short-term market borrowing to take advantage of low interest rate policy.
- b) Creditors have decreased by £49.7 million in the main this decrease is due to investments purchased being settled prior to year end £62.5 million and a £12.8 million increase in operational creditors.
- c) Short term provisions increased by £3.4 million of which £2.4million relates business rates appeals as per the new business rates retention system and £1.8million relates to transitional housing benefit these increases are offset

by a reduction of £0.5million in the early retirement provision and £0.3million general reduction across other provisions.

d) Other liabilities have decreased by £0.1million.

5.4.4 Long term liabilities have decreased by £276.6 million,

- a) The pension liability has decreased by £222.0 million. Full details relating to the Council's pension liability can be seen in disclosure note 41.
- b) Long term borrowing has decreased by £44.5million to balance the borrowing portfolio interest rate risk exposure.
- c) PFI liability has decreased by £7.5million in-line with repayment of the liability which forms part of the annual unitary charge.
- d) Provisions have decreased by £2.4million mainly due to the release of insurance related provisions, no longer required.
- e) £0.2million decrease was due to reclassifying an historic balance.

Our net worth in the Balance Sheet has increased by £239.5 million from £863.7 million in 2012/13 to £1,103.2 million at 31 March 2014.

5.5 Cash Flow Statement

This statement reflects the total movement of cash and cash equivalents into and out of the organisation. The cash flow statement is shown at page 27 in the accounts.

6. Auditor's Report

It is the external auditor's opinion that the accounting statements

- give a true and fair view of the state of Lancashire County Council's affairs as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Full details of the auditor's findings are contained within the 2013/14 Audit Findings Report which has been submitted to the Audit and Governance Committee as a separate item.

Throughout the audit process officers have continued to work on the Statement in order to ensure that it presents a comprehensive picture of the Council's finances.

This has resulted in a number of changes from the draft which are set out in the auditor's findings report.

The Committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 27.

Consultations

Within the Accounts and Audit Regulations the County Council is required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2013/14 Accounts commenced on 7th July 2014 and ended on 1st August 2014. The accounts are available for Inspection on the Council's internet pages.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's accounts for 2013/14 must be approved by 30 September 2014 in order to meet its statutory deadlines.

The financial implications are set out in the report above and in the Statement of Accounts attached at Appendix A.

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

Paper	Date	Contact/Directorate/Ext
Final Accounts working papers	2013/14	Abigail Leech, County Treasurer's Tel : 01772 530808
Accounts and Audit Regulations	2011	

Reason for inclusion in Part II, if appropriate
N/A



Statement of Accounts

2013-14

Lancashire County Council

Statement of Accounts 2013/14

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Introduction to the statement of accounts

Purpose of the statement of accounts

This statement forms the formal audited accounts of the county council for the financial year 1 April 2013 to 31 March 2014. The production of the statement is prescribed by statute; it is prepared in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The statement gives the reader an overall impression of the finances of the county council for the financial year 2013/14. It is one of a series of reports and publications on the council's finances and financial position.

Contents of the statement of accounts

The main parts of the statement of accounts are:

- **The Independent Auditor's Report** – the external auditor's opinion on our 2013/14 accounts.
- **The Annual Governance Statement** – assurances on our governance arrangements and the way we manage our affairs.
- **The Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting purposes. The net increase/ decrease before transfer to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.
- **The Comprehensive Income and Expenditure Statement** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **The Balance Sheet** – shows the value as at the balance sheet date of the assets and liabilities recognised by the council. The net assets of the county council are matched by the reserves held. Reserves are reported in two categories, usable and unusable.
- **The Cashflow Statement** – shows the changes in cash and cash equivalents of the council during the reporting period.
- **The Notes to the Accounts** – supporting information which sets out further details and explanations of many entries within the financial statements listed above
- **The Pension Fund Accounts** – a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the county council, and are included in this statement for information only. A Pension Fund annual report will be published for members of the fund, which will include these accounts.

Revenue spending in 2013/14

The overall financial health of the county council at the end of the 2013/14 financial year continues to be strong. However, over 2014/15 to 2017/18 the county council is facing a considerable financial challenge including reducing resources, as well as cost pressures from the continuing increase in demand for council services, in particular those services delivering social care to older people and children as well as increases in contract prices, pay and related costs.

Despite the difficult environment the council has continued to demonstrate:

- Strong financial management, through managing the costs of demand led services within budget and demonstrating the ability to bring forecast service overspends back within budget.
- Strong delivery arrangements through achieving the delivery of savings early throughout the three year budget.
- Innovation through the successful implementation of the treasury management strategy, and
- Flexibility through redeploying resources to address the county council's priorities.

All of these are characteristic of organisations with well managed finances. At the same time the county council is maintaining a strong balance sheet and has set resources aside to mitigate identified risks.

The final position in respect of spending on the revenue budget was an underspend of £3.1m largely arising in the following areas:

- a) An underspend of £3.75m in the Environment directorate mainly due to efficiencies achieved within the waste disposal budget, the retendering of subsidised bus services as contracts came up for review and the reduced usage of concessionary travel.
- b) Corporate spending was £3.11m less than budget, the majority of which relates to £2.09m underspend on the Care and Urgent Needs Support Scheme.
- c) Lancashire County Commercial Group (LCCG) has delivered an underspend of £1.43m due to ongoing operational efficiencies within the services, the implementation of restructures within services and a small increase in external income.
- d) Work has been ongoing to ensure that the various control and suspense accounts within the council's balance sheet are fully reconciled in line with good practice. This work has enabled £3.97m to be released into the revenue account in 2013/14.
- e) The 2013/14 capital financing outturn is £1.53m under budget reflecting the continuation of the successful approach to maintaining a low risk of default within the investment portfolio together with keeping borrowing periods relatively short, taking advantage of current market conditions.

- f) There was a negative variance of £10.42m in relation to the various budgets for Strategic Partnership Services. The most significant cause of this was a shortfall in the targeted procurement saving of £6.4m.

The basis of the county council's strategic partnership arrangement has now been renegotiated and these issues are reflected within the financial strategy going forward.

This position on service spending together with the availability of one off government grant resources of £8.6m has allowed the council to end the year with the County Fund balance unchanged at £36m to set aside resources of £1m to address priority issues around welfare reform and to provide £99.2m in the Downsizing Reserve to meet the costs of reshaping the organisation to meet the financial challenges ahead. Setting the Downsizing Reserve at this level ensures that the council has sufficient resource set aside to meet the costs of the Voluntary Severance programme, currently identified "invest to save" proposals; with some capacity to finance further such proposals and/or kick start elements of the organisational reshaping process which is fundamental to the delivery of the financial strategy going forward.

Capital spending in 2013/14

The total of the county councils capital spending in 2013/14 was £139.4 million. This reflects the county council's investment in assets which gives a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included:

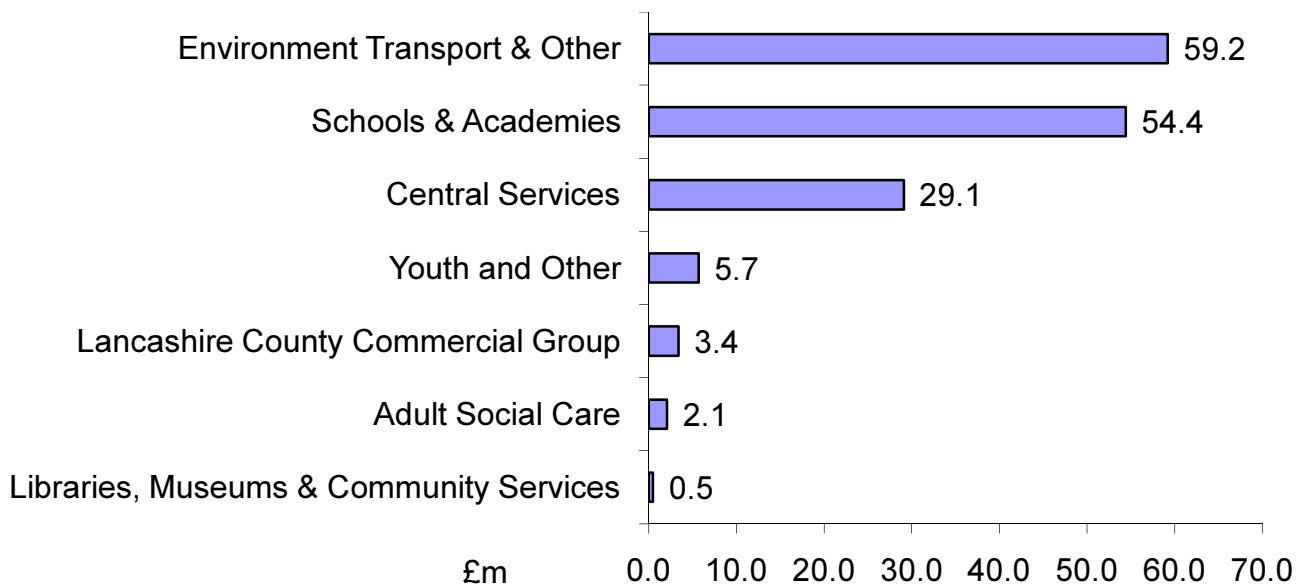
- The major refurbishment of Crossways and Whiteledge day centres were completed.
- Completion of two minor regeneration of libraries and commencement of design work on the next phase of the Libraries Regeneration Programme.
- The completion of the Fleetwood Primary Capital Programme.
- Delivery of the Secondary Schools Investment Programme at ten schools.
- The completion of major work at Lancaster, Bowerham, Lytham Hall Primary and Chorley Trinity CE/Methodist School to meet basic need requirements.
- Conclusion of the phase 1 and 2 programmes of condition projects at over 70 schools.
- Near completion of the major extension scheme at Windermere Tower Wood Outdoor Education Centre.
- Completion of Burnley Youth Zone and various Youth Satellite projects throughout the county.
- Of the new transport projects approved in 2013/14, 343 transport schemes were completed.
- Over 61,000 potholes were identified by Highway Safety Inspections during 2013/14, of which 97% were repaired within 30 days.
- The Heysham to M6 link road was approved by the Secretary of State and construction work started in January 2014, with £17.5m being spent in year.
- The construction work to restore Crook O'Lune Bridge was completed in 2013/14.
- £25.3m was spent during 2013/14 on maintenance of highways.
- Expenditure on the Growing Places Fund which promotes economic development initiatives within the county

- Continuation of work to replace ISSIS and develop the Resolution Service
- Continued implementation of the Office Accommodation Strategy principally with work carried out on the County Hall Christ Church complex
- Expenditure on economic development activities including the implementation of Superfast Broadband

The expenditure was funded from government grants, capital receipts, other income and revenue contributions.

The total loan debt built up over the years to finance capital expenditure and still outstanding at the end of 2013/14 was £814.8million, excluding debt on PFI projects. A large share of this debt is with the Public Works Loan Board (PWLB). The average rate of interest paid on all this debt in 2013/14 was 2.48% compared with an average rate for 2012/13 of 2.45%.

The graph below shows our major areas of capital spending during the year.



Full details of spending, income and budget variances are set out in the county council's end of year report 2013/14 to Cabinet on 5 June 2014. This is available on our website: <http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=3457>

Schools Spending

Collectively, the schools funded via the county council increased their accumulated individual reserves by £4.38m.

The implementation of the previously agreed claw back policy in relation to schools with excessive balances which will affect 41 schools and result in £0.24m being recycled within the schools budget.

The overall picture on individual schools balances is shown below:

	Balance at 1 April 2013	Net change in balances	Balances at 31 March 2014
	£m	£m	£m
Nursery	1.5	(0.5)	1.0
Primary	33.6	(1.5)	32.1
Secondary	11.1	4.5	15.6
Special	5.3	0.7	6.0
Short stay Primary	-	0.3	0.3
Short stay Secondary	-	0.9	0.9
Total	51.5	4.4	55.9

The most significant movement has been in the secondary sector, although in terms of scale relative to budget the movements for short stay schools are more significant, although this is the first year that these schools have had fully delegated budgets and a degree of caution in the management of spending was to be expected.

Outlook for the future

The overall financial health of the county council at the end of the 2013/14 financial year continues to be strong. However, over 2014/15 to 2017/18 the county council is facing a considerable financial challenge, including cost pressures from the continuing increase in demand for council services, in particular those services delivering social care to older people and children as well as increases in contract prices, pay and related costs.

The council is meeting the significant financial challenge it faces by setting a balanced budget for 2014/15 and developing a further three year budget for 2015/16 to 2017/18, including proposals that will deliver a reshaped organisation that will be reduced in size and operate within a significantly reduced resource level.

Taking into account proposals agreed by full council on 20 February 2014, the council still needs to identify further savings of £161m during the period 2015/16 to 2017/18. The following areas present further significant challenges to the council:

- In order to deliver further savings of £161m in 2015/16 to 2017/18 the council will need to set aside resources to fund the costs of downsizing and reshaping the organisation. This will include the payment of severance costs and ensuring that an adequate level of

reserves is maintained to ensure services to the most vulnerable members of the community are protected from unforeseen risks.

- Over the period 2014/15 to 2017/18, a significant level of resource (£45m) has been provided for the increased demand for adult social care. The developing relationship with clinical commissioning groups and the interaction between the integration and tightening of health and local authority resources presents added risks to this area of the budget. There are further net additional costs for between 20 and 30 clients with very substantial needs due to the implementation of the Winterbourne Concordat with the requirement to have full plans in place by 1 June 2014. In addition the council faces further pressures due to the increasing numbers and complexity of learning disability service users' needs. A lot of work has been undertaken to estimate the level of demand but it is still possible that demand could exceed the budget. The council needs to retain sufficient reserves to manage the level of pressure in demand over the period to 2017/18.
- Despite the low levels of inflation the council has still to make a provision over the period 2014/15 to 2017/18 for £79.2m to cover the costs of increased prices due to contractual terms, where the council has no choice but to pay the additional costs due to inflation.
- The new system of local government finance passes responsibility for the management of a number of risks concerned with resource volatility from central government to councils. The localisation of council tax support in addition to other welfare reform changes will have an impact on the council tax base. The impact of business rates appeals presents a continuing risk to income from business rates.

Strong financial management will be maintained across the county council in 2014/15 and beyond in order to ensure that the county council can maintain an effective approach to the financial challenge ahead.

Changes in Accounting Policies

International Accounting Standard IAS19 (Employee Benefits) has been revised (IAS19R) with effect from 1 April 2013; with the most significant impact being around Post-Employment Benefits (Pensions). The changes have impacted on some terminology and resulted in some minor measurement changes. The amendments have meant that a net interest cost has been calculated using one interest rate. Previously two separate interest rates were used; one for costs and one for expected returns on asset. The changes also require an increase in the number of disclosure notes to the accounts. More detail around these changes can be found in Note 1 Accounting Policies (p) and Note 41 (Defined benefits Pension Scheme).

Events after the Balance Sheet Date

The event below occurred after the balance sheet date:

- BT Lancashire Services Limited:

From 1 April 2014 the strategic partnership between BT and Lancashire County Council changed, becoming a wholly owned BT company and renamed as BT Lancashire Services Limited (BTLS).

BTLS will focus on utilising BT's technological capabilities to improve the efficiency and quality of; information and communication technology (ICT), revenue, benefits and payroll services. The formation of BTLS has led to a number of services previously delivered by OCL to come back in-house to the county council.

**Gill Kilpatrick CPFA
County Treasurer
29th September 2014**

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

Statement of responsibilities for the statement of accounts

The county council's responsibilities

We must:

- make arrangements for the proper administration of our financial affairs and ensure that one of our officers has the responsibility for the administration of those affairs. In the county council, that officer is the county treasurer;
- manage our affairs to secure economic, efficient and effective use of resources and safeguard our assets;
- approve the statement of accounts.

The county treasurer's responsibilities

The county treasurer is responsible for preparing our statement of accounts in line with the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom. This means presenting a true and fair view of our financial position on the accounting date and our income and expenditure for the year ending 31 March 2014.

In preparing this statement of accounts, the county treasurer has:

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

The county treasurer also:

- kept proper, up-to-date accounting records; and
- taken responsible steps to prevent and detect fraud and other risks.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the county council at 31 March 2014 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

County Treasurer

29th September 2014

Annual Governance Statement – Financial Year 2013/14

The council's responsibilities

Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Council will review this code during 2014/15.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Lancashire County Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

The council's governance framework

The following paragraphs highlight some of the key elements of the council's governance framework, and areas where work is being undertaken to improve this.

Leadership and management

The council has, as required by statute, a head of paid service (the Chief Executive), a monitoring officer (the County Secretary and Solicitor), and a 'section 151 officer' (the County Treasurer). Each role operates in accordance with the relevant statutory and professional guidance.

On 5 August 2013 the former Chief Executive was suspended in order to facilitate a disciplinary investigation in relation to conduct issues including the process for letting a contract. Arrangements were immediately put in place to ensure that the council was effectively managed in his absence. The former Chief Executive's contract of employment was subsequently terminated by mutual consent and arrangements were then put in place to appoint a new Chief Executive, the appointment taking effect from 20 February 2014.

The Council has, over the past twelve months, experienced exceptional challenges which have absorbed and diverted a considerable amount of senior leadership time, circumstances which have impacted upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor's Annual Report. Along with the issue referred to above, these challenges include:

Organisational/Service challenges and Budgetary Pressures

- A change of political leadership in May 2013, resulting in a minority Administration and changes of operational policy and direction.
- Significantly increased demand for both adults' and children's services continues to impose strains on resources and service delivery. New legislation around adult social care and special educational needs will exacerbate these problems.
- The need for the Council to achieve reductions in funding of £300 million by 2017/18, requiring a wholesale transformation of the Council's operating model, which can be best summed up as creating a 'new' Lancashire County Council. The development and implementation of this council wide new structure has been led by Management Team and has involved, and will continue to involve, extensive consultation with staff and trade unions.
- A key element of the 'new' council structure is a voluntary redundancy offer to secure necessary savings on staff costs, with the intention of losing up to 2,500 staff on a voluntary basis. Whilst applications from staff in key service areas such as safeguarding are generally not being approved, the unprecedented number of voluntary redundancies across the council at all officer grades has resulted in an overall reduction in capacity which does not yet reflect the "new", council structure.

Issues relating to the former Strategic Partnership

- Both Cabinet and the Audit and Governance Committee have received detailed reports concerning the failure of One Connect Limited ("OCL") to deliver services to a satisfactory standard and to achieve procurement savings. This has resulted in the successful renegotiation of the council's strategic partnership and contract with BT plc to form a new company wholly owned by BT: BT Lancashire Services Ltd, and the return to the Council of the majority of services formerly provided by OCL.
- An ongoing police enquiry into a number of issues referred by the Council including the process for letting a contract for the council's fleet services and payments made to the former Chief Executive Officer of OCL.
- The development of a new overarching procurement strategy to replace the procurement arrangements previously undertaken by OCL.

Successes

- The introduction of a new core IT system for both adult and children's social care services.
- The renegotiation of the Council's major waste treatment PFI contract, providing for the future delivery of the service by a company owned by the County Council and Blackpool Council and achieving significant cost savings.
- The successful delivery of major economic development initiatives for the County including the Preston, South Ribble and Lancashire City Deal; the Lancashire Growth Deal; and the progressing of the Lancashire Enterprise Zones.

These exceptional challenges and demands, particularly those involving the County Council's former arrangements with OCL, have had a major impact on the work of Executive Directors and Senior Managers and have diverted significant senior management time away from core tasks.

The issues that have emerged over recent months, resulting in the fundamental re-negotiation of the Council's strategic partnership with BT, suggest that the Chief Internal Auditor's opinion for 2012/13, that the Council's system of internal controls was substantial, must now be regarded as debatable in view of the adequacy of controls for which OCL were responsible, as demonstrated in the current Annual Report.

Meanwhile a number of key aspects of the report for 2013/14 which relate to high risk areas of operation can be attributed to failures in the delivery of services by OCL. These have now been addressed by the renegotiation of the Strategic Partnership arrangement with BT and the consequent return of many key services to the Council. The actions taken will result in improved performance and an improved control environment whilst at the same time delivering savings. As the Chief Internal Auditor's Annual Report notes, these issues alone, which correctly identify weaknesses in the Council's control environment that inevitably lead to the conclusion that only limited assurance can be provided in the 2013/14 report.

Other issues identified in the Annual Report for 2013/14 have already been addressed, Executive Directors having reported remedial actions to the Audit and Governance Committee. However, it is important to note that these remedial actions do not form part of the current assurance judgement as whilst action plans have been agreed with Internal Audit, the implementation of them has yet to

be audited to enable the Chief Internal Auditor to satisfy herself that her concerns have been addressed. It is intended that this work will now form part of the Chief Internal Auditor's Audit Plan for 2014/15 and that there will be regular reports to Management Team to ensure that the Council's control environment is sound and applied consistently to ensure the successful delivery of corporate objectives.

Decision-making and conduct

The council operates a leader and cabinet model of executive government with a Cabinet of eight members including the Leader and Deputy Leader of the Council. The responsibilities of the individual Cabinet Members are outlined in the council's constitution. However, Full Council has agreed that a fundamental review be undertaken of the Council's current political governance arrangements to consider whether there is a justifiable case for the adoption of a committee system or a form of "hybrid" model, which has started to be seen in some local authorities, or the retention of the Cabinet model. For that purpose Full Council agreed to establish a cross party member/officer working group which will report back to Full Council in December, identifying possible options tested against a number of design principles and in particular taking into account the impact of the implementation of the Council's new operating structure.

The scheme of delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level. The Scheme of Delegation, along with the council's Financial Regulations, are to be reviewed to ensure that they remain effective. However, Full Council has approved in principle changes to the current Scheme such that chief officers would have delegated authority to take all decisions within their area of responsibility, other than matters reserved to Cabinet/Cabinet Members/committees. This significant change in approach will be one of the issues looked at in the context of the possible introduction of a new governance model and the Council's new operating structure.

The Council operates a decision making protocol, which is regularly reviewed to ensure the legal and financial probity of decisions of the Council, the executive and committees. New software has been introduced to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

The code of conduct for members and the terms of reference of some of the council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee. Councillors and staff are reminded of the requirements on a regular basis. The council also has a protocol for councillor/officer relations.

Arrangements for scrutiny

The council has four scrutiny committees. The Scrutiny Committee, whose coverage includes the council's crime and disorder partnership and flood risk management. The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial changes in health service delivery and scrutinising the work of the NHS more generally. The Education Scrutiny Committee scrutinises any issues around education.

Since May 2013 the council has also operated an Executive Scrutiny Committee which considers in advance any key decisions to be taken by Cabinet and Cabinet Members, and all other reports (non-key decisions) to be considered by Cabinet. As part of the arrangements for this latter Committee a Budget Scrutiny Working Group has also been established to have oversight of the budget setting process.

Financial arrangements

The council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010).

The County Council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the County Council to significantly reduce the level of its annual revenue expenditure. The Council's financial planning and management arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

Communicating and reviewing the Council's vision for communities and service users

The Council's new Administration have developed a Strategic Direction document with the intention that this is an interim statement of Policy, the intention being to develop a Corporate Strategy to sit alongside its budget for the period 2014-2017.

To measure the effectiveness and delivery of the council's ambitions, the Council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the Chief Executive and Executive Directors. The council's Management Team is currently working to embed more effective performance measures across a wide range of its services.

The council engages with the communities of Lancashire in a number of ways:

- high profile communication campaigns to encourage communities to take up our services or help change behaviours;

- use of traditional and new media channels to keep residents informed of our activities;
- encouraging elected members to use social media;
- webcasting of council and committee meetings;
- member representation on neighbourhood management boards across Lancashire;
- using our residents' panel Living in Lancashire to inform priorities and measure service experience;
- talking regularly with service users and communities to understand their service needs; and
- consulting on changes we are planning to make.

Whistle-blowing and counter fraud arrangements

The council has a whistle-blowing procedure in place, which has been publicised to staff. Reports on its use and outcomes are presented to the Audit and Governance Committee. The Internal Audit Service undertakes data analysis in areas likely to be susceptible to fraud, supports the biennial National Fraud Initiative data matching exercise, and provides support to managers in investigating allegations of fraud, theft or impropriety.

Audit arrangements

The council has an Audit and Governance Committee which operates in accordance with professional guidance and receives appropriate training. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process.

The council has a well-regarded Internal Audit Service that operates in accordance with professional standards and is a key element of the corporate governance framework.

Risk management

The council seeks to manage its risks well, and Management Teams across the council identify, assess and manage risks effectively. There is good general awareness of risk and the need to demonstrate risk management.

Internal control

During 2013/14, the Chief Internal Auditor provided reports to the Management Team and their senior Management Teams on progress on strengthening the County Council's internal control framework. The Chief Internal Auditor has also regularly reported key areas of audit work to the Audit and Governance Committee which has taken an active role in reviewing the Council's internal control effectiveness.

In her Annual Report for 2012/13 the Chief Internal Auditor provided a substantial assurance overall that there was a generally sound system of internal control. In reaching this conclusion she highlighted a number of weaknesses, and the Management Team committed itself to address those

areas and ensure the Council was well governed. In her Annual Report of 2013/14 the Chief Internal Auditor has provided limited assurance overall on the Council's control framework. In reaching this conclusion she has pointed to a gradual deterioration over recent years of the level of assurance she has been able to provide. She has pointed to the previous even spread between substantial/full assurance and limited/nil assurance and that the balance has now tipped to only limited/nil assurance now being provided over the majority of control systems for 2013/14. This change of balance is primarily accounted for by reduced assurance in lower risk areas. In summary:

- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
- The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.

The Chief Internal Auditor has recognised that after a number of years in which management and staff resources have been reduced, services restructured, and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

The Chief Internal Auditor has emphasised the exceptional context and circumstances for 2013/14 in her Annual Report. Members of the senior management team, and the council's statutory officers in particular, together with the Chief Internal Auditor, were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed; the remuneration of the Chief Executive Officer of its joint venture company was discovered; the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation; and the relationship with its strategic partner was renegotiated. The Chief Internal Auditor has concluded that these matters alone indicate fundamental weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. The Chief Internal Auditor notes that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.

Each of the issues raised by the Chief Internal Auditor during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed where required and will be followed up by the Audit Service.

The Audit Service undertook work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Whilst some progress has been made to implement the action plans as agreed, the Council's major restructuring; the work associated with making significant cost savings, and the loss of management capacity, has meant that not all remedial actions have completed within the timescales intended. The Audit and Governance Committee has noted a number of these delays and received direct feedback from the relevant Executive Directors.

Key Issues

Set out below are key issues that have arisen from internal audit work. The Chief Internal Auditor has acknowledged that the council's Management Team is taking these issues very seriously.

The Audit and Governance Committee is aware of issues around information governance and that these have been fundamentally affected by the council's relationship with OCL. Significant progress has however been made during 2013/14 to strengthen the council's information governance arrangements and control framework, with the information governance function now being managed within Democratic Services. The Council has designated a Senior Information Risk Owner (the County Secretary & Solicitor) and a Head of Information Governance has recently been appointed. Action is being taken corporately to raise awareness amongst the council's staff of their responsibilities in relation to information governance (IG) and work is ongoing to ensure that the Council's Information Assets are properly protected and managed. Over the next 12 months a major review of the Council's IG policy framework will be undertaken to ensure it remains fit for purpose particularly in the light developing structural changes.

The Council continues to demonstrate ambition in developing its services, notwithstanding the fact that major reductions in government funding require the council to make significant cost savings. It is recognised that there is a strong drive for improvement and, whilst some developments are subject to delay, other key developments have taken place during the year that will improve the council's controls, including the ongoing replacement of the Integrated Social Services Information System with a system provided by Liquidlogic.

The Chief Internal Auditor has highlighted that the Council's control framework is seen to be reliant upon considerable management effort to remedy gaps as they are identified. Follow-up work on a number of areas indicates that action is not generally being taken as management intended, and that there is a need to improve a number of areas of control as highlighted below:

- A number of in built control and operational weaknesses have been highlighted with the Council's Oracle human resources/ payroll system. These have resulted in a number of issues including inaccurate recording of a number of over payments to staff. There are limitations to the reports available to managers from the Oracle human resources/payroll system which impede managers' access to useful, accurate and timely management information. Managers across the council generally lack proficiency and understanding in using the system. In view of these issues Management Team have established a Project Group to address these issues so that the system provides accurate management information and is operationally effective.
- Compliance with operational policy in a number of areas is not currently being achieved in practice. In particular, targets for the review of children's social care case files and the Independent Reviewing Officers' caseloads in CYP, and targets for the professional supervision of staff in ASHW are not currently being met. Work is however already under way to develop a new supervision policy framework for both ASHW and CYP.

Compliance with legislation, regulations, policies and procedures

In an organisation of the size and complexity of Lancashire County Council, it will be never be possible to provide absolute assurance that compliance with all applicable laws and regulations is

achieved. However, processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

Training and development

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. Officer training is overseen through a corporate performance and development review process.

Review of Effectiveness and a Programme of improvement

The council's Management Team has given serious and careful consideration to the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The Management Team continues to give a very strong commitment to ensure that basic controls are maintained and, particularly in those cases highlighted by the Annual Report of the Chief Internal Auditor, significantly improved. All outstanding actions will now form part of the Chief Internal Auditor's Audit Plan for the current year with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance will achieve at least a substantial assurance assessment in the Chief Internal Auditor's report for the year ending 31 March 2015.

The council's Leadership and Management Team acknowledge that the exceptional events of 2013/14 as highlighted above, particularly those set out above, have been a diversion that has had an impact on the Council's control environment. However, they are committed to ensuring that robust governance remains at the heart of the Council's business and will ensure that areas of concern highlighted by the Annual Report will be rectified.

Signed:

Jennifer Mein

Jo Turton

Leader of Lancashire County Council

Chief Executive of Lancashire County Council

Date 29th September 2014

Date 29th September 2014

Financial statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The surplus or deficit on provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting and dwellings rent setting purposes.

The Net Increase/Decrease before transfers to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2013/14

	County Fund £m	Earmarked Revenue Reserves £m	Trading Operations Reserve £m	Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Total Unusable Reserves £m	Total Reserves £m
Balance at 1st April 2013	(36.0)	(255.4)	(3.1)	(43.7)	(26.6)	(92.1)	(456.9)	(406.8)	(863.7)
<u>Movement in Reserves During 2013/14</u>									
(Surplus) or deficit on provision of services	19.9	-	-	-	-	-	19.9	-	19.9
Other Comprehensive Income and Expenditure	-	-	-	-	-	4.4	4.4	(263.8)	(259.4)
Total Comprehensive Income and Expenditure	-	-	-	-	-	-	24.3	(263.8)	(239.5)
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 6)	(27.5)	-	-	-	(4.7)	39.9	7.7	(7.7)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(7.6)	-	-	-	(4.7)	44.3	32.0	(271.5)	(239.5)
Transfers (to)/from Earmarked Reserves (note 7)	7.6	(37.9)	(0.2)	30.5	-	-	-	-	-
(Increase)/Decrease in Year	-	(37.9)	(0.2)	30.5	(4.7)	44.3	32.0	(271.5)	(239.5)
Balance at 31st March 2014 carried forward	(36.0)	(293.3)	(3.3)	(13.2)	(31.3)	(47.8)	(424.9)	(678.3)	(1,103.2)

The presentation of the Movement in Reserves Statement has been amended to include other movements within Other Comprehensive Income and Expenditure

2012/13 Comparative Year

	County Fund £m	Earmarked Revenue Reserves £m	Trading Operations Reserve £m	Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Total Unusable Reserves £m	Total Reserves £m
Balance at 1st April 2012	(36.5)	(248.1)	(2.9)	(13.1)	(22.9)	(121.3)	(444.8)	(592.8)	(1,037.6)
<u>Movement in Reserves During 2012/13</u>									
(Surplus) or deficit on provision of services	(33.0)	-	-	-	-	-	(33.0)	-	(33.0)
Other Comprehensive Income and Expenditure	0.2	-	-	-	-	0.3	0.5	206.4	206.9
Total Comprehensive Income and Expenditure	(32.8)	-	-	-	-	0.3	(32.5)	206.4	173.9
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 6)	(4.8)	-	-	-	(3.7)	28.9	20.4	(20.4)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(37.6)	-	-	-	(3.7)	29.2	(12.1)	186.0	173.9
Transfers (to)/from Earmarked Reserves (note 7)	38.1	(7.3)	(0.2)	(30.6)	-	-	-	-	-
(Increase)/Decrease in Year	0.5	(7.3)	(0.2)	(30.6)	(3.7)	29.2	(12.1)	186.0	173.9
Balance at 31st March 2013 carried forward	(36.0)	(255.4)	(3.1)	(43.7)	(26.6)	(92.1)	(456.9)	(406.8)	(863.7)

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in year of providing services in accordance with generally accepted practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from accounting costs.

	2013/14			2012/13		
	Gross expenditure £m	Gross income £m	Net expenditure £m	Gross expenditure £m	Gross income £m	Net expenditure £m
Cultural and Related Services	28.3	(4.3)	24.0	26.6	(4.9)	21.7
Environmental and Regulatory Services	99.9	(23.6)	76.3	110.0	(23.1)	86.9
Planning Services	18.8	(3.0)	15.8	15.8	(2.9)	12.9
Education Services	1,016.2	(946.7)	69.5	979.8	(894.1)	85.7
Children's Social Care	137.8	(9.7)	128.1	117.6	(5.6)	112.0
Highways and Transport Services	140.6	(40.7)	99.9	122.9	(30.9)	92.0
Adult Social Care	459.5	(108.5)	351.0	460.3	(155.3)	305.0
Central Services to the Public	9.1	(5.2)	3.9	6.8	(2.2)	4.6
Corporate and Democratic core	14.2	(10.6)	3.6	15.2	(8.8)	6.4
Non Distributed Costs**	87.8	(70.9)	16.9	69.4	(65.9)	3.5
Travellers' Sites	0.2	-	0.2	0.2	-	0.2
Cost of services for continued operations	2012.4	(1,223.2)	789.2	1,924.6	(1,193.7)	730.9
Public Health*	57.8	(59.8)	(2.0)	-	-	-

Cost of services for acquired operations	57.8	(59.8)	(2.0)	-	-	-
Total cost of services	2070.2	(1283.0)	787.2	1,924.6	(1,193.7)	730.9
Other Operating Income and Expenditure (note 9)	36.8	(4.7)	32.1	50.0	(3.7)	46.3
Financing and Investment Income & Expenditure (note 10)***	119.5	(28.9)	90.6	115.3	(40.3)	75.0
Taxation and Non Specific Grant Income (note 11)	-	(890.0)	(890.0)	-	(885.2)	(885.2)
(Surplus) or Deficit	2,226.5	(2,206.6)	19.9	2,089.9	(2,122.9)	(33.0)
Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services						
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services (note 33)			(14.7)			23.7
Remeasurement of the net defined liability (note 33)			(273.8)			173.3
Other Adjustments			2.8			9.3
Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services						
Surplus or deficit on revaluation of available for sale assets (note 33)			26.3			0.6
Other Comprehensive Income and Expenditure			(259.4)			206.9
Total Comprehensive Income and Expenditure			(239.5)			173.9

*Under the Health and Social Care Act 2012, responsibility for local health improvement transferred to local authorities with effect from 1 April 2013 (previously the responsibility of NHS Primary Care Trusts)

**Non Distributed comparatives have been restated as a result of improvement made to reporting systems

***Comparatives relating to pension interest have been restated to reflect the changes to the IAS19 accounting standard.

The presentation of the Comprehensive Income and Expenditure Statement has been amended to include other adjustments within Other Comprehensive Income and Expenditure.

Balance sheet

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the county council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Reserves are reported in two categories. The first category of reserves are usable reserves (i.e. those reserves that the county council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use) An example of this is the Capital Receipts Reserve, that may only be used to fund capital expenditure or repay debt.

The second category of reserves is those that the council is not able to use to provide services (unusable reserves). This category of reserves includes reserves that hold unrealised gains and losses, for example the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2014 £m	31 March 2013 £m
Property Plant and Equipment	22	2,640.0	2,612.4
Heritage Assets		28.4	28.4
Investment Property		2.7	5.3
Intangible Assets		23.2	17.5
Assets Held for Sale		0.1	0.0
Long Term Investment	23	487.9	268.2
Long Term Debtors	34	41.1	43.1
Long Term Assets		3,223.4	2,974.9
Short Term Investments	23	24.7	258.9
Inventories		3.1	2.6
Short term Debtors	28	109.9	128.9
Payments in Advance		16.0	7.1
Cash and Cash Equivalents	30	91.4	65.6
Assets Held for Sale		9.3	4.0
Current Assets		254.4	467.1
Short Term Borrowing	23	384.0	264.7
Short Term Creditors	29	211.1	260.8
Receipts in Advance		8.3	8.3
Short Term Provisions		8.1	4.7
Other Current Liabilities	23	7.5	7.6
Current Liabilities		619.0	546.1
Long Term Provisions	31	18.8	21.2
Long term Borrowing	23	436.1	480.6
Other Long Term Liabilities	23, 40	1,300.7	1,530.4
Long Term Liabilities		1,755.6	2,032.2
Net Assets		1,103.2	863.7
Usable Reserves		424.9	456.9
Unusable Reserves	33	678.3	406.8
Total Reserves		1,103.2	863.7

Cash flow statement

This statement shows the changes in cash and cash equivalents of the council during the reporting period

	Notes	31/03/2014 £m	31/03/2013 £m
Net (surplus) or deficit on the provision of services	35	19.9	(33.0)
Adjustment to surplus or deficit on the provision of services for non cash movements	35	(178.3)	(111.3)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	103.6	95.9
Net Cash flows from Operating activities	35	(54.8)	(48.4)
Net Cash flows from Investing Activities	37	93.9	(52.7)
Net Cash flows from Financing Activities	38	(64.9)	83.4
Net increase or decrease in cash and cash equivalents		(25.8)	(17.7)
Cash and cash equivalents at the beginning of the reporting period		(65.6)	(47.9)
Cash and cash equivalents at the end of the reporting period		(91.4)	(65.6)

Gill Kilpatrick CPFA
County Treasurer
29th September 2014

County Councillor Terry Brown
Chair of the Audit and Governance Committee
29th September 2014

Notes to the financial statements

General notes

1. Accounting policies

a) General

The Statement of Accounts summarises the council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

The balance sheet does not include the balances of the Lancashire County Pension Fund and several small trust funds, which are presented in separate statements. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at particular schools, colleges, homes or in specific areas.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Revenue relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for 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 and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept. Estimated debtors and creditors have only been included if they are material, which is defined as:
 - £1,000 or more for primary schools, nursery schools and pupil referral units; and

- £5,000 or more for secondary schools and all other council services.

- Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when services are received, rather than when payment is made.

c) Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in 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.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change 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.

d) 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 three 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. This category will include cash on call and three months or less term deposit and also instant access money market funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

e) Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the County Fund balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

f) Provisions

Provisions are made where an event has taken place that gives the 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. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the 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.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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.

g) Intangible Assets

Expenditure on assets that do not have physical substance but are controlled by the council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market.

In practice, no intangible asset held by the council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

h) Property, Plant and Equipment

Physical assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided the benefits accruing from the expenditure is for more than one year. This expenditure is accounted for 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.

Measurement

For assets that are purchased, they are initially recognised at cost. The cost comprises of:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be operational.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the council will initially be recognised at cost. Only costs that can be directly attributable to bringing the asset into operation will be capitalised.

The council does not capitalise borrowing costs incurred whilst assets are under construction.

Alternative ways of acquiring assets are either via an exchange or an asset being donated. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

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 line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the County 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:

- Infrastructure, community assets and assets under construction – depreciated historical cost.

Certain community assets which were acquired years ago are included at a notional amount of £1. All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets, principally furniture and equipment, that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. 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. In such circumstances the gain up to the amount of the loss will be credited to the Comprehensive Income and Expenditure Statement.

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(s) 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.

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 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(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer. Where there is a change in the value or asset life this is taken into account in calculating the depreciation charge immediately.
- Vehicles, plant, furniture and equipment – on a straight line generally over 10 years unless it is considered the life of the asset is less than 10 years.
- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 20 to 50 years depending upon the nature of the asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are 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.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the Provision of Services. 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, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) 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 (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or be set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the County Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the County Fund balance in the Movement in Reserves Statement.

i) Heritage Assets

The CIPFA Code of Practice defines Heritage assets as any asset that is held for their contribution to the knowledge or culture. The council has a number of assets which are held and maintained principally for its contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage assets. These assets have been valued at fair value in accordance with the policy on Property, Plant and Equipment. Any acquisitions have initially been valued at cost if purchased or at a valuation if donated.

The collection has indeterminate life and is subject to appropriate conservation measures therefore depreciation is not charged on Heritage assets.

The county council has a detailed acquisitions and disposal policy further information on which can be obtained from the county council. In broad terms any acquisition by the county council must relate to the county palatine of Lancaster. Consideration is also given to the ability of the county council to ensure the long term care of the acquisition and that the acquisition does not conflict with the acquisitions policy of other museums in the region.

With respect to disposals it is considered that the collection has a long term purpose and therefore there is a strong presumption against disposal. Disposals will not be made with the principal aim of generating funds.

j) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets 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.
- Amortisation of intangible assets attributable to the service.

The 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.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the County Fund balance (minimum revenue provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

k) Fixed Assets not owned by the Council

Some voluntary aided and controlled schools are owned by the school governors. However these schools are included in our fixed assets as we receive the benefit from using the properties in terms of delivery of services and also meet their costs of service provision, using the assets and the costs of maintaining them.

In total, £589m (2012/13 £489m) of fixed assets not owned by us are included in the balance sheet.

l) Revenue Expenditure Funded from Capital under Statute

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

Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the County Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

m) Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the County Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Accounts and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) 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 value of works and services received under the contract during the financial year.

o) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP).

The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

p) Government Grants and Contributions

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

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

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County 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.

q) **Employee Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits and are recognised as an expense for services in the year in which employees render service to the council. 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 made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the surplus or deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the continuing operations costs in the Comprehensive Income and Expenditure Statement, at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring, in accordance with IAS 19 Employment Benefits,

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

Pension Arrangements

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The Local Government Pensions Scheme, administered by Lancashire County Council.

- The NHS Pension Scheme administered by NHS Business Services Authority on behalf of Secretary of State for Health.

All these schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council.

The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

Lancashire County Pension Fund

The Lancashire County Pension Fund is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Fund attributable to the 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, etc, and projected earnings for current employees).
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5%; this was based on a weighted average of "spot yields" on AA rated corporate bonds.
- The assets of the Local Government Pension Fund attributable to the council are included in the balance sheet at their fair value:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;
 - Unitised securities – current bid price; and
 - Property – market value.

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

- **Current service cost:** represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is now included within the service cost -allocated in the CIES across activity areas, in line with the CIPFA SeRCOP;
- **Past service and curtailments costs:** these are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **Administrative expenses:**
these are the costs of running the fund, attributable to the employer, and does not include any investment management expenses which are allowed for under "Remeasurements". These costs are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **Net interest on the net defined benefit liability (asset):**
net interest expense for LGPS – the change during the period in the net defined benefit liability (asset) that arises from the passage of time, charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- **Remeasurements (assets):**
these are set out in IAS19 as being the return on assets net of interest on assets, so this is a reflection of the extent to which the investment returns achieved are different from the interest rate used at the start of the year. However, for multi-employer schemes such as LGPS, which do not have asset values which are formally segregated between employers, additional adjustments can arise in the year in which a new set of actuarial valuation results is brought into account for IAS19 purposes. In particular, the approach to calculating the IAS19 assets and liabilities in between full actuarial valuations is approximate in nature. At each valuation, the position is reassessed, with the assets (and liabilities) attributable to each employer being fully recalculated. Following each full actuarial valuation it can therefore be necessary to put through some adjustments to reflect this recalculation. The adjustment is not explicitly catered for under IAS19 and it has been presented as part of the re-measurement on assets and referred to as "Experience gain/loss on assets";

- **Remeasurements (liabilities)**
these are subdivided into:

Gain/loss on financial assumptions and gain/loss on demographic assumptions
under the accounting standards the assumptions will normally differ between the start and end of the employer's financial year. Changes in actuarial assumptions show the effect of this difference, calculated at the end of the financial year;

Experience gains/losses on liabilities:-

as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "Experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations.

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

Discretionary benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (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 Lancashire County Pension Fund.

r) Private Finance Initiatives (PFI)

PFI 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 council is deemed to control the services that are provided under our PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the 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. For the BSF Schemes the liability was written down by an initial capital contribution of £10.5 million and £1.6 million.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge which varies for each scheme but lies in the range of 8.0% to 11.2% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is 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.

Recognition of assets and liabilities

Properties used in the PFI schemes are now recognised as fixed assets of the council. A related liability is also recognised. The asset and liability are recognised when the asset is made available for use.

Separate assets are recognised in respect of land and buildings where appropriate. The related liability is initially measured at the value of the related asset and subsequently calculated using the same actuarial method used for finance leases.

Once on the balance sheet the PFI assets will be treated in the same way as all other non-current assets of the same type including depreciation, impairment and revaluation.

Prepayments

Where the PFI contract requires payments to be made as a lump sum contribution before the related property is recognised as an asset on the balance sheet, such payments are recognised as prepayments. At the point that the property is recognised as an asset, the related liability is also recognised. The prepayment is then applied to reduce the outstanding liability.

Minimum Revenue Provision (MRP)

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. MRP is calculated in accordance with the appropriate regulations and statutory guidance, and is equal to that element of the unitary charge which is applied to repay the outstanding liability.

Development Costs

The council's internal and external development costs associated with the procurement of PFI projects are charged to revenue as they are incurred.

Deductions from the Unitary Payment

The PFI contract provides for deductions from the unitary payment in the case of sub-standard performance or when the facilities are unavailable.

Deductions for sub-standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

- a reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then finance costs if contingent rents are insufficient; and
- a reduction in the price paid for services whilst services are not being provided accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the council's entitlement has been established and it is probable that the council will be able to make the deduction.

s) **Financial Liabilities**

Financial liabilities are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their 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 effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and 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/settlement.

However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

t) **Financial Assets**

Financial assets are classified into three types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. This includes, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.
- fair value through profit and loss – this classification is for assets which are held primarily for trading or have a recent history of being traded

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They 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 loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains or losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the assets have fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no

fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the sale or bid market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value (other than impairment losses) are balanced by an entry in the available-for-sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed and determinable payments) or fair value falls below cost (for equity instruments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited 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 Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Fair Value through Profit and Loss

Fair value through profit and loss assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially and subsequently measured and carried at fair value. Investments are accounted for under this category if they are either:

- acquired principally for the purpose of selling in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Any gains or losses that arise on the de-recognition of the assets are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Any unrealised gains and losses are also credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Unrealised gains and losses are the amounts that arise through the change in market value of financial instruments before they mature or are sold.

u) Events after the Balance Sheet Date

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

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

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

v) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but 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 (see note 40).

w) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

x) Council Tax Agency Arrangements

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The fund's key features relevant to accounting for council tax and NNDR in core financial statements are:

- In its capacity as a billing authority a council acts as an agent; it collects and distributes council tax income on behalf of the major preceptors and itself.
- While the council tax income for the year credited to the billing authority's Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the County Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their County Fund).

Lancashire County Council is a major preceptor with 12 districts.

From the year commencing 1 April 2009, for both billing authorities and major preceptors the council tax income included in the Comprehensive Income and Expenditure Statement for the year is required to be the accrued income for the year.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the County Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement on the County Fund Balance to ensure that there is no impact from this change on the taxpayer.

Since the collection of council tax is, in substance, an agency arrangement, the cash collected by the billing authorities from council taxpayers belongs proportionately to the billing authority and the major preceptors (e.g. Lancashire County Council).

There will therefore be a debtor/creditor position between the billing authorities and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

In addition, the balance sheet of both billing and precepting authorities will include:

- an attributable share of council tax debtors, net of impairment allowances for doubtful debts;
 - an attributable share of creditors for overpaid council tax;
- and

- a debtor for the billing authorities for cash collected from council tax payers but not paid across, or a creditor for cash paid in advance from council tax payers.

y) Acquired Operations

The results of businesses acquired in the year are consolidated from the effective date of acquisition. The net assets of businesses acquired are incorporated in the consolidated accounts at their fair values at the date of acquisition.

2. Critical judgements in applying accounting policies

The Statement of Accounting Policies is set out in note 1. In applying the accounting policies, the council has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The county council is deemed to control the services provided under the Private Finance Initiative (PFI) agreement for 12 schools, one library, a faith centre and waste treatment facilities and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings have been recognised as Property, Plant and Equipment on the council's balance sheet. The buildings have been valued at £467.4million as at 31 March 2014 (£474.9 as at 31 March 2013)
- The council has to decide whether land and buildings owned by the council are investment properties, whereby they are held solely for rental income or capital appreciation purposes or both. It has been determined that the county council does hold investment properties which have been valued at £2.8 million as at 31 March 2014.
- These judgements are made on the professional opinion of the council's accountants, valuers and procurement managers based on contract procedure rules and the strict criteria set out in International Accounting Standard 17 (IAS 17) relating to leases. In addition the International Financial Reporting Interpretations Committees 4 and 12 (IFRIC 4 and IFRIC 12) contain specific criteria relating to whether contractual arrangements have the substance of a lease. The relevant accounting policy has been applied based on the outcome of the assessment.
- The council has to determine whether there is a group relationship between the council and other entities. The accountants have assessed each relationship that exists between the council and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The county council's relationships with other entities can be found in note 39. We have

reviewed the position for the 2013/14 accounts and again, this year's statement of accounts does not include a set of group accounts due to the following factors:

- The relative lack of materiality of the financial size of the group members compared with that of the council.
- The low level of financial risk to the county council from its involvement with the group members: for example many group members are companies limited by guarantee, the county council's guarantee sum being £1.
- The very low level of involvement of the group members in delivering the council's statutory or significant core services.
- The Valuation and Estates department are required to exercise judgement in determining the carrying value of land and, buildings on the council's Balance Sheet. The valuations are undertaken by in-house qualified staff that follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2013. After consideration no requirement had arisen in 2013/14
- The fixed assets figure includes properties valued at some £589million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. The decision to include these assets within the county council's Balance Sheet is a critical judgment which enables the county council's Balance Sheet to fairly reflect the value of the assets used in providing the service.

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

The amendments to accounting standards that have been issued on or before 1 January 2013 but not yet adopted by the Code have been considered and won't have a material impact on the accounts.

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

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

The items in the council's balance sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Arrears

- **Uncertainties**

The average balance of sundry debtors during the year was £44.3million. A review of significant balances suggested an appropriate impairment of doubtful debt as at 31st March 2014 was £11.2m.

The balance of council tax arrears as at 31st March 2014 was £33.4m. An appropriate impairment as at 31st March 2014 was £18.7m.

The balance of non domestic business rate arrears as at 31st March 2014 was £1.6m. An appropriate impairment as at 31st March was £0.9m.

However in the current economic climate it is not certain that such an allowance would be sufficient.

- **Effect if results differ from assumptions**

If collection rates were to deteriorate, a doubling of the amount of impairment of doubtful debts would require an additional £30.8million to be set aside as an allowance.

Pensions Liability

- **Uncertainties:**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the council with expert advice about the assumptions to be applied.

(see note 41)

- **Effect if actual results differ from assumptions:**

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £254 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £130m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £56m.

Property, Plant and Equipment (PPE)

- **Uncertainties:**

The value of the PPE is dependent upon professional judgement based on information available at the time of valuation. Due to changes in Economic conditions, a valuation taken on a different date could potentially result in a different valuation

(see note 22)

- Effect if actual results differ from assumptions:
Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE. However the overall valuation is considered to ensure that PPE is not materially misstated at 31 March 2014

5. Statutory charge for the repayment of debt

Our accounts must include a charge for the repayment of debt. This charge must be at least 4% of our adjusted capital financing requirements at the start of the year. For 2013/14 this charge is £27.6m (£28.9m in 2012/13).

£27.5m of this is shown within the Comprehensive Income and Expenditure Statement. Blackpool Council pay a contribution towards the capital financing charges related to the Waste PFI site, which in 2013/14 was £0.1m (also £0.1m in 2012/13). This is deducted from the Minimum Revenue Provision figure in the Comprehensive Income and Expenditure Statement.

As shown in note 6 below, capital charges in the Comprehensive Income and Expenditure Statement (depreciation, impairment, amortisation and revenue expenditure funded from capital under statute) are reversed or cancelled out and replaced by this statutory charge.

In addition the PFI liability has been written down by £7.6m in 2013/14 (2012/13 £7.9m).

Notes to the Movement in Reserves Statement

6. Adjustments between Accounting Basis & Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

2013/14 Adjustments

	Usable Reserves £m			Unusable Reserves £m
	County Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Unusable Reserves
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
-Charges for depreciation of non current assets	(47.2)	-	-	47.2
-Revaluation losses on Property Plant and Equipment (charged to surplus or deficit on the provision of services)	(37.6)	-	-	37.6
-Revaluation losses on Assets held for sale	(0.8)			0.8
- Amortisation of intangible assets	(2.8)	-	-	2.8
-Movements in the fair value of Investment Properties	(1.5)	-	-	1.5
-Revenue expenditure funded from capital under statute	(8.7)	-	-	8.7
-Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(36.0)	-	-	36.0
-Revenue Contribution to Finance Capital Expenditure	16.4	-	-	(16.4)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				

-Statutory provision for the financing of capital investment (MRP)	27.6	-	-	(27.6)
-Statutory provision for the financing of capital investment (MRP PFI)	7.6	-	-	(7.6)
Adjustments involving the Capital Grants Unapplied Account				
-Capital grants and contributions unapplied credited to CIES	19.6	-	(19.6)	-
-Application of grants to capital financing transferred to the Capital Adjustment Account	78.6	-	59.5	(138.1)
Adjustments involving the Capital Receipts Reserve:				
-Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	4.7	(4.7)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
-Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	2.5	-	-	(2.5)
Adjustments involving the Pensions Reserve:				
-Employer's pensions contributions and direct payments to pensioners payable in the year	83.1	-	-	(83.1)
-Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(134.9)	-	-	134.9
Adjustments involving the Collection Fund Adjustment Account:				
-Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	2.5	-	-	(2.5)
Adjustment involving the Accumulated Absences Account				
-Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.6)	-	-	0.6
Total adjustments	(27.5)	(4.7)	39.9	(7.7)

2012/13 Comparative Year Adjustments

	Usable Reserves £m			Unusable Reserves £m
	County Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Unusable Reserves
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
-Charges for depreciation of non current assets	(53.2)	-	-	53.2
-Revaluation losses on Property Plant and Equipment (charged to surplus or deficit on the provision of services)	(13.3)	-	-	13.3
- Amortisation of intangible assets	(1.8)			1.8
-Movements in the fair value of Investment Properties	(0.2)	-	-	0.2
-Revenue expenditure funded from capital under statute	(16.9)	-	-	16.9
-Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(49.2)	-	-	49.2
-Revenue Contribution to Finance Capital Expenditure	28.1	-	-	(28.1)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
-Statutory provision for the financing of capital investment (MRP)	28.9	-	-	(28.9)
-Statutory provision for the financing of capital investment (MRP PFI)	7.9	-	-	(7.9)
Adjustments involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to CIES	52.1	-	(52.1)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	30.3	-	81.0	(111.3)

Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	3.7	(3.7)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements**	(6.0)	-	-	6.0
Adjustments involving the Pensions Reserve:				
Employer's pensions contributions and direct payments to pensioners payable in the year	76.9	-	-	(76.9)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(91.2)	-	-	91.2
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(1.2)	-	-	1.2
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.3	-	-	(0.3)
Total adjustments	(4.8)	(3.7)	28.9	(20.4)

7. Transfers to and from Earmarked Reserves

Detailed below are the amounts set aside from the county fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet county fund expenditure in 2013/14.

	Opening Balance	Net contributions to and from reserves (use of reserves)	Transfers between reserves	Closing balance
<u>Reserves held to meet spending pressures</u>				
County Fund	(36.0)	2.8	(2.8)	(36.0)
Business Rates Volatility Reserve	(5.0)	-	-	(5.0)
	(41.0)	2.8	(2.8)	(41.0)
<u>Reserves held to deliver corporate priorities</u>				
Strategic Investment Reserve	(41.7)	5.0	9.9	(26.8)
Modern Apprentices	(0.2)	-	-	(0.2)
Local Welfare Reserve	-	(1.1)	(0.7)	(1.8)
	(41.9)	3.9	9.2	(28.8)
<u>Reserves held to deliver organisational change</u>				
Downsizing Reserve	(37.7)	(14.9)	(46.6)	(99.2)
Service Transformation Reserve	(9.2)	0.8	8.4	0.0
Voluntary Severance Reserve	(8.0)	6.8	1.2	0.0
LAA PRG Monies – Lancashire	(5.3)	-	1.4	(3.9)
	(60.2)	(7.3)	(35.6)	(103.1)
<u>Reserves held to pay for expenditure commitments</u>				
Equal Pay Review Reserve	(4.5)	2.9	1.2	(0.4)
CC Election Reserve	(1.4)	0.9	-	(0.5)
CLEO Revenue Reserve	(1.3)	1.3	-	(0.0)
Funding of Capital Projects	(43.7)	8.8	21.7	(13.2)
	(50.9)	13.9	22.9	(14.1)
<u>School reserves</u>				
Individual School Reserves	(51.5)	(4.5)	0.1	(55.9)
Other School Reserves	(29.0)	(7.4)	5.2	(31.2)
Centrally Managed Schools Maintenance Reserve	(3.5)	(0.7)	0.0	(4.2)
	(84.0)	(12.6)	5.3	(91.3)
<u>Reserves held to meet service priorities (directorates reserves)</u>				
Corporate Reserves	(0.1)	(0.5)	-	(0.6)
Directorate Reserves	(58.6)	(8.2)	1.0	(65.8)
Building Repairs & Maintenance Reserve	(1.5)	0.4	-	(1.1)
	(60.2)	(8.3)	1.0	(67.5)
Total Revenue Reserves	(338.2)	(7.6)	-	(345.8)

2012/13

	Opening Balance	Net contributions to and from reserves (use of reserves) Restated*	Transfers between reserves	Closing balance
<u>Reserves held to meet spending pressures</u>				
County Fund	(36.5)	(8.5)	9.0	(36.0)
Business Rates Volatility Reserve	(5.0)	-	-	(5.0)
	(41.5)	(8.5)	9.0	(41.0)
<u>Reserves held to deliver corporate priorities</u>				
Strategic Investment Reserve	(59.0)	(9.4)	26.7	(41.7)
Modern Apprentices	(0.2)	-	-	(0.2)
	(59.2)	(9.4)	26.7	(41.9)
<u>Reserves held to deliver organisational change</u>				
Downsizing Reserve	-	(3.8)	(33.9)	(37.7)
Service Transformation Reserve	(26.8)	(7.0)	24.6	(9.2)
Voluntary Severance Reserve	(11.3)	3.3	-	(8.0)
LAA PRG Monies – Lancashire	(5.4)	0.1	-	(5.3)
	(43.5)	(7.4)	(9.3)	(60.2)
<u>Reserves held to pay for expenditure commitments</u>				
Equal Pay Review Reserve	(4.6)	(1.7)	1.8	(4.5)
CC Election Reserve	(1.1)	(0.2)	(0.1)	(1.4)
CLEO Revenue Reserve	(2.2)	0.9	-	(1.3)
Funding of Capital Projects	(13.1)	5.8	(36.4)	(43.7)
	(21.0)	4.8	(34.7)	(50.9)
<u>School reserves</u>				
Individual School Reserves	(54.0)	1.0	1.5	(51.5)
Other School Reserves	(27.1)	(4.7)	2.8	(29.0)
Centrally Managed Schools Maintenance Reserve	(2.7)	(0.8)	-	(3.5)
	(83.8)	(4.5)	4.3	(84.0)
<u>Reserves held to meet service priorities (directorates reserves)</u>				
Corporate Reserves	(0.2)	0.1	-	(0.1)
Directorate Reserves	(49.2)	(13.4)	4.0	(58.6)
Building Repairs & Maintenance Reserve	(2.2)	0.7	-	(1.5)
	(51.6)	(12.6)	4.0	(60.2)
Total Revenue Reserves	(300.6)	(37.6)*	-	(338.2)

*Restated to £37.6m from £38.1m due to change in presentation to include county fund. These reserves have also been presented different to that in the 2012/13 Statement of Accounts.

8. Revenue reserves

The county council's revenue reserves are described below:

Reserves held to meet spending pressures:

- **County Fund**

This is the main revenue fund used to provide county council services. Income to the fund consists of the county precept on the collection funds, government grants and other income. Details of the movements in county fund during the year are shown in the Movement in Reserve Statement.

- **Business Rates Volatility Reserve**

This reserve is set aside to mitigate any adverse impact upon the council's funding due to volatility in the Business rates Retention Scheme.

Reserves held to deliver corporate priorities:

- **Strategic Investment Reserve**

The council agreed a programme of investment in areas including the provision of residential and respite care, economic development, Libraries regeneration, further development of Youth Zones, increasing employment opportunities and the development of apprenticeship programmes. The Strategic Investment Reserve will deliver the funding for this investment.

Reserves held to deliver organisational change:

- **Downsizing Reserve**

This reserve is set aside to support the county council as it continues to deliver its agreed savings in 2014/15, and develops its strategy to reduce costs over the following four years.

Reserves held to pay for expenditure commitments:

- **Funding of capital projects**

This reserve comprise of revenue monies earmarked to support committed capital projects in the county council capital programme.

Schools Reserves:

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

During 2013/14 no schools converted to academies, 292 Schools had an in year deficit and 312 schools operated an in year surplus. At the 31st March 2014, 25 schools had deficit balances.

Reserves held to meet service priorities (Directorate Reserves):

These earmarked reserves consist of amounts carried forward for specifically agreed projects within directorates. This includes trading operations reserve which funds one off revenue costs associated with trading activities

9. Other Operating Expenditure

	2013/14 £m	2012/13 £m
Levies for flood defences and inshore fisheries and conservation authorities	0.8	0.8
(Gains)/losses on the disposal of non current assets	31.3	45.5
Total	32.1	46.3

10. Financing and Investment Income and Expenditure

	2013/14 £m	Restated 2012/13 £m
Interest payable and similar charges	17.1	16.0
Interest payable on PFI unitary payments	46.6	47.8
Reclassification	-	8.2
Net interest on the net defined benefit liability*	44.8	31.5
Interest receivable and similar income	(19.5)	(28.2)
Changes in fair value of investment properties	1.5	0.2
Gain/loss on trading accounts (not applicable to services)	0.1	(0.5)
Total	90.6	75.0

*Comparatives relating to pension interest have been restated to reflect the changes to the IAS19 accounting standard

11. Taxation and Non Specific Grants Income

There have been significant changes to the local government finance system during 2013/14. These include the localisation of council tax and changes to the business rate system.

	2013/14 £m	2012/13 £m
Council Tax Income	364.4	424.7
Non Domestic Rates	165.5	310.9
Revenue Support Grant	256.9	7.0
Early Intervention Grant	-	49.6
Council Tax Freeze Grant	5.1	10.6
Recognised Capital Grants and Contributions	98.1	82.4
Total	890.0	885.2

12. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by Service Reporting Code of Practice. However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements.

The income and expenditure of the council's principal directorates recorded in the budget reports for the year is detailed in the table on the following page:

<u>2013/14</u>	***Adult, Social, Health & Wellbeing	Children & Young People	Environment	Other Directorates	Total
	£m	£m	£m	£m	£m
Fees, charges & other service income	83.8	62.1	56.9	90.5	293.3
Government grants	107.2	896.6	14.7	45.4	1,063.9
Total Income	191.0	958.7	71.6	135.9	1,357.2
Employee expenses	98.8	694.7	52.6	79.0	925.1
Other service expenses	426.6	354.9	213.1	151.6	1,146.2
Support service recharges	4.5	49.0	(42.8)	(22.1)	(11.4)
Total Expenditure	529.9	1,098.6	222.9	208.5	2,059.9
Net Expenditure	338.9	139.9	151.3	72.6	702.7

*** Heading has been changed to include public health in 2013-14

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£m
Cost of Services in Service Analysis	702.7
Add services not included in main analysis	(8.8)
Add amounts not reported to management	100.1
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(6.8)
Net Cost of Services in Comprehensive Income and Expenditure Statement	787.2

<u>2013/14</u>	Directorate Analysis	Services & Support Services not in analysis	Amounts not reported to management for decision making	Amounts not included in the I&E	Cost of Services	Corporate Amounts	Total
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	293.3	-	-	-	293.3	14.1	307.4
Interest and investment income	-	-	-	-	-	19.5	19.5
Income from council tax	-	-	-	-	-	364.4	364.4
Government grants and contributions	1,063.9	17.3	-	(91.5)	989.7	525.6	1,515.3
Total Income	1,357.2	17.3	-	(91.5)	1,283.0	923.6	2,206.6
Employee expenses	925.1	-	7.0	-	932.1	-	932.1
Other service expenses	1,146.2	8.5	-	(98.3)	1,056.4	11.0	1,067.4
Support service recharges	(11.4)	-	-	-	(11.4)	-	(11.4)
Depreciation, amortisation, impairment and REFCUS	-	-	93.1	-	93.1	-	93.1
Interest payments	-	-	-	-	-	63.8	63.8
Precepts, levies and net pension interest costs	-	-	-	-	-	45.5	45.5
Gains or losses on disposal of fixed assets	-	-	-	-	-	36.0	36.0
Total Expenditure	2,059.9	8.5	100.1	(98.3)	2,070.2	156.3	2,226.5
Surplus or Deficit on the provision of services	702.7	(8.8)	100.1	(6.8)	787.2	(767.3)	19.9

<u>2012/13</u>	Adult Services, Health & Wellbeing	Children & Young People	Environment	Other Directorates	Total
	£m	£m	£m	£m	£m
Fees, charges & other service income*	91.1	51.5	47.2	80.5	270.3
Government grants	85.0	849.6	12.3	29.5	976.4
Total Income	176.1	901.1	59.5	110.0	1,246.7
Employee expenses	101.1	684.9	34.9	65.4	886.3
Other service expenses*	393.3	337.0	176.5	132.9	1,039.7
Support service recharges	5.4	44.6	(4.8)	(12.9)	32.3
Total Expenditure	499.8	1,066.5	206.6	185.4	1,958.3
Net Expenditure	323.7	165.4	147.1	75.4	711.6

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£m
Cost of Services in Service Analysis	711.6
Add services not included in main analysis	(12.0)
Add amounts not reported to management	63.9
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(32.6)
Net Cost of Services in Comprehensive Income and Expenditure Statement	730.9

<u>2012/13</u>	Directorate Analysis	Services & Support	Amounts not reported to management for decision making	Amounts not included in the I&E	Cost of Services	Corporate Amounts	Total
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income*	270.3	0.6	-	-	270.9	15.8	286.7
Interest and investment income**	-	-	-	-	-	28.2	28.2
Income from council tax	-	-	-	-	-	424.7	424.7
Government grants and contributions	976.4	33.8	-	(87.4)	922.8	460.5	1,383.3
Total Income	1,246.7	34.4	-	(87.4)	1,193.7	929.2	2,122.9
Employee expenses	886.3	-	-	-	886.3	-	886.3
Other service expenses*	1,039.7	22.4	-	(120.0)	942.1	11.9	954.0
Support service recharges	32.3	-	-	-	32.3	-	32.3
Depreciation, amortisation, impairment and REFCUS	-	-	63.9	-	63.9	-	63.9
Interest payments	-	-	-	-	-	63.8	63.8
Precepts, levies and net pension interest costs**	-	-	-	-	-	40.4	40.4
Gains or losses on disposal of fixed assets	-	-	-	-	-	49.2	49.2
Total Expenditure	1,958.3	22.4	63.9	(120.0)	1,924.6	165.3	2,089.9
Surplus or Deficit on the provision of services	711.6	(12.0)	63.9	(32.6)	730.9	(763.9)	(33.0)

*Non Distributed comparatives have been restated as a result of improvement made to reporting systems

**Comparatives relating to pension interest have been restated to reflect the changes to the IAS19 accounting standard.

13. Grant Income

The authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement.

	2013/14 £m	2012/13 £m
Credited to Taxation and Non Specific Grant Income		
Capital Grants		
Department of Education	24.4	43.1
Department of Transport	55.6	28.9
Other Grants	18.1	10.4
Total Recognised Capital Grants and Contributions	98.1	82.4
Credited to Services - All Services		
Department of Education *	832.9	789.7
Department of Health **	59.2	56.0
Other - Central Government Departments	53.6	43.0
Other Grants	0.5	8.8
Contributions	-	1.1
Total (Grants and Contributions) credited to services	946.2	898.6

* Figure includes Dedicated Schools Grant of £754.1m (£744.7 in 2012/13)

** Figure includes ring fenced Public Health Grant of £58.0m (£0m in 2012/13)

14. Dedicated Schools Grant

Our spending on schools is funded by the Dedicated Schools Grant (DSG): a grant provided by the Department for Children Schools and Families. DSG can only be used for spending which has been properly included in the schools budget.

This includes:

- parts of a restricted range of services which we provide across the county (central services);
- the individual schools budget, which is divided into a budget share for each school

The following table shows how DSG was used for 2013/14:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2013/14 before academy recoupment			(831.7)
Academy figure recouped for 2013/14			77.6
Total DSG after Academy recoupment for 2013/14			(754.1)
Brought forward from 2012/13			(18.5)
Agreed initial budgeted distribution in 2013/14	(61.4)	(711.2)	(772.6)
Final budgeted distribution for 2013/14	(61.4)	(711.2)	(772.6)
Less actual central expenditure	38.5	-	38.5
Less actual ISB deployed to schools	-	711.2	711.2
Carry forward to 2014/15	(22.9)	-	(22.9)

Comparative data for 2012/13 can be seen below:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2012/13 before academy recoupment			(807.8)
Academy figure recouped for 2012/13			63.0
Total DSG after Academy recoupment for 2012/13			(744.8)
Brought forward from 2011/12			(16.5)
Agreed initial budgeted distribution in 2012/13	(71.5)	(689.8)	(761.3)
Final budgeted distribution for 2012/13	(71.5)	(689.8)	(761.3)
Less actual central expenditure	53.0	-	53.0
Less actual ISB deployed to schools	-	689.8	689.8
Carry forward to 2013/14	(18.5)	-	(18.5)

NB: The Individual Schools Budget, and spending by schools, is funded by sources other than Dedicated Schools Grant, as set out below:

	2013/14	2012/13
	£m	£m
Dedicated Schools Grant	(711.2)	(689.8)
Education Funding Agency	(16.0)	(17.9)
Pupil Premium Grant	(33.9)	(21.7)
Allocations from Central Items (Contingency, Schools in Difficulty etc)	(2.0)	(3.3)
	<hr/>	<hr/>
	(763.1)	(732.7)
Less Individual Schools Budget total expenditure	758.7	734.9
Contributions to Individual School Balances	<hr/>	<hr/>
	(4.4)	2.2

15. Pooled budgets

Councils and Clinical Commissioning Groups (CCG's) are allowed to pool funds for a particular service or initiative. We contribute to several pooled funds as described below:

Three Pooled Funds exist: 1. East Lancs CCG with LCC. 2. Chorley South Ribble CCG, Preston CCG, and West Lancs CCG grouped together with LCC. 3. North Lancs CCG, Fylde & Wyre CCG, Blackpool CCG and Gtr Preston CCG grouped together with LCC. All exist for the integrated commissioning of services for adults with learning disabilities.

	2013/14	2012/13
	£m	£m
Funding provided to the Pooled Budget		
The council	105.3	105.6
The CCG's	9.3	9.2
Other	8.7	8.9
	123.3	123.7
Expenditure met from the Pooled Budget		
The council	122.5	122.5
The CCG's	9.8	9.8
	132.3	132.3
Net Surplus/(Deficit) arising on the Pooled Budget during the year:	(9.0)	(8.6)
Council Share of the Net Surplus/(Deficit):	(8.5)	(8.1)

16. External Audit costs

The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £0.15m (£0.15million in 2012/13). This figure includes a total of £1,190 in respect of grant certification (£3,700 in 2012/13).

A total payment of £20,528 was made for accounting services carried out between January and March 2014 for the Lancashire waste PFI project.

17. Members' Allowances

The total amount of members' allowances paid in 2013/14 was £1.3m (£1.2m in 2012/13). Details of the allowances paid can be found via the council's website: www.lancashire.gov.uk

18. Senior Officers' Remuneration**Disclosure of senior officers' remuneration 2013/14: Salaries over £150k**

Post, Title and Name	Salary (including fees and allowances)	Other Benefits ¹	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£
Chief Executive - J Turton ²	169,242	5,300	174,542	32,326	206,868
Chief Executive - P Halsall ³	162,213	3,091	165,304	21,688	186,992

¹ Other Benefits relate to either lease car payments, or a cash equivalent.

² Jo Turton held the post of Executive Director for the Environment until 5th August 2013 and then acted up to the post of Interim Chief Executive from 6th August 2013. She was subsequently appointed Chief Executive on 20th February 2014 on an annual salary of £170,000.

³ Phil Halsall held the post of Chief Executive until 31st October 2013 on an annual salary of £194,655.

Disclosure of senior officers' remuneration 2012/13: Salaries over £150k

Post, title and name	Salary (including fees and allowances)	Bonus	Other Benefits ¹	Total remuneration excluding pension contributions 2012/13	Pension contributions	Total remuneration including pension contributions 2012/13
	£	£	£	£	£	£
Chief Executive – P Halsall	194,655	-	5,300	199,955	36,400	236,355
Director of Change Management and Transformation – D McElhinney	159,675	116,213	10,643	286,531	-	286,531

¹ Other Benefits relate either to lease car payments, or a cash equivalent.

The Director of Change Management and Transformation was seconded from the county council to One Connect Limited, where until 31st August 2013, he held the post of Chief Executive Officer of One Connect Limited. This post was undertaken on a part-time basis.

On 28th April 2011, Lancashire County Council and Liverpool City Council agreed joint working arrangements for the appointment of David McElhinney to the CEO posts of both Liverpool Direct Limited (LDL) and One Connect Limited (OCL).

This agreement set out that the CEO would be an employee of both councils, seconded to LDL and OCL respectively and hold two contracts of employment, with the anticipation that the post of CEO would be split 50:50 over the course of the year between OCL and LDL.

Disclosure of senior officers' remuneration 2013/14: Remuneration £50k to £150k

Post	Notes	Salary (including fees and allowances) £	Other Benefits ¹ £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
County Secretary & Solicitor		129,201	3,965	133,166	24,677	157,843
Interim Executive Director for Children & Young People		119,403	112	119,515	22,806	142,321
County Treasurer		112,500	5,300	117,800	21,488	139,288
Executive Director for Adult Services, Health & Wellbeing	2	109,556	1,787	111,343	20,925	132,268
Interim Executive Director for the Environment	3	105,111	6,389	111,500	20,806	132,307
Assistant Chief Executive Director of Economic Development		93,180	7,715	100,895	17,797	118,692
Director for Public Health	4	89,299	-	89,299	12,502	101,800
Head of Communications		71,612	-	71,612	13,678	85,290
Interim Executive Director for Adult Services, Health & Wellbeing	5	96,901	4,070	100,971	12,339	113,310
Total		1,019,943	35,087	1,055,030	184,816	1,239,846

¹ Other Benefits relate to either lease car payments or a cash equivalent.

² The Executive Director for Adult Services, Health & Wellbeing was appointed on 12th August 2013.

³ The Interim Executive Director for the Environment was appointed on 20th August 2013.

⁴ The Director for Public Health was appointed on 1st November 2013.

⁵ The Interim Executive Director for Adult Services, Health & Wellbeing remained in post until 30th September 2013 when the postholder left the authority.

Disclosure of Senior Officers' Remuneration 2012/13: Remuneration £50k to £150k (Restated*)

Post	Notes	Salary (including fees and allowances) £	Other Benefits ¹ £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
Executive Director for Children & Young People	2	129,201	8,120	137,321	24,161	161,482
Executive Director of Adult Services, Health and Wellbeing	2	129,201	1,974	131,175	24,161	155,336
County Secretary & Solicitor		129,201	1,375	130,576	24,161	154,737
Executive Director for the Environment		129,201	5,300	134,501	24,161	158,662
County Treasurer		110,000	5,300	115,300	20,570	135,870
Assistant Chief Executive Director of Economic Development		93,180	4,594	97,774	17,425	115,198
Head of Communications		65,952	-	65,952	12,333	78,285
Total		879,116	29,467	908,583	164,396	1,072,979

*Restated in accordance with guidance to include all payments and all employees; including those seconded to other organisations.

¹ Other Benefits relate either to lease car payments, or a cash equivalent

² On 22 of March 2013; The Executive Director of Adult Services, Health and Wellbeing left employment at Lancashire County Council; The Executive Director for Children and Young People took up the post of Executive Director for Adult Services, Health and Wellbeing; and a new Interim Executive Director for Children and Young People was appointed. The salary for the new Interim Director is not included in this table, but is included within the main banding table for 2012/13.

Number of Employees – 2013/14

Remuneration Band (£) ¹	LCC Non-Teaching Staff ²	Seconded Staff ³	Teaching Staff	County Council Network Staff ⁴	Redundancies ⁵
50,000 - 54,999	89	16	311	-	13
55,000 - 59,999	44	6	196	-	13
60,000 - 64,999	52	6	115	-	11
65,000 - 69,999	50	1	38	1	19
70,000 - 74,999	13	-	27	-	11
75,000 - 79,999	7	-	16	-	4
80,000 - 84,999	8	1	9	-	6
85,000 - 89,999	6	-	11	-	3
90,000 - 94,999	4	1	7	-	4
95,000 - 99,999	9	-	2	-	1
100,000 - 104,999	2	-	1	1	1
105,000 - 109,999	-	-	1	-	0
110,000 - 114,999	1	-	-	-	0
115,000 - 119,999	2	-	-	-	1
120,000 - 124,999	1	-	-	-	1
135,000 - 139,999	1	-	-	-	1
190,000 – 194,999	-	1	-	-	1
TOTAL	289	32	734	2	90

This table does not include any of the Senior Management Team highlighted in the tables above.

¹ Remuneration bands have been removed in cases where the entry for every column was zero.

² Includes 17 staff who transferred from the NHS as a result of the council's new public health duties.

³ Includes those who worked for One Connect Limited (OCL) and Lancashire County Developments Limited (LCDL). Of these, 10 OCL staff transferred back to the County Council on 1st April 2014.

⁴ County Council Network Staff are those working for and paid for, by the county council's network who are "hosted" for pay and rations by Lancashire County Council.

⁵ This additional information has been included to show the number of staff whose remuneration included redundancy payments. The redundancy payments have led to some individuals moving up in the remuneration banding and has also meant additional individuals are included in this note.

Number of Employees - 2012/13 *Restated

Remuneration Band (£)¹	LCC Non-Teaching Staff	Seconded Staff	Teaching Staff	County Council Network Staff
50,000 - 54,999	69	16	311	-
55,000 - 59,999	33	8	211	-
60,000 - 64,999	31	5	101	-
65,000 - 69,999	20	1	38	-
70,000 - 74,999	2	-	32	1
75,000 - 79,999	1	-	15	-
80,000 - 84,999	5	-	5	-
85,000 - 89,999	4	1	10	-
90,000 - 94,999	5	-	9	-
95,000 - 99,999	5	-	3	-
100,000 - 104,999	1	-	1	1
105,000 - 109,999	-	2	3	-
110,000 - 114,999	-	-	-	-
120,000 - 124,999	1	-	-	-
175,000 - 179,999	1	-	-	-
TOTAL	178	33	739	2

* Restated in accordance with guidance to include all payments and all employees; including those seconded to other organisations.

¹ Remuneration bands have been removed in cases where the entry for every column was zero.

This table does not include any of the Senior Management Team highlighted in the tables above.

Seconded Staff includes staff who worked for One Connect Limited (OCL) and Lancashire County Developments Ltd (LCDL).

County Council Network staff are staff working for and paid for by the county council's network who are "hosted" for pay and rations by Lancashire County Council

Exit Packages

When an employee leaves Lancashire County Council through the ongoing voluntary severance scheme, two types of costs are incurred:

- A redundancy payment received by the employee calculated in line with the relevant policies agreed by the council;
- Where the employee is able to immediately receive any benefits they have built up in the Pension Fund, a payment calculated by the independent actuary is made to compensate the fund for both the employer and employee contributions that will be received due to the early payment of benefits. This payment is **not** made to the individual.

The table below shows the cost to the council of exit packages, not the amount received by an employee (which forms only part of the cost)

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
		Restated		Restated*		Restated*	£000	£000
£0 –								
£20,000	11	5	243	172	254	176	1,930	1,140
£20,001 - £40,000	-	1	97	37	97	38	2,753	1,048
£40,001 - £60,000	-	-	43	14	43	14	2,060	660
£60,001 - £80,000	-	-	9	3	9	3	644	216
£80,001 - £100,000	-	-	14	-	14	-	1,230	-
£100,001 - £150,000	-	-	4	3	4	3	448	363
£150,001 - £200,000	-	-	-	1	-	1	-	158
Total	11	6	410	230	421	236	9,065	3,585

*Restated in accordance with guidance to include all payments and all employees; including those seconded to other organisations.

19. Private Finance Initiative (PFI) Schemes

Fleetwood Sports College

In 2001 we signed a PFI contract with Fleetwood PPP Limited to build and service a new single-site school. Payments made under the contract are performance-related, so deductions are made if parts of the building are not available or if service performance (including caretaking and maintenance) falls below an agreed standard. The estimated capital value of the scheme is £13.4 million.

The arrangement runs from September 2002 (when the college opened) to August 2027.

The council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed. An estimate of 2.5% is made for future inflation within the model

Payments remaining to be made under the PFI contract at 31 March 2014(excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£m	£m	£m	£m
Payable in 2014/15	0.3	0.4	1.1	1.8
Payable within two to five years	1.4	1.6	4.1	7.1
Payable within six to ten years	1.7	3.3	3.9	8.9
Payable within eleven to fifteen years	1.4	3.2	1.5	6.1
Total	4.8	8.5	10.6	23.9

To help finance the scheme we received the following income:

	2013/14	2012/13
	£m	£m
PFI grant from the government	1.3	1.3
Contributions from the school	0.4	0.4
Total	1.7	1.7

Building Schools for the Future

We are taking part in the government's Building Schools for the Future Scheme, which aims to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, we have rebuilt the secondary schools in Burnley and part of Pendle in four separate phases under contract with Catalyst Education (Lancashire).

Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

For each contract the council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed. An estimate of 2.5% is made for future inflation within the model

- Phase 1 -The contract will provide two 1,050-place secondary schools, one with a co-located 90-place secondary special school, a sixth form centre, a primary school, a children's centre and a library. The arrangement runs from September 2008 to August 2033.
- Phase 2 – The contract will provide one 1,050 place secondary school with a co-located 90 place secondary special school. The contract also involves providing ongoing services to the buildings. The arrangement runs from September 2009 to August 2034.
- Phase 2a -The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. One of the schools opened in April 2010 and the other in September 2010.
- Phase 3 - The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. The schools opened in September 2010.

Consolidated payments remaining to be made under the PFI contract at 31 March 2014 for the four phases above (excluding any estimation of inflation and availability/performance deductions) are as shown in the following table

:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£m	£m	£m	£m
Payable in 2014/15	7.9	4.3	15.6	27.8
Payable within two to five years	34.2	19.3	57.9	111.4
Payable within six to ten years	48.4	29.7	61.2	139.3
Payable within eleven to fifteen years	51.2	42.4	45.7	139.3
Payable within sixteen to twenty years	46.8	62.0	24.5	133.3
Payable within twenty one to twenty five years	4.4	11.0	1.5	16.9
Grand Total	192.9	168.7	206.4	568.0

To help finance the scheme we received the following income:

	2013/14	2012/13
	£m	£m
PFI grant from the government	20.5	20.6
Contributions from the schools	8.3	7.9
Contributions from the local authority	0.1	0.1
Grand Total	28.9	28.6

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

The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

	2013/14	2012/13
	£m	£m
Balance outstanding at start of year	(181.6)	(186.3)
Payments during the year	4.5	4.6
Balance outstanding at year end	(177.1)	(181.7)

Under all these contracts (Fleetwood Sports College and BSF Phases 1, 2, 2a and 3), the council has the rights to utilise the buildings. Each school is made available for use in the following priority order: (i) provision of education services, (ii) community use, (iii) third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

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

Lancashire Waste PFI Scheme

The county council signed a PFI contract with Global Renewables Lancashire (GRL) Limited on 2 March 2007. The Works and Services to be provided under the Contract are procured by Lancashire County Council. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The contract covers delivery, treatment and final disposal of household, green and commercial Waste at the Farington and Thornton Sites as per contract output specifications and service delivery plans as well as the provision of other "soft services" such as education centre activities, tree planting, waste minimisation initiatives and developing local markets to use the end products from processed waste.

The waste treatment facilities have been built and are in operation. The contract will run for 25 years from the date the final waste treatment facility became fully operational and the total payments to GRL, by the county council, will be around £2.0 billion over the contract period. The county council pays a unitary payment which consists of a fixed and a variable element, both of which are subject to inflation. This payment can be reduced if the Contractor fails to meet agreed targets. The capital costs of the PFI contract, attributable to the county council, are £245.9m. At the end of the contract the Waste PFI assets will be owned by Lancashire County Council.

Both sites are now in deemed service commencement and as a result, full service payments commenced in 2011/12. From an accounting point of view this also means that the assets are no longer treated as off balance sheet but now form part of the county council's assets.

Payments remaining to be made under the PFI contract at 31 March 2014 (excluding any availability/performance deductions) are as follows

	Payments for Services	Repayment of liability	Interest Charges	Total Payments due
	£m	£m	£m	£m
Payable in 2014/15	24.6	3.2	23.8	51.6
Payable within two to five years	108.3	14.7	92.8	215.8
Payable within six to ten years	157.6	28.4	106.4	292.4
Payable within eleven to fifteen years	181.1	48.2	92.3	321.6
Payable within sixteen to twenty years	205.8	84.2	65.2	355.2
Payable within twenty-one to twenty-five years	96.0	47.1	10.2	153.3
Total	773.4	225.8	390.7	1389.9

The significant risks that the council is exposed to during this PFI contract are in relation to waste arisings and composition, diversion rates and inflation.

The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

	2013/14	2012/13
	£m	£m
Balance outstanding at start of year	(228.9)	(232.3)
Payments during the year	3.1	3.4
Balance outstanding at year end	(225.8)	(228.9)

The above tables assume the following inflation rates: RPI 2.5%, AEI 3.75% and Baxter (fuel) 3%.

At the end of the concession period the council may retender for the provision of the Services or request the contractor to transfer all of its right, title and interest in and to the assets to the council.

There is provision within the project agreement for the termination of the contract under certain conditions by either the council or the contractor. This may be in the form of voluntary termination by the council, termination by the contractor on council default or termination by the council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contract.

20. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and Private Finance Initiative contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

	2013/14	2012/13
	£m	£m
Opening Capital Financing Requirement	1,074.2	1,111.6
Write down deferred liability 2012-13	-	(0.5)
Capital investment		
Property, Plant and Equipment & Assets Held for Sale	137.4	115.0
Intangible Assets	8.5	7.4
Revenue Expenditure Funded from Capital Under Statute	8.7	16.9
Sources of Finance		
Capital receipts	-	-
Government grants and other contributions	(138.1)	(111.3)
Sums set aside from revenue:		
Direct revenue contributions	(16.5)	(28.1)
Write down of PFI liability	(7.6)	(7.9)
Minimum Revenue Provision (MRP)/ loans fund principal	(27.6)	(28.9)
Closing Capital Financing Requirement	1,039.0	1,074.2
Explanation of movements in year:		
Increase/decrease in underlying need to borrowing (supported by government financial assistance)	(27.6)	(22.5)
Increase in underlying need to borrowing (unsupported by government financial assistance)	-	(6.4)
Write down PFI Liability	(7.6)	(8.5)
Increase (decrease) in Capital Financing Requirement	(35.2)	(37.4)

Future capital spending commitments

Due to the long term nature of many capital projects we are committed to certain levels of capital spending in the future with many projects agreed in previous years not due to be completed until later years.

Our legally committed capital expenditure as at 31 March 2014 is £142.0m (31 March 2013: £79.8m) as detailed below:-

	£m
Adult Services, Health and Wellbeing	0.1
Children and Young People Schools	20.0
Children and Young People Service	3.7
Environment	115.9
Resources	2.3
Total	142.0

21. Trading operations – Lancashire County Commercial Group

Our three major trading operations are:

- Care Services;
- Catering Services; and
- Operational Services.

In 2013/14 these trading operations made a total operating surplus of £0.5 million as detailed below:

	Turnover	Spending	2013/14 (Surplus)/ deficit	2012/13 (Surplus)/ deficit
	£m	£m	£m	£m
Care Services	(22.1)	23.4	1.3	1.2
Catering Services	(23.0)	22.4	(0.6)	(0.5)
Operational Services	(52.5)	51.3	(1.2)	(1.3)
Total	(97.6)	97.1	(0.5)	(0.6)

More information on our major trading operations' services for 2013/14 is given below.

Care Services

At the 31 March 2014 Care Services was providing:

- residential services from 17 homes for older people;
- rehabilitation services from 9 of these homes;
- day care from 14 day centres
and;
- an assessment and reablement service providing assessment, practical and personal care to help people who have been ill or injured live independently at home for as long as possible.

Catering Services provided:

- school catering services for approximately 560 schools; and
- staff and civic catering from four outlets

Operational Services provides:

- Fleet Services – purchase, disposal, management, maintenance and repair of county council vehicles and repair and maintenance of Lancashire Fire and Rescue vehicles;
- Travel Care – caring and accessible bus services
- Building Cleaning services;
- School Crossing Patrol services
and;
- Passenger Assistant services

22. Property, Plant and Equipment

The fixed assets figure includes properties valued at some £589million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. It is therefore considered appropriate to include these assets within the county council's balance sheet to fairly reflect the value of the assets used in providing the service.

With the recent economic downturn consideration was made with respect to the value of the fixed assets. After taking into account various factors it was decided that the fixed assets figure in the balance sheet represents the value of the assets held.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 April 2013	2,109.4	71.3	623.1	0.7	2,804.5
Additions	37.6	5.9	64.7	28.2	136.4
De-recognition – disposals	(39.1)	-	-	-	(39.1)
De-recognition – others	2.1	(1.8)	-	-	0.3
Revaluations increases/(decreases) recognised in Revaluation Reserve	14.7	-	-	-	14.7
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(37.6)	-	-	-	(37.6)
Assets reclassified	(5.8)	-	-	-	(5.8)
At 31 March 2014	2,081.3	75.4	687.8	28.9	2,873.4
Depreciation and Impairments					
At 1 April 2013	90.8	35.8	65.6	-	192.2
Depreciation charge for 2013/14	24.7	7.6	14.9	-	47.2
De-recognition – disposals	(3.1)	-	-	-	(3.1)
De-recognitions – others	(1.9)	(1.0)	-	-	(2.9)
At 31 March 2014	110.5	42.4	80.5	-	233.4
Net Book Value at 31 March 2014	1,970.8	33.0	607.3	28.9	2,640.0
Net Book Value at 31 March 2013	2,018.6	35.6	557.5	0.7	2,612.4

Within the land and buildings is included the waste treatment facilities. In addition to the land and the fabric of the building, the value includes an element for equipment which is considered to be integral to the overall facility rather than the separate items of loose equipment.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 April 2012	2,152.5	65.9	572.3	12.8	2,803.5
Additions	58.6	5.5	50.9	-	115.0
De-recognition – disposals	(51.1)	(0.1)	(0.1)	-	(51.3)
De-recognition – others	(16.5)	-	-	(7.1)	(23.6)
Revaluations increases/(decreases) recognised in Revaluation Reserve	(23.8)	-	-	-	(23.8)
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(13.7)	-	-	-	(13.7)
Assets reclassified	3.4	-	-	(5.0)	(1.6)
At 31 March 2013	2,109.4	71.3	623.1	0.7	2,804.5
Depreciation and Impairments					
At 1 April 2012	76.0	28.0	51.8	-	155.8
Depreciation charge for 2012/13	31.7	7.7	13.8	-	53.2
De-recognition – disposals	(2.1)	-	-	-	(2.1)
De-recognitions – others	(14.8)	-	-	-	(14.8)
At 31 March 2013	90.8	35.7	65.6	-	192.1
Net Book Value at 31 March 2013	2,018.6	35.6	557.5	0.7	2,612.4
Net Book Value at 31 March 2012	2,076.5	37.8	520.6	12.8	2,647.7

Effects of Changes in Estimates

In 2013/14 the council made no material changes to its accounting estimates for property, plant and equipment.

Depreciation

The useful lives for land and buildings used for depreciation are assessed by the valuer in groups of 10 year up to over 50 years, namely:

Life grouping	Life used for depreciation specific asset life used
0 up to 10 years	
10-20 years	10
21-30 years	20
30-40 years	30
40-50 years	40
Over 50 years	50

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

- Land is not depreciated
- Vehicles, Plant, Furniture and Equipment 10 years
- Infrastructure generally 50 years with exceptions as based on advice from surveyors

Fixed Asset Valuation

The property valuations are undertaken by appropriately qualified staff within the property group of the county council.

All valuations have been undertaken in accordance with the practice statements, guidance notes and valuation information papers of the Royal Institution of Chartered Surveyors' (RICS) Valuation Standards (The Red Book) and in accordance with CIPFA regulations and current Code of Practice on Local Authority Accounting.

Properties regarded by the council as operational are to be valued on the basis of existing use value or, where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost.

Properties regarded by the council as non operational are to be valued on the basis of market value.

No property valuation is to be more than five years old and at least 20% of properties are revalued each year. In 2012/13 365 properties were revalued which equates to approximately 22% of all the properties held.

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. Valuations are undertaken internally by Lancashire County Council's Property Group. All valuations have been undertaken by qualified Chartered Surveyors who are members of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

Land and Buildings

	£m
Valued at historical cost	357.9
Valued at current value in:	
2013/14	418.8
2012/13	316.5
2011/12	147.8
2010/11	586.6
2009/10	253.7
Total	2,081.3

23. Financial instruments

The following categories of financial instruments are carried in the balance sheet. The instruments have been valued in accordance with International Financial Reporting Standards (IFRS) using the accounting policies explained within our accounting policies section.

	Long-term		Current	
	31/03/2014	31/03/2013	31/03/2014	31/03/2013
	£m	£m	£m	£m
<u>Cash and cash equivalents</u>				
Loans & receivables (See Table 2 Note 26)	-	-	91.4	65.6
<u>Investments</u>				
Loans and receivables (See Table 2 Note 26)	127.1	99.4	23.7	109.8
Available-for-sale financial assets	360.8	168.9	-	-
Financial assets at fair value through profit and loss	-	-	1.0	149.1
Total investments	487.9	268.3	24.7	258.9
<u>Debtors</u>				
Loans & receivables	41.1	43.1	80.6	102.0
<u>Borrowings</u>				
Financial liabilities at amortised cost (See Table 1 Note 26)	436.1	480.7	384.0	264.7
<u>Other Liabilities (PFI related)</u>				
Financial liabilities at amortised cost (See Table 1 Note 26)	395.4	402.9	7.5	7.6
<u>Creditors</u>				
Financial liabilities at amortised cost	-	-	166.4	218.2

24. Income, Expense, Gains and Losses on Financial Instruments

The gains and losses during 2013/14 on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following table:

	2013/14					2012/13				
	Financial Liabilities at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	Total	Financial Liabilities at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Interest Expense	63.3	-	-	-	63.3	70.9	-	-	-	70.9
Fee Expense	0.4	-	-	-	0.4	1.1	-	-	-	1.1
Total Expense in Surplus/Deficit on the Provision of Services	63.7	-	-	-	63.7	72.0	-	-	-	72.0
Interest Income	-	(5.7)	(11.2)	(1.8)	(18.7)	-	(8.8)	(6.5)	-	(15.3)
Increases in fair value	-	-	-	-	-	-	-	-	(0.2)	(0.2)
Decreases in fair value	-	-	-	-	-	-	-	-	0.3	0.3
Gains on derecognition	-	-	(2.2)	(2.7)	(4.9)	-	-	-	(21.1)	(21.1)
Loss on derecognition	-	-	0.5	3.6	4.1	-	-	-	8.2	8.2
Total income in Surplus/Deficit on the Provision of Services	-	(5.7)	(12.9)	(0.9)	(19.5)	-	(8.8)	(6.5)	(12.8)	(28.1)
Gains on revaluation	-	-	-	-	-	-	-	(1.1)	-	(1.1)
Losses on revaluation	-	-	26.3	-	26.3	-	-	1.7	-	1.7
Surplus/Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	-	-	26.3	-	26.3	-	-	0.6	-	0.6
Net (Gain)/Loss for the Year	63.7	(5.7)	13.4	(0.9)	70.5	72.0	(8.8)	(5.9)	(12.8)	44.5

25. Treatment of Icelandic Deposits

Lancashire County Council had £6.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2012; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 53% of the total claim has now been repaid and the outstanding amount at 31 March 2014 is £3.1m. (The total outstanding amount at 31 March 2013 was £3.4m)

The exact timing and amounts of future distributions is not known at this stage.

The deposit is treated as an asset on the balance sheet and the carrying value is written down as distributions are received.

26. Fair Value of Financial Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions;

- Estimated ranges of interest rates at 31 March 2014 of 0.685% to 4.625% for loans from the PWLB and 0.35% to 3.8% for other loans receivable and payable based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- The fair value of PFI – using rates determined by the treasury based on a gilt zero coupon curve

The carrying values of the financial instruments can be seen in Note 23. The tables below disclose the fair value of the financial instruments, except for the following:

- short term debtors and creditors, as carrying value is reasonable approximation of fair value.
- available for sale assets and assets and liabilities at fair value through profit or loss because these are carried in the balance sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument

Table 1

	31/03/2014		31/03/2013 (restated)	
	Amortised Cost £m	Fair Value £m	Amortised £m	Fair Value* £m
Financial liabilities	1,223.0	1,552.6	1,155.8	1,560.3

The fair value of the liabilities is higher than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders above current market rates.

*Prior year comparatives have been restated in accordance with guidance

Table 2

	31/03/2014		31/03/2013	
	Amortised Cost £m	Fair Value £m	Amortised Cost £m	Fair Value £m
Loans & Receivables	242.2	244.3	274.8	290.8
Long term Debtors	41.1	41.1	43.1	43.1

The fair value of the assets is higher than the carrying amount because the council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. This shows a notional future profit (based on economic conditions at 31 March 2014) attributable to the commitment to receive interest above current market rates.

27. Nature and Extent of Risks Arising From Financial Instruments

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

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the council
- **Liquidity risk** – the possibility that the council might not have funds available to meet its commitments to make payments
- **Market risk** – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock movements.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the county council in the annual treasury management strategy.

Credit Risk

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

With regard to financial institutions the risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration which the county council can be invested in an institution depending upon the quality of credit rating and over the 2013/14 financial year, despite the downgrading of the UK Government, the investment portfolio has maintained a very high AA- credit rating. However, in the past credit ratings have been proved to be fallible, and so in addition the treasury team constantly monitor other market information such as credit default swap spreads and equity prices.

A main principle of the 2013/14 credit risk strategy was to invest mainly in UK government credit through nationalised banks and government guaranteed bonds. In addition, one of the bank loans is collateralised (backed by UK government securities), providing further access to government credit quality.

The table below analyses the portfolio by the credit rating of the counterparties at 31 March 2014 and summarises the county council's investments as at 31 March 2014 (values exclude impairments and accrued interest), in term of credit ratings. The historic default rate for the individual investment category is applied to each group to give an overall measure of the value at risk. The chance of a default is currently calculated as £2.18m in £538.3m or 0.4% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	<1mth	<3mth	<6mth	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m)	77.7	-	0.4	-	75.0	80.2	60.8	244.2	538.3
Historic default rate (AA-, %)	-	-	-	-	0.02	0.16	0.31	0.31	
Historic default rate (A+, %)	-	0.01	0.02	0.03	0.06	0.33	0.69	0.69	
Historic default rate (A, %)	0.01	0.02	0.03	0.07	0.21	0.80	2.15	2.15	
Exposure to default (£m)	-	-	-	-	0.16	0.07	0.29	1.66	2.18

Comparative data for 2012/13 can be seen below:

Credit Risk	<1mth	<3mth	<6mth	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m) 2012/13	84.1	50.0	20.0	-	20.4	139.0	107.2	100.6	521.3
Exposure to default (£m) 2012/13	0.01	0.01	0.01	-	0.04	0.59	-	-	0.66

The maximum single commercial exposure is to RBS at £70.0m (2012/13 £112.4m), however overall the portfolio is diversified by the use of 13 counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The county council manages aged debt within the agreed policy.

Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations.

Lancashire County Council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the county council has ready access to borrowings from the money markets and the Public Works Loans Board and access to their investment portfolio which is also considered to be liquid. There is no significant risk that the County Council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates however this is not considered to be material.

The county treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

Market Risk

The market risk to which the county council is exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

Movement in interest rates have a complex impact on the county council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall (this has no effect on the surplus or deficit on the provision of services).
- Investments at variable rates - the interest income credited to surplus or deficit on the provision of services will rise.
- Investments at fixed rates – the fair value of the investments will fall.

Market Risk - Borrowings

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

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

- Maturing and available for sale short term investments which could be used to pay down debt, should it become cost effective to do so.
- A long term £50m loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is 7.52% less the sterling 10 year swap rate, providing an inverse relationship with interest rates - the interest payable on the loan will fall as interest rates rise.

The county treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

Market Risk - Investments

A fall in the fair value of fixed rate investments that are held for trading will result in a charge to the surplus or deficit on the provision of services, reducing the County Fund balance. A fall in the fair value available-for-sale investments will be reflected in other comprehensive income. A fall in the fair value of other investments will have no impact on the primary financial statements, but will be disclosed in the notes to the accounts.

The county council also holds index linked investments the fair value of which rises as inflation rises, and a Lender Option Borrower Option (LOBO) loan for which the expense charged to the surplus or deficit on the provision of services will fall as interest rates rise. All of these instruments are part of a strategy to take advantage of current market conditions whilst managing interest rate risk.

The Treasury Management team is constantly refining the active strategy for assessing interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The table below attempts to quantify the interest rate risk looking back at the 31 March 2014 position.

The effect if interest rates were 1% higher with all other variables held constant:	£m
Increase in interest payable on variable rate borrowings	2.7
Increase in interest receivable on variable rate investments	(1.5)
Decrease in fair value of investments held for trading*	-
Impact on surplus or deficit on the provision of services	1.2
Decrease in fair value of fixed rate available for sale investment assets	65.0
Impact on other Comprehensive Income & Expenditure	66.2
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	1.8
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(30.8)

* Note that a rise in interest rates is also likely to result in a rise in inflation expectations which will cause the fair value of index linked investments to rise and partly offset the charge to the Surplus or Deficit on the Provision of Services.

The impact of a 1% fall in interest rates would be as above but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise. This is the consequence of the current short term borrowing policy which has provided the in year reduction in debt interest costs, and which is being carefully managed having regard to the potential for interest rates to rise.

This risk management process has begun with the inverse Lender Options Borrower Option loan outlined above. Regarding the investment portfolio it is anticipated that, in the current environment, any interest rate rises would follow a prolonged period of rising inflation, and therefore the current holding of inflation linked AAA rated bonds would provide some protection against the operating cost inflation risk.

28. Debtors

	31/03/2014	31/03/2013
	£m	£m
Central Government Bodies	22.5	15.5
NHS Bodies	11.3	0.9
Other Public Corporations	-	0.1
Other Local Authorities	19.8	3.0
Other Debtors	56.3	109.4
Total	109.9	128.9

Other debtors mainly comprises of low value high volume debtors for supply of goods and services with the exception of council tax owing £14.6m (£14.0m 2012/13) and sales of investments £0.0m 2013/14 (£21.7m in 2012/13).

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £30.9 million at 31 March 2014 (£25.3 million at 31 March 2013). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding

29. Creditors

	31/03/2014	31/03/2013
	£m	£m
Central Government Bodies	20.5	20.2
Other Local Authorities	19.4	13.4
NHS Bodies	6.8	7.4
Accumulated Absences	29.7	29.1
Other Creditors	134.7	190.7
Total	211.1	260.8

Central Government Bodies include PAYE & NI £14.3m (£14.7m 2012/13)

Other creditors mainly comprises of low value high volume creditors for purchase of goods and services with the exception of Waste PFI £10.2m (2012/13 £6.9m), Adult Social Care non-residential placements £8.3m (£6.6m 2012/13) and the purchase of investments £0.0m (£62.4m 2012/13),

30. Cash and Cash Equivalents

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

	31/03/14	31/03/13
	£m	£m
Cash held by council	0.7	0.6
Bank current accounts	33.0	15.5
Short term deposits under 3 months	57.7	49.5
Total Cash and Cash Equivalents	91.4	65.6

31. Provisions

We keep some funds set aside to provide for specific expenses, the exact cost of timing of which is still uncertain. These funds are known as 'provisions'. The changes to these funds are summarised in the following table:

	Balance at 1 st April 2013	Additional provision made in 2013/14	Spending met from the provision in 2013/14	Unused amounts reversed in 2013/14	Balance at 31 March 2014
Long Term Provisions					
Insurance Provision	(16.3)	(6.5)	7.6	-	(15.2)
MMI (Municipal Mutual Insurance) Provision	(4.5)	-	1.4	-	(3.1)
Other Provisions	(0.4)	(0.1)	-	-	(0.5)
Total Long Term Provisions	(21.2)	(6.6)	9.0	-	(18.8)
Total Short Term Provisions	(4.7)	(4.8)	1.0	0.4	(8.1)
Total Provisions	(25.9)	(11.4)	10.0	0.4	(26.9)

Insurance provision

We set aside funds to cover liability claims which our insurers will not pay because they fall below our excess and our annual self insured limits. These claims may relate to employer's liability, public liability or buildings insurance. There are no material unfunded risks. The insurance provision contains large cash resources which may not be needed for several years. We use these resources to support our internal loans reserve. The provision is made at a level of estimated total amount for the financial year for which the council will be liable, and will be due for payment in future years.

MMI (Municipal Mutual Insurance)

This long term provision is to cover a liability that may arise from the potential insolvency of Municipal Mutual Insurance.

Other Provisions

All other provisions are individually insignificant

32. Usable Reserves

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement.

33. Unusable Reserves

The table below gives detail of the county council's unusable reserves:

	31/03/14	31/03/13
	£m	£m
Revaluation Reserve	(665.0)	(663.2)
Capital Adjustment Account	(999.8)	(930.2)
Available for Sale Financial Instruments Reserve	27.4	1.1
Financial Instruments Adjustment Account	27.1	29.6
Pension Reserve	905.1	1,127.1
Collection Fund Adjustment Account	(2.8)	(0.3)
Accumulated Absences Account	29.7	29.1
Total Unusable Reserves	(678.3)	(406.8)

Revaluation Reserve

The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

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

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2013/14	2012/13
	£m	£m
Balance at 1 April	(663.2)	(718.7)
Upward revaluation of assets	(70.8)	(12.3)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	56.1	36.0
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(14.7)	23.7
Difference between fair value depreciation and historical cost depreciation	9.4	11.0
Accumulated gains on assets sold or scrapped	3.5	20.8
Amount written off to the Capital Adjustment Account	12.9	31.8
Balance at 31 March	(665.0)	(663.2)

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 details the source of all the transactions posted to the account.

	2013/14	2012/13
	£m	£m
Balance at 1 April	(930.2)	(862.0)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and impairment of non current assets	47.2	53.2
Revaluation losses on Property, Plant and Equipment including assets held for sale	38.4	13.3
Amortisation of intangible assets	2.8	1.8
Revenue expenditure funded from capital under statute	8.7	16.9
Reversal of charge re transfer of academies	13.3	38.2
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	22.7	11.0
Write down of Private Finance Initiative (PFI) liability	(7.6)	(7.9)
Adjusting amounts written out of the Revaluation Reserve	(12.9)	(31.8)
	(817.6)	(770.9)
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(78.6)	(30.3)
Application of grants to capital financing from the Capital Grants Unapplied Account	(59.5)	(81.0)
Statutory provision for the financing of capital investment charged against the County Fund	(27.6)	(28.9)
Capital expenditure charged against the County Fund	(16.4)	(28.1)
	(182.1)	(168.3)
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	1.5	0.2
Reclassifications – PPE adjustments and waste PFI deferred consideration write out	(1.6)	8.8
Balance at 31 March	(999.8)	(930.2)

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2013/14	2012/13
	£m	£m
Balance at 1 April	1.1	0.5
Upwards revaluation of investments	-	(1.1)
Downward revaluation of investments not charged to the surplus/deficit on the Provision of Services	26.3	1.7
Balance at 31 March	27.4	1.1

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The council accounts for post employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31/03/2014	31/03/2013
	£m	£m
Balance at 1 April	1,127.1	939.5
Remeasurements of the net defined benefit liability/(asset)	(273.8)	173.3
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	134.9	91.2
Employer's pension contributions and direct payments to pensioners payable in the year	(83.1)	(76.9)
Balance at 31 March	905.1	1,127.1

34. Long Term Debtors

Long term debts to the council are shown below:

	31/03/2014	31/03/2013
	£m	£m
Transferred Debt	41.1	43.1
Total	41.1	43.1

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

0.8	Net proceeds from the sale of short and long term investments	9.8	
4.7	Proceeds from the sale of property plant and equipment, investment property and intangible assets	3.7	
103.6			95.9
(54.8)	Net Cash Flows from Operating Activities		(48.4)

36. Cash Flow Statement - Operating Activities (Interest)

2013/14			2012/13	
£m	£m		£m	£m
(19.5)		Ordinary interest received	(28.2)	
2.4		Other adjustments for differences between Effective Interest Rates and actual interest receivable	(0.4)	
(1.4)		Movement in Debtors	(1.4)	
	(18.5)	Interest Received		(30.0)
63.7		Interest charge for year	63.8	
0.0		Reclassification	(8.2)	
0.2		Adjustments for differences between Effective Interest Rates and actual Interest payable	(0.7)	
-		Movement in Creditors	1.3	
	63.9	Interest Paid		55.6

37. Cash Flows from Investing Activities

2013/14		2012/13
£m		£m
134.3	Purchase of Property, Plant and Equipment, investment property and intangible assets	122.9
877.2	Purchase of investments	1,773.0
0.7	Other payments for investing activities	-
(4.7)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(3.7)
(827.4)	Proceeds from the sale of investments	(1,860.2)
(86.2)	Other capital grants and receipts from investment activities	(84.7)
93.9	Net Cash Flows from Investing Activities	(52.7)

38. Cash Flows from Financing Activities

2013/14		2012/13
£m		£m
(1,260.5)	Cash receipts from borrowing	(1,046.1)
2.6	Appropriation to/from Collection Fund Adjustment Account	(1.3)
1185.4	Repayment of borrowing	1,122.8
7.6	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	8.0
(64.9)	Net Cash Flows from Financing Activities	83.4

Other Notes

39. Related Parties

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

Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in note 13 on reporting for resources allocation decisions.

Members

Members of the county council have direct control over the council's financial and operating policies. Under section 81 the Local Government act 2000, their outside interest are recorded in a formal register, The Register of Interest, which is available for inspection at the office of the Chief Executive, County Hall, Preston. The details of how to view the register can also be found on the council's website at:

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=969&tab=1

Our code of conduct requires county councillors to declare any related interests they have and to take no part in meeting or decisions on issues involving those interests.

In preparing this statement of accounts we have asked all councillors to fill in a declaration about any interests which they or their family may have in organisations that we deal with. These interests include:

- Roles with voluntary organisation and charities which may receive grants from the council.
- Roles where they have significant influence/control within Limited Companies that has a contract with the council.
- Family members that have significant influence/control within any organisation that has dealings with the council.

Revealed below is a list where councillors or a member of their family are involved and has significant control with an organisation.

There were a number of transactions that were declared between Lancashire County Council and organisations where the councillors have significant involvement.

None of the transactions were classed as significant to Lancashire County Council.

CC Carl Crompton is a board member of Gift 92, the charity received payments totalling £42,188.28.

CC Mike Otter is a trustee at Community Futures, the organisation received payments totalling £37,799.38.

CC Mark Perks, chairman for Buckshaw Youth Association and Buckshaw Scouts. Buckshaw Youth Association received a grant of £2,857 whilst Buckshaw Scouts received a grant of £959.

CC Alan Schofield is a board member at Ribble Valley Citizens Advice Bureau, the organisation received payments totalling £29,809.

CC Jennifer Mein is a trustee at Emmaus Preston, the charity received payments totalling £103,876.99.

CC Stephen Holgate is a non executive director for Chorley Community Housing, the organisation received payments totalling £130,646.

CC Azhar Ali, Regenerate Pennine Lancashire.

CC Lorraine Beavers, Blackpool Fylde and Wyre EDC.

CC David Borrow, The Lancashire Partnership Against Crime Limited.

CC Janice Hanson, LWS Lancashire Environmental Fund Limited.

CC Miles Parkinson, Regenerate Pennine Lancashire Limited.

Some county councillors hold positions on companies referred to in the companies section of this note, therefore any transactions between the two entities are referred to in that section.

Officers

Our senior officers may influence our financial and operating policies. The officers of the Management Team have filled in a declaration about their related interest and those of their family. This has revealed that the Management Team officers had roles in the following organisations during 2013/14.

Phil Halsall, chief executive (until 31 October 2013) of Lancashire County Council, Regenerate Pennine Lancashire Ltd,

Gill Kilpatrick, the county treasurer was treasurer to the Lancashire County Pension fund.

Jo Turton, the interim chief executive from 6 August 2013 and subsequently chief executive from 20 February 2014, declared board membership on Community Foundation Lancashire & Merseyside., Preston Vision Limited, Regenerate Pennine Lancashire Limited,

Steve Browne, interim executive director for environment is also chairman of the board of Preston College.

Steve Gross, executive director of adult services, health and wellbeing is director for Lancashire Workforce Development Partnership Limited.

Martin Kelly, director of economic development has declared that he holds the position of director on Motor Industry Local Authority Network. He also holds the position of alternate director for Blackpool Fylde and Wyre Economic Development Company Limited, Regenerate Pennine Lancashire Limited; and also holds the position of Chairman with The Clayton Park Conference Centre Limited.

Lancashire County Pension Fund

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £4.2 million (2012/13: £3.8 million) in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to Pension and Investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £69.1 million to the fund in 2013/14 (2012/13:£63.4m million). All monies owing to and due from the fund were paid in year.

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

Lancashire County Developments Ltd

Lancashire County Developments Ltd (LCDL) acts as an economic and job creation agency for the county. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The Council controls 80% of the members' voting rights and it is classed as a subsidiary of the county council.

County councillors and county council senior officers are represented on the board. The county council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not allowed to distribute profits as dividends.

Sales to Lancashire County Council during the year amount to £3,329,345 (2013: 2,235,389). Purchases from Lancashire County Council amount to £3,254,488 (2013: £2,510,058). The amount owed by Lancashire County Council to this related party at 31 March 2014 is £3,006,955 (2013: £586,883). The amount owed to Lancashire County Council from this related party at 31 March 2014 is £31,647 (2013: £6,310).

A copy of the statement of accounts is available from the LCDL registered office: PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

One Connect Limited (OCL)

OCL was a joint venture between Lancashire County Council and BT, set up in May 2011. County councilors and county council senior officers were represented on the board.

The company recognised revenue of £78.2m (2013: £60.6m) from Lancashire County Council, holder of 4,000 "A" ordinary shares at 31 March 2014. The company also paid £48.3m (2013: £42.2) to Lancashire County Council. The expenditure related to the reimbursement of staff and other costs incurred by Lancashire County Council on behalf of the Company. At 31 March 2014, debtors include balances of £7.5m (2013: £6.3m) owing from Lancashire County Council.

From 1 April 2014 the partnership between BT and Lancashire County Council changed. One Connect Limited became a wholly owned BT company and was renamed as BT Lancashire Services Limited (BTLS)

A copy of the statement of accounts are available from Companies' House, www.companieshouse.gov.uk. Due to timing this information is based on unaudited accounts.

The Via Partnership (formerly CXL)

CXL was incorporated on 11th January 2007 to support, advance and promote the education and training of children, young people and adults in the Lancashire, Blackpool and Blackburn with Darwen areas in order to equip them for further education, employment and training. CXL changed its name to The Via Partnership Limited on the 4 April 2013.

The Via Partnership is owned by Lancashire County Council with 40% shares; Blackburn with Darwen Borough Council with 30% shares; and Blackpool Borough Council with 30% shares. The voting rights of each council in general meetings of the company directly reflect their shareholdings. County councilors are represented on the board along with LCC's Head of Business growth and innovation and Head of Economic Development and the county secretary and solicitor is the company secretary.

In 2013/14 Financial Year the three shareholders of Via Partnership Limited provided an interest bearing commercial loan of £1million for working capital purposes to be repaid over the next eight

to ten years, based on their respective shareholding. (Lancashire County Council £400,000, Blackburn with Darwen Council £300,000 and Blackpool Council £300,000)

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from The Via Partnership Ltd registered office: County Hall, Preston, Lancashire, PR1 8XJ.

Marketing Lancashire Limited

Marketing Lancashire Ltd was created in 2004. It is one of four tourist boards that succeeded the North West Tourist Board. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. County councillors are represented on the board.

The £72k loss includes a £25k FRS17 valuation loss adjustment.

During the year, the company declared purchases of £nil (2013: £1,838) from Lancashire County Council and a creditor balance of £nil (2013: £nil) due to its member Lancashire County Council. Sales for the year to Lancashire County Council are £37,170 (2013: £1,200) and the amount owed by Lancashire County Council to Marketing Lancashire as at 31st March 2014 amounts to £1,902.

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Marketing Lancashire Ltd (formerly Lancashire and Blackpool Tourist Board Ltd) in the past.

Lancashire Sports Partnership Ltd

Lancashire Sports Partnership Ltd exists to increase participation in sport and physical activity across the 15 local authorities of the sub region in Lancashire. Since being established in 2000 the company has been hosted by Myerscough College. In April 2010 the company became a separate legal entity from the college as a company limited by guarantee with a Board of Trustees.

During the year, the company received funding of £21,577 (2013: £87,600) from its member, Lancashire County Council. A portion of the amounts received in the prior year related to projects continuing into the current year, and such amounts were included within deferred income as at 31st March 2013. The company also paid £9,629 (2013: £2,134) to Lancashire County Council for the use of conferencing facilities and for the recharge of other services.

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

LWS Lancashire Environmental Fund Ltd

LWS Lancashire Environmental Fund Ltd receives landfill tax credits and awards grants to environmental projects which meet the criteria specified by the Landfill Tax Regulations 1996. It is a charitable company limited by guarantee and therefore has no share capital. The liability of members is limited to £1.

Lancashire County Council is a member of the charitable company with the power to appoint one trustee to the board. J Hanson was the Chairman of the charitable company and a member of Lancashire County Council. During the year, the charitable company has placed funds on deposit with Lancashire County Council on which interest of £7,878 (2012: £7,922) has been earned at the local authority seven day notice deposit rate. At 31 December 2013, the balance of funds on deposit was £1,579,955 (2012: £1,579,955).

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, PR1 8XJ.

Lancashire Workforce Development Partnership Limited

This organisation is an employer led partnership between the Independent Social Care employers in Lancashire and Lancashire County Council, established to improve social care delivery through workforce training. This is a company limited by guarantee with the council's liability limited to £1.

An amount of £1,200,000 was received under a service level agreement from Lancashire County Council in the year. In addition, Lancashire Workforce Development Partnership invoiced Lancashire County Council for room hire of £134 in the year (2012/13: £15,949). Lancashire Workforce Development Partnership Limited also paid £58,366 in contributions (2012/13: £53,876) to the Local Government Pension Scheme administered by Lancashire County Council.

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

Public Transport Information Ltd

Public Transport Information (PTI) Ltd provides a public transport information service. It is part of the national Traveline network. PTI Ltd is a company limited by guarantee and has no issued share capital. The liability of a member is limited to £1.

Lancashire County Council made contributions to the company of £102,521 (2012: £97,026) during the year. During the year, Public Transport Information Limited acquired licenses with a total cost of £2,355 (2012: £1,614) on behalf of Lancashire County Council which were subsequently recharged at cost. At the year end, Lancashire County Council were owed £Nil (2012: £Nil) by Public Transport Information Limited, and owed £Nil (2012: £Nil) to the company.

A copy of the accounts can be obtained from companies' house, www.companieshouse.gov.uk.

New Era Trust Ltd

New Era Trust Ltd provides community services to the residents of Hyndburn. It is a company limited by guarantee and the liability of members is limited to £1.

Lancashire County Council, currently has one representative on the board of the Trust. During the year, the County Council did not rent any office space from the Trust, or pay any fees in relation to rent (compared to paying £33,609 to the Trust for rented space in 2013). The Trust paid £293.52 to the County Council for the 2013/14 financial period in respect of services provided by the County Council (compared to £12,336 in 2012/13). £1312.92 was paid to the Trust by Lancashire County Council in respect of services provided by the Trust during the 2013/14 financial year. As at 31st March 2014 Lancashire County Council owed the trust £0.00 (2013: £4,098).

Lancashire County Council and Hyndburn Borough Council lease land and buildings to the Trust under the terms of 125 year leases at a peppercorn rent. Whilst the lease arrangements are due to expire on 30 September 2124, discussions are ongoing between the County Council and the Trust with a view to negotiating a surrender.

A copy of the accounts can be obtained from Paul Wright at the following email address paul.wright@lancashire.gov.uk.

Healthwatch Lancashire Limited

Healthwatch Lancashire Limited commenced operations on 1st April 2013 and will be commissioned by the County Council to undertake statutory functions on the Authority's behalf.

Healthwatch is the new independent consumer champion for both health and social care. It will exist in two distinct forms – local Healthwatch, at local level, and Healthwatch England at national level. The aim of Healthwatch Lancashire will be to give citizens and communities a stronger voice to influence and challenge how health and social care services are provided within their locality. Healthwatch Lancashire will also provide or signpost people to information to help them make choice about health and care services.

During the year, the company has declared purchases of £7,200 from Lancashire County Council. Funding received during the year from Lancashire County Council amounts to £305,000.

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

40. Contingent Liabilities

Public Liability claims - There are outstanding public liability claims addressed to both LCDL, LCD(P)L and Lancashire County Council relating to a fire in one of LCD(P)L's properties in December 2011. These are currently in the hands of insurers and lawyers who are defending these claims on behalf of all three entities. At this stage it is not possible to provide an accurate estimate of any costs that will arrive as a result of this claim.

41. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31 March 2015 and on revalued average salary (a "career average" scheme) for service from 1 April 2015 onwards.

At 31 March 2014 the authority's principal pension arrangement for its employees was the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2014, and at that date showed a funding level of 78% (assets of £5.0bn against accrued liabilities of about £6.4bn). The weighted average duration of the liabilities of the Fund as a whole is 18 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

In addition, the authority also participates in some other defined benefit pension arrangements, also governed under statute, but these other schemes are unfunded.

These other arrangements relate to:

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

government. The authority is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement.

Health workers. Again, the authority's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

Governance and Risk Management

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

Lancashire County Pension Fund

Governance

Management of the Fund is vested in Lancashire County Council as Administering Authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

Funding the liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31 March 2013, which showed a shortfall of assets against liabilities of £1.38 billion as at that date, equivalent to a funding level of 78%. The fund's employers are paying additional contributions over a period of 19 years in order to meet the shortfall.

The weighted average duration of the authority's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes.

Risks and Investment strategy

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk)

and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other Price Risk

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

Interest Rate Risk

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

Currency risk

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

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risks

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

Other risks

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

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

Amendments, curtailments and settlements

The provisions of the Fund were amended with effect from 1 April 2014. As explained above for service up to 31 March 2013 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

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

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

Schemes for Teachers and transferred NHS Staff**Governance**

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the authority. Again, the authority has no material involvement in this process.

Funding the liabilities

Contributions to the arrangements are set by the government for these Teachers and NHS staff pension schemes, having taken advice from the government actuary, so no liability is reflected in the council's balance sheet. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the authority is responsible.

Only this additional pensions to retired teachers part of the liability which directly falls to the council is recognised within the council's balance sheet and these liabilities are shown under teachers pension scheme figures within the tables below. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

	Local Government Pension Scheme 2013/14	Local Government Pension Scheme 2012/13	Teachers Pension Scheme 2013/14	Teachers Pension Scheme 2012/13
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services :				
Current service cost	87.7	63.5	-	-
Past service cost	0.2	0.1	-	-
Curtailement costs	0.8	(3.8)	-	-
Admin Expenses	1.4	-	-	-
Financing and Investment Income and Expenditure				
Net Interest Expense	39.5	25.3	5.3	6.1
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	129.6	85.1	5.3	6.1
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement Remeasurement of the net defined benefit liability, comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(4.5)	(165.8)	-	-
Experience (gains)/losses on liabilities	(45.5)	-	1.2	-
Actuarial (gains)/losses arising from changes in financial assumptions	(232.8)	292.4	(7.9)	15.9
Actuarial (gains)/losses arising from changes in demographic assumptions	13.1	29.0	2.6	1.9
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(140.1)	240.7	1.2	23.8
Movement in Reserves Statement				
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post employment benefits in accordance with the Code	129.6	85.1	5.3	6.1
Actual amount charged against the general fund balance for pensions in the year				
Employers contributions payable to the scheme	71.9	65.9	11.2	11.1

* The above table has been amended in light of the revised reporting requirements

Investment Risks

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

Other risks

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

Transactions relating to retirement benefits

We recognised the cost of retirement benefits in the surplus/deficit on continuing operations in the Comprehensive Income and Expenditure Statement, when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge we are required to make against council tax is based on the cash payable in the year, so the International Accounting Standard 19 (IAS 19) cost of retirement benefits is reversed out in the Movement in Reserve Statement against the County Fund balance.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

In 2013/14 we paid £45.9 million to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£46.1 million and 14.1% in 2012/13). We also paid £0.5m in 2013/14 for NHS Public Health Staff transferred across from NHS from 1 April 2013 which represents 14% of pensionable pay.

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2013/14 these amounted to £8.5 million, representing 2.6% of pensionable pay (£8.6 million and 2.6% in 2012/13).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, a remeasurement of the net defined liability gain of £273.8 million (£173.3 million loss in 2012/13) were included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss of £176.3 million.

Assets and liabilities in relation to retirement benefits

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

Lancashire County Pension Fund

	2013/14	2012/13
	£m	£m
Opening balance at 1 April	2,009.1	1,753.2
Remeasurement (assets)	4.5	165.8
Interest on plan assets	84.3	99.4
Admin expenses	(1.4)	-
Settlements	-	(1.9)
Employer Contributions	71.9	65.9
Contributions from scheme participants	22.2	20.5

Benefits/Transfers paid	(97.6)	(93.8)
Closing balance at 31 March	2,093.0	2,009.1

Reconciliation of present value of the scheme liabilities:

	Funded liabilities:		Unfunded liabilities:	
	Lancashire County Pension Fund		Teachers Pension Scheme	
	2013/14	2012/13	2013/14	2012/13
	£m	£m	£m	£m
Opening balance at 1 April	2,986.1	2,555.4	150.1	137.4
Current service cost	87.7	63.5	0.0	0.0
Interest on pension liabilities	123.8	124.8	5.3	6.1
Contributions from scheme participants	22.2	20.5	-	-
Benefits/Transfers paid	(97.6)	(93.9)	(11.2)	(11.1)
Curtailment cost	1.3	1.3	-	-
Gain/loss from settlements	(0.5)	(7.0)	-	-
Past service cost	0.2	0.1	-	-
<u>Remeasurement (gains) and losses</u>				
Experience (gains)/losses on liabilities	(45.5)	-	1.2	-
Actuarial (gains)/losses arising from changes in financial assumptions	(232.8)	292.4	(7.9)	15.8
Actuarial (gains)/losses arising from changes in demographic assumptions	13.1	29.0	2.6	1.9
Closing balance at 31 March	2,858.0	2,986.1	140.1	150.1

* The above table has been amended in light of the revised reporting requirements

Local Government Pension Scheme assets comprised:-

Fair value of scheme assets

	31/03/2014	31/03/2013
	£m	£m
Cash and cash equivalents	36.4	70.2
Equity instruments:		
<u>By Industry</u>		
Consumer	269.5	245.1
Manufacturing	166.6	117.4
Energy and utilities	84.9	58.4
Financial institutions	154.4	99.3
Health and care	94.4	78.6
Information technology	138.9	108.8
Miscellaneous	5.7	0.0
Sub-total equity	914.4	707.5
Bonds:		
<u>By Sector</u>		
Corporate	192.8	221.9
Government	64.2	185.9
Sub-total bonds	257.0	407.9
Property:		
<u>By Type</u>		
Retail	78.7	78.1
Commercial	92.5	97.8
Sub-total property	171.2	175.9
Private equity:		
UK	52.6	48.8
Overseas	57.5	43.9
Sub-total private equity	110.1	92.7
Other investment funds:		
Infrastructure	113.9	62.5
Property	10.5	3.0
Miscellaneous	479.5	489.5
Sub-total other investment funds	603.9	555.0
Total assets	2,093.0	2,009.1

Scheme history

The amounts included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:-

	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Present value of scheme liabilities:					
Local Government Pensions Scheme	(2,522.5)	(2,372.0)	(2,555.4)	(2,986.1)	(2,858.0)
Teachers Pensions Scheme	(143.9)	(136.2)	(137.4)	(150.1)	(140.1)
Fair value of assets in the Lancashire County Pension Fund	1,606.4	1,743.0	1,753.2	2,009.1	2,093.0
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(916.1)	(629.0)	(802.1)	(977.0)	(765.0)
Teachers Pension Scheme	(143.9)	(136.2)	(137.4)	(150.1)	(140.1)
Total	(1,060.0)	(765.2)	(939.5)	(1,127.1)	(905.1)

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £905.1 million in 2013/14 has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in net assets of £1,103.2 million.

However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2015 is £52.1 million. Expected contributions for the Teachers and Health Workers in the year to 31 March 2015 are £40.4million.and £0.4m respectively.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality

rates, salary levels, etc. Both the Teachers Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2014. The principal assumptions used by the actuary have been as follows:

	2013/14	2012/13
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.00%	7.00%
Bonds	4.08%	3.48%
Other	Dependent on type of asset	4.45%
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	22.8 years	22.1 years
Women	25.3 years	24.8 years
Longevity at 65 for future pensioners:		
Men	25.0 years	23.9 years
Women	27.7 years	26.7 years
Rate of inflation (CPI)	2.40%	2.40%
Rate of increase in salaries	3.90%	4.40%
Rate of increase in pensions	2.40%	2.40%
Rate for discounting scheme liabilities	4.40%	4.20%

The rate of return is not applicable to the Teachers Pension Scheme since it has no assets to cover its liabilities. The Lancashire County Pension Fund's assets consist of the following categories:

	31/03/2014	31/03/2013
	%	%
Equity investments	57.7	62.0
Bonds	12.3	25.1
Other assets	30.0	12.9
	100.0	100.0

Sensitivity Analysis

The methods used to carry out the sensitivity analyses presented above for the material assumptions are the same as those the authority has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

**Impact on the Defined Benefit
Obligation in the Scheme**

	Increase in Assumption	Decrease in Assumption
	£m	£m
Longevity (increase or decrease in 1 year)	55.94	(55.94)
Rate of inflation (increase or decrease by 1%)	518.09	(518.09)
Rate of increase in salaries (increase or decrease by 1%)	116.19	(116.19)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(508.86)	508.86

42. Events After the Balance Sheet Date

Date on which the financial statements were authorised for issue

The Statement of Accounts was authorised for issue by the county treasurer on 27th June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Non adjusting post balance sheet events

- **BT Lancashire Services:**

From 1 April 2014 the partnership between BT and Lancashire County Council changed. One Connect Limited became a wholly owned BT company and was renamed as BT Lancashire Services Limited (BTLS)

BTLS focus on utilising BT's technological capabilities to improve the efficiency and quality of; information and communication technology (ICT), revenue, benefits and payroll services. The formation of BTLS has led to a number of services currently delivered by OCL to come back in-house to the county council.

Other Funds

Trust and special funds

We manage several small trust and special funds. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area. The capital accounts in the table below show the value of the investment money that has been bequeathed.

Each fund balance is invested in line with the terms of the relevant trust deed. The annual income is used to meet the aims of the trust, for example by providing school prizes.

The revenue accounts record the day-to-day transactions of the funds, including income earned from investments and payments made to beneficiaries.

The movements on fund balances are summarised below.

	Adult and Community Services 2013/14 £000s	Children and Young People 2013/14 £000s	Other 2013/14 £000s	Total 2013/14 £000s	Total 2012/13 £000s
CAPITAL ACCOUNTS					
Balances at 1 April	3.4	194.0	0.8	198.2	178.8
Net Movement in funds	0.1	2.4	-	2.5	19.4
Balances at 31 March	3.5	196.4	0.8	200.7	198.2
REVENUE ACCOUNTS					
Balances at 1 April	6.5	55.7	15.0	77.2	63.7
Income received	0.1	7.3	15.6	23.0	23.2
Less payments during the year	-	0.1	7.6	7.7	9.6
Balances at 31 March	6.6	62.9	23.0	92.5	77.2
AGGREGATE BALANCES at 31 March (Capital Revenue)	10.1	259.3	23.8	293.2	275.4

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Lancashire County Pension Fund

Accounts 2013 / 2014

Accounts of the Fund

Responsibilities for the Statement of Accounts

a) The Responsibilities of the Administering Authority

The Administering Authority is required:

- ◆ To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the County Treasurer, who is also the Treasurer to the Pension Fund;
- ◆ To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

b) The Responsibilities of the Treasurer to the Pension Fund

The Treasurer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Treasurer to the Pension Fund has:

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

In addition, the Treasurer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 2014 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

29 September 2014

Fund Account

	Note	2013/14 £m	2012/13 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	214.0	202.7
Transfers in	7	7.1	9.9
		<u>221.1</u>	<u>212.6</u>
Benefits	8	(221.1)	(210.2)
Payments to and on account of leavers	9	(15.3)	(12.6)
Administrative expenses	10	(4.5)	(5.0)
		<u>(240.9)</u>	<u>(227.8)</u>
Net withdrawals from dealings with members		(19.8)	(15.2)
Return on investments			
Investment income	11	105.3	120.8
Profit and loss on disposal of investments and change in market value of investments	15	102.9	532.6
Investment management expenses	21	(11.3)	(7.2)
Net return on investments		196.9	646.2
Net increase (decrease) in the net assets available for benefits during the year		177.1	631.0

Net Asset statement

	Note	31/03/14	31/03/13
		£m	£m
Investment assets	15	5,192.8	*5,107.4
Investment liabilities	15	(21.3)	*(118.4)
Current assets	22	28.3	31.7
Current liabilities	23	(11.7)	(9.7)
Net assets of the fund available to fund benefits at the period end		<u>5,188.1</u>	<u>5,011.0</u>

*The prior year has been restated to present new forward currency contracts in a comparable manner

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

County Councillor Clare Pritchard

**Treasurer to the Lancashire
County Pension Fund**

Chair of the Audit Committee

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The county council is the reporting entity for this pension fund.

The published accounts show that in 2013/14 cash inflows during the year consisted of £326.4 million and cash outflows were £252.2 million, representing a net cash inflow of £74.2 million (compared with an inflow of £98.4 million in the previous year). Benefits payable amounted to £221.1 million and were partially offset by net investment income of £105.3 million (including £12.4 million accrued dividends); contributions of £214.0 million and transfers in of £7.1 million produced the positive cash inflow.

a) General

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

The fund is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees of Lancashire County Council, the district councils in Lancashire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The investments of the Pension Fund are managed by eleven external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at <http://www.yourpensionservice.org.uk>

b) **Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

The 297 organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation.
- Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Participation in the Pension Fund

	Number at 31/03/14	Number at 31/03/13
(1) Active Scheme Members		
Scheduled Bodies	50,536	49,391
Admitted Bodies	4,208	3,572
Total	54,744	52,963
(2) Pensioners		
Pensions in Payment		
Preserved Pensions	42,278	40,885
	53,895	49,837
Total	96,173	90,722
Total membership	150,917	143,685

c) **Funding**

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employers' contributions are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2014 was done at 31 March 2010. The latest valuation was carried out at 31st March 2013 and will be applicable for 3 financial years commencing 1st April 2014. Currently employer contributions range from 8.6% to 70.3% of pensionable pay.

d) **Benefits**

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

LGPS 2014

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton.

After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay
- an accrual rate of 1/49th of pensionable pay
- revaluation of benefits in line with the CPI
- a Normal Pension Age equal to State Pension Age
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits
- a vesting period of two years

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing councillor members as at 31 March 2014 will leave the Scheme at the end of their current fixed term of office.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2013/14 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 29 of these accounts.

3. Accounting Policies

Fund Account revenue recognition

- Contribution income

Normal contributions both from members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be

classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

- **Transfers**

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the fund during the financial year and are calculated in accordance with Local Governance Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

- **Investment Income**

i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii. Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv. Rental income

Net rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are only recognised when contractually due.

v. Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account –expense items**- Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net asset statement as current liabilities.

- Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

- Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

- Investment Management expenses

Investment management expenses are accounted for on an accruals basis. They include the fees paid and due to the fund managers, custodian, actuarial fees and performance measurement and investment consultant fees.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- MFS
- Morgan Stanley

Performance related fees paid in 2013/14 were £1.5m. No performance related fees were paid in 2012/13 as these managers were only appointed in October 2012.

Where an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2013/14 £2.8m of fees is based on such estimates (2012/13 £2.2m).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the fund.

Net asset statement

- Financial Instruments

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- **Market-quoted investments**
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- **Fixed interest securities**
Fixed interest securities are recorded at net market value based on their current yields.
- **Unquoted investments**
The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

- Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The fund's loans and receivables comprise of trade and other receivables and cash deposits.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2014. The fair value is the current bid price for quoted securities and unlisted securities.

Transaction costs are included in carrying value of investments. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Investments in private equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2014. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

The Acquisition costs of investments are included within the purchase price.

- **Property**

The fund's freehold and leasehold properties were valued on 31 March 2014 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

The funds external managers use derivative financial instruments to manage the exposure to specific risks arising from the fund's investment activities. The fund does not hold derivatives for speculative purposes or for any of the internally managed funds.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date.

- **Cash and cash equivalents**

Cash comprises of cash in hand and on demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

- **Financial liabilities**

The fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

- **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 29).

- **Additional voluntary contributions**

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 20.

- **Securities Lending**

Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation.

- **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Fund does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund. The Fund does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. **Critical judgements in applying accounting policies**

- Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

- Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 28. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. **Assumptions made about the future and other major sources of estimated uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Pension Fund's net asset statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent.	The market value of private equity and infrastructure investments in the financial statements totals £512.9m. There is a risk that these investments might be under or overstated in the accounts.
Local authority bond valuations.	The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.	The market value of local authority bonds totals £17.4m in the financial statements and there is a risk that this may be under or overstated.
Indirect overseas property valuations.	Overseas indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Overseas indirect property investments in the financial statements total £25.4m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £300 million. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £128m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £139m.

6. Contributions receivable

	2013/14 £m	2012/13 £m
Employers' contributions		
County Council	67.5	61.3
Scheduled Bodies	74.0	71.2
Admitted Bodies	13.1	12.6
	<u>154.6</u>	<u>145.1</u>
Pension Strain		
County Council	1.6	2.1
Scheduled Bodies	3.6	3.5
Admitted Bodies	0.2	0.3
	<u>5.4</u>	<u>5.9</u>
	<u>160.0</u>	<u>151.0</u>
Employee contributions		
County Council	22.2	20.6
Scheduled Bodies	26.8	26.3
Admitted Bodies	5.0	4.8
	<u>54.0</u>	<u>51.7</u>
Total contributions	<u>214.0</u>	<u>202.7</u>

Within the employee contributions figure for 2013/14, £0.4m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2013/14 £m	2012/13 £m
Individual transfers in from other schemes	7.1	9.9
	<u>7.1</u>	<u>9.9</u>

8. **Benefits**

	2013/14	2012/13
	£m	£m
Pensions	183.9	176.5
Lump sum retirement benefits	33.2	28.3
Lump Sum death benefits	4.0	5.4
	<u>221.1</u>	<u>210.2</u>

Relating to:

County Council	93.4	91.4
Scheduled Bodies	112.9	105.7
Admitted Bodies	14.8	13.1
	<u>221.1</u>	<u>210.2</u>

9. **Payments to and on account of leavers**

	2013/14	2012/13
	£m	£m
Individual transfers to other schemes	12.9	12.6
Bulk transfers to other schemes	2.4	0
	<u>15.3</u>	<u>12.6</u>

10. **Administrative expenses**

	2013/14	2012/13
	£m	£m
Administration and processing	4.2	3.8
Audit fee*	0.1	0.1
Legal and other professional fees	0.2	1.1
	<u>4.5</u>	<u>5.0</u>

*The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £38k (£41k in 2013/13).

11. Investment income

	2013/14	2012/13
	£m	£m
Fixed interest securities	31.5	21.5
Equity dividends	36.8	59.5
Index linked securities	1.6	1.2
Pooled investment vehicles	6.4	6.3
Net rents from properties	23.5	25.0
Interest on cash deposits	3.2	2.8
Other	2.3	4.5
	<u>105.3</u>	<u>120.8</u>

12. Net rents from Properties

	2013/14	2012/13
	£m	£m
Rental Income	27.4	28.1
Direct operating expenses	(3.9)	(3.1)
Net income	<u>23.5</u>	<u>25.0</u>

13. Operating leases

The Pension Fund leases out its investment properties under operating leases.

The future minimum leases receivable under non -cancellable leases in future years are:

	2013/14	2012/13
	£m	£m
Leases expiring in the following year	2.0	2.9
Leases expiring in two to five years	11.9	13.2
Leases expiring after five years	12.4	13.6
Total	<u>26.3</u>	<u>29.7</u>

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to Market Rent, a fixed uplift or in line with an index.

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to Market Rent 5 yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

14. Stock Lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2013/14 was £1.2m (2012/13 £0.6m)

Securities on loan at the 31st March 2014 were £131.7m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £129.9m of equities and £1.8m of bonds.

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £139.8m of government bonds.

15. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2013	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investments	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5

Derivative contracts:

Forward currency contracts asset value	121.4	21.4
Cash deposits	170.5	315.5
Investment accruals	21.6	12.4
Investment assets	<u>5,107.4</u>	<u>5,192.8</u>
Forward currency contracts liability value	(118.4)	(21.3)
Portfolio value	<u>4,989.0</u>	<u>5,171.5</u>

	Market Value at 1 April 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	623.4	501.1	(471.9)	191.0	843.6
Equities	1,613.7	1,409.8	(1,581.2)	307.0	1,749.3
Index linked securities	124.6	16.1	(29.1)	53.3	164.9
Pooled investments	1,466.3	696.6	(558.9)	(2.8)	1,601.2
Property	383.9	72.1	(5.3)	(15.8)	434.9
	<u>4,211.9</u>	<u>2,695.7</u>	<u>(2,646.4)</u>	<u>532.7</u>	<u>4,793.9</u>
Derivative contracts					
Futures	0.2	0.4	(0.5)	(0.1)	0.0
Forward currency Contracts*	1.6				3.0
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
Portfolio value	<u>4,359.9</u>				<u>4,989.0</u>

Within the £102.9m increase in market value of investments during the 2013/14 financial year, a reduction in market value of £33.9m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 18.j

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2013/14 amounted to £1.4m (2012/13: £2.2m).

The investment assets at 31 March 2014 were managed by eleven external investment managers, with the remaining managed in-house. The following table shows the split of the investment assets by investment manager

Summary of Manager's Portfolio Values

	31/03/14		31/03/13	
	£m	%	£m	%
<u>Externally Managed</u>				
<u>Equities</u>				
Baillie Gifford	793.0	15%	703.1	14%
Robeco	366.7	7%	354.5	7%
NGAM	285.8	6%	245.7	5%
MFS	269.6	5%	245.0	5%
AGF	239.9	5%	0.0	0%
Morgan Stanley	239.4	5%	234.1	5%
Magellan	197.5	4%	0.0	0%
Nomura Transition	1.9	0%	1.7	0%
<u>Private equity</u>				
Capital Dynamics	221.5	4%	229.1	4%
<u>Infrastructure</u>				
Capital Dynamics	118.6	2%	77.5	1%
<u>Credit and fixed income transition</u>				
BNYM Transition	82.5	2%	929.4	19%
<u>Property</u>				
Knight Frank	450.5	9%	434.9	9%
<u>Index tracking – multi asset</u>				
Legal & General	0.0	0%	582.1	12%
Externally Managed Portfolios	3,266.9	64%	4,037.1	81%

Internally Managed

Credit Strategies	784.1	15%	424.0	9%
Bonds and Cash	715.7	14%	224.4	5%
Equity Funds	206.6	4%	0.0	0%
Infrastructure Funds	172.8	3%	76.9	1%
Indirect Property Funds	25.4	0%	7.5	0%
Emerging Markets ETF	0.0	0%	219.1	4%
Internally Managed Portfolios	1,904.6	36%	951.9	19%
Total Portfolio Values	5,171.5	100%	4,989.0	100%

	31/03/14	31/03/13
	£m	£m
Fixed Interest Securities		
UK public sector quoted	-	294.9
UK corporate bonds quoted	76.0	225.0
Overseas corporate bonds quoted	157.0	323.7
	<u>233.0</u>	<u>843.6</u>

	31/03/14	31/03/13
	£m	£m
Equities		
UK quoted	231.3	218.3
Overseas quoted	1,689.8	1,531.0
	<u>1,921.1</u>	<u>1,749.3</u>

	31/03/14	31/03/13
	£m	£m
Index Linked Securities		
UK quoted	-	164.9
	<u>-</u>	<u>164.9</u>

	31/03/14 £m	31/03/13* £m
Pooled Investment Vehicles		
UK Managed Funds:		
Equity funds	-	166.0
Fixed Income funds	47.0	-
Venture Capital	264.8	*218.8
Overseas Managed Funds:		
Equity Funds	644.1	632.2
Fixed Income funds	970.3	*412.0
Property funds	25.1	7.5
Venture Capital	287.6	164.7
	<u>2,238.9</u>	<u>1,601.2</u>

* The custodian has provided the statutory notes for the accounts, this change has led to a review of the prior disclosure categories and some assets being reclassified and restated.

	31/03/14 £m	31/03/13 £m
Properties		
UK – Freehold	389.8	346.4
UK – Long Leasehold	60.7	88.5
	<u>450.5</u>	<u>434.9</u>

	2013/14 £m	2012/13 £m
Balance at start of the year	434.9	383.9
Additions	15.0	72.1
Disposals	(43.3)	(5.3)
Net gain/loss on fair value	43.9	(15.8)
Balance at the end of the year	<u>450.5</u>	<u>434.9</u>

Derivative contracts (forward currency positions)

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
one to six months	USD	3.7	AUD	(4.2)	2.2	(2.3)
one to six months	USD	30.5	CHF	(26.6)	18.3	(18.1)
up to one month	GBP	0.1	USD	(0.1)	0.1	(0.1)
up to one month	JPY	17.0	GBP	(0.1)	0.1	(0.1)
up to one month	USD	0.4	EUR	(0.3)	0.3	(0.3)
up to one month	USD	0.7	JPY	(70.1)	0.4	(0.4)
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1
Prior year comparative						
Open forward currency contracts at 31 March 2013					121.3	(118.4)
Net forward currency contracts at 31 March 2013						2.9

Forward Foreign currency contracts are used to hedge against foreign currency movements.

	31/03/14 £m	31/03/13 £m
Cash Deposits		
Sterling	148.0	116.6
Foreign currency	167.5	53.9
	<u>315.5</u>	<u>170.5</u>

16. **Financial Instruments classification**

The accounting policy on financial instruments describes how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31/03/14	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	1,661.4	-	-
Pooled property investments	25.1		
Venture Capital	552.4		
Derivative Contracts	21.4		
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total Financial Assets	4,426.8	343.8	-
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total Financial Liabilities	21.3	-	11.7

Fair through profit or loss	value profit or loss	Loans and receivables	and receivables	Financial liabilities at amortised cost
--	-------------------------------------	--------------------------------------	----------------------------	--

31/03/13

	£m	£m	£m
Financial assets		-	-
Fixed interest securities	843.6	-	-
Equities	1,749.3	-	-
Index linked securities	164.9	-	-
Pooled investment vehicles	1,601.2	-	-
Derivative contracts	4.9	-	-
Cash deposits	-	170.5	-
Investment accruals	21.6	-	-
Debtors	-	31.7	-
Total Financial Assets	4,385.5	202.2	-
Financial liabilities			
Derivative contracts	1.9	-	-
Creditors	-	-	9.7
Total Financial Liabilities	1.9	-	9.7

17. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £59.0m (2012/13 £548.4m)

18. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit

trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. The technique for valuing these assets is independently verified.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure, local authority bonds and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparables and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and valuation Standards. These valuations are performed monthly.

The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.

The table below provides an analysis of the financial assets and liabilities of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

31/03/14	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total Financial assets	3,314.6	179.9	929.9	4,424.4
Financial Liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total Financial Liabilities	21.3	-	-	21.3

31/03/13	*Level 1 £m	*Level 2 £m	*Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	*2,881.5	*977.1	*648.3	4,506.9
Total Financial assets	2,881.5	977.1	648.3	4,506.9
Financial Liabilities				
Financial liabilities at fair value through profit and loss	*118.4	-	-	118.4
Total Financial Liabilities	118.4	-	-	118.4

*Financial instruments at 31st March 2014 have been categorised into levels 1, 2, and 3 based upon a review of individual investments rather than on the basis of investment manager portfolios as was the policy at 31st March 2013. Comparatives have been restated accordingly.

19. Nature and extent of risks arising from Financial Instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	4.8%
Overseas bonds	4.8%
UK equities	11.9%
Overseas equities	11.9%
Index linked Gilts	4.8%
Alternatives	3.8%
Property	2.7%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is shown below):

Asset Type	31/03/14	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Investment portfolio assets:				
UK bonds	76.0	4.8%	79.6	72.3
Overseas bonds	157.0	4.8%	164.5	149.5
Total equities	1,921.1	11.9%	2,149.7	1,692.5
Alternatives	2,238.9	3.8%	2,324.0	2,153.8
Property	450.5	2.7%	462.7	438.3
Total asset available to pay benefits	4,843.5		5,180.5	4,506.4

Asset Type	31/03/13	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.8	496.0
Overseas bonds	323.7	8.7%	351.8	295.5
Total equities	1,749.3	12.8%	1,973.2	1,525.5
Index linked gilts	164.9	8.1%	178.2	151.5
Alternatives	1,601.2	3.6%	1,658.8	1,543.6
Property	434.9	1.8%	442.7	427.1
Total asset available to pay benefits	4,793.9		5,148.5	4,439.2

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/14	31/03/13
	£m	£m
Cash and cash equivalents	315.5	170.5
Fixed interest securities	1,250.3	1,255.5
Total	1,565.8	1,426.0

Interest rate risk sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that

long-term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Change in year in net assets available to pay benefits		
	31/03/14	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in asset available	1,565.8	15.6	(15.6)

Asset Type	Change in year in net assets available to pay benefits		
	31/03/13	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	170.5	1.7	(1.7)
Fixed interest securities	1,255.5	12.5	(12.5)
Total change in asset available	1,426.0	14.2	(14.2)

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than £.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The table on the following page summarises the fund's currency exposure as at 31 March 2014 and as at the previous year end:

Currency exposure – asset type

	31/03/14	31/03/13*
	£m	£m
Overseas quoted securities	1,689.8	1,531.0
Overseas corporate bonds (quoted)	157.0	323.7
Overseas fixed income	970.3	*412.0
Overseas pooled investments	956.8	*804.4
Total overseas assets	3,773.9	3,071.1

*Classification by asset type has been reviewed at an individual asset level for 2013/14. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6% (as measured by one standard deviation).

A 6% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	31/03/14	Change to net assets available to pay benefits	
		+6.0%	-6.0%
	£m	£m	£m
Overseas quoted securities	1,689.8	1,791.1	1,588.4
Overseas corporate bonds (quoted)	157.0	166.4	147.6
Overseas fixed income	970.3	1,028.5	912.1
Overseas pooled investments	956.8	1,014.2	899.4
Total change in assets available	3,773.9	4,000.2	3,547.5

Currency exposure – asset type	31/03/13*	*Change to net assets available to pay benefits	
		+6.1%	-6.1%
	£m	£m	£m
Overseas quoted securities	1,531.0	1,624.4	1,437.6
Overseas corporate bonds (quoted)	323.7	343.5	303.9
Overseas fixed income	*412.0	*437.1	*386.8
Overseas pooled investments	*804.4	*853.5	*755.3
Total change in assets available	3,071.1	3,258.5	2883.6

*Classification by asset type has been reviewed at an individual asset level for 2013/14. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remain outstanding, and the cost of replacing the derivatives position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivatives contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31st March 2014 was £315.5m (31 March 2013: £170.5m.) This was held with the following institutions:

Summary	Rating	31/03/14	31/03/13
		£m	£m
Bank deposit accounts			
Ulster Bank	Baa3	5.0	5.0
Northern Trust	A1	248.0	75.0
Svenska Handelsbanken	Aa3	61.4	0.0
Bank of Scotland	A2	-	50.0
Bank Current Accounts			
NatWest Account	Baa1	1.1	40.5
Total		315.5	170.5

Liquidity risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

All financial liabilities at 31 March 2014 are due within the one year.

20. Additional Voluntary Contributions (AVC's)

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers).

The figures relate to the financial year 1 April 2013 to 31 March 2014 for Prudential and 1 September 2012 to 31 August 2013 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional Voluntary Contributions

	Equitable Life £m	Prudential £m	Total £m
Value at the start of the year	1.1	15.9	17.0
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	5.3	5.4
Expenditure (incl. Benefits, transfers out, change in market value)	(0.1)	(1.4)	(1.5)
Value at the end of the year	<u>1.1</u>	<u>19.8</u>	<u>20.9</u>

21. Investment management expenses

	2013/14 £m	2012/13 £m
Administration, management and custody	11.0	6.9
Performance measurement service	0.1	0.2
Other advisory fees	0.2	0.1
	<u>11.3</u>	<u>7.2</u>

22. Current assets

	31/03/14 £m	31/03/13 £m
Contributions due from: Employers	14.4	12.5
: Members	4.4	4.4
Debtors: Bodies external to general government	9.5	14.8
	<u>28.3</u>	<u>31.7</u>

	31/03/14	31/03/13
	£m	£m
Other local authorities	15.5	18.9
NHS bodies	0.1	0.1
Public corporations and trading funds	0.1	0.1
Other entities and individuals	12.6	12.6
	<u>28.3</u>	<u>31.7</u>

23. Current liabilities

	31/03/14	31/03/13
	£m	£m
Unpaid benefits	0.6	2.3
Accrued expenses	11.1	7.4
	<u>11.7</u>	<u>9.7</u>

	31/03/14	31/03/13
	£m	£m
Other local authorities	4.0	4.2
NHS bodies	-	0.4
Other entities and individuals	7.7	5.1
	<u>11.7</u>	<u>9.7</u>

24. Contingent Asset and Liability

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigation, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts.

The Pension Fund has entered into a number of other claims that are not financially material which may result in additional income for the Fund.

25. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £594.5m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

The Fund entered into a new venture capital commitment in November 2013. This will be internally managed and as at 31st March 2014 there had been no drawdowns on the commitment of £17.9m.

In April 2013, the Fund approved the direct investment into a property development in St Albans. The Fund is the sole investor in this town centre hotel and retail development. The Fund has a commitment to pay monthly staged payments to fund the development plus a balancing payment at completion. The outstanding commitment at 31st March 2014 amounts to £7.1m.

26. Related Party Transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions. They include:

- At 31 March 2014, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 99 scheduled and 198 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2013/14. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £4.2 million (2012/13: £3.8 million) in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to Pension and Investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £69.1 million to the fund in 2013/14 (2012/13:£63.4m million). All monies owing to and due from the fund were paid in year.

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

27. Icelandic Investment

The Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2013; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 51.8% of the total claim has now been repaid and the outstanding balance at 31st March 2014 is £1.2m. The exact timing and amount of future distributions is not known at this stage. The deposit is treated as an asset on the net asset statement and the carrying value is written down as distributions are received.

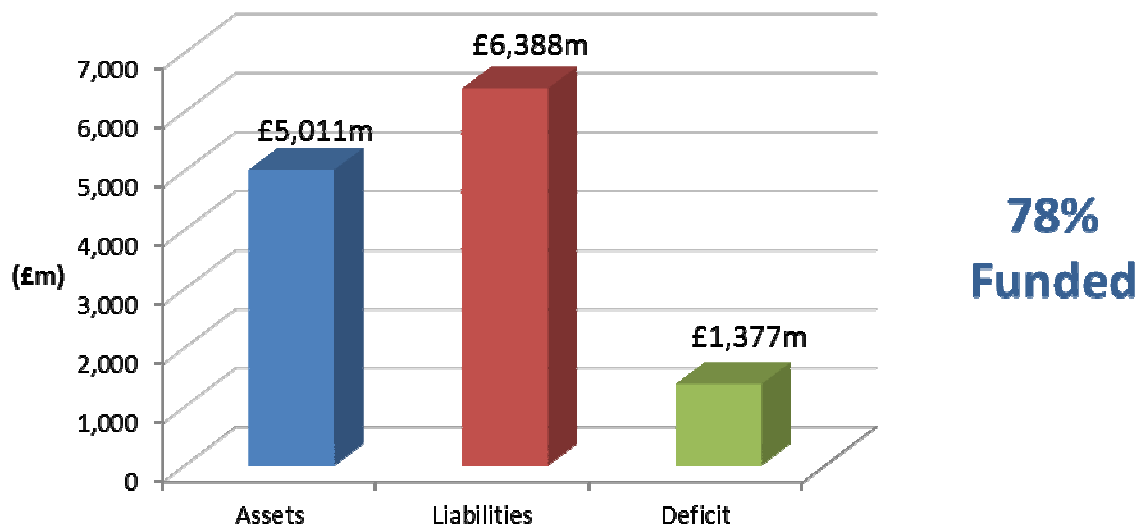
28. Funding Arrangements

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement.

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing

at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

29. Actuarial Present Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.4% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation alongside a reduction in the long-term rate of real pay growth (1.5% p.a. versus 2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £7,373 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£614 million. Adding interest over the year increases the liabilities by c£310million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£33 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£185 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £6,917 million.

30. Events after the net asset statement date

Greater Manchester Pension Fund has been chosen by the Ministry of Justice to administer the Local Government Pension Scheme in respect of the National Probation Service and Community Rehabilitation Companies with effect from 1st June 2014. Active and deferred members of Lancashire County Pension Fund who are affected by this change transferred to the Greater Manchester Pension Fund on 1st June 2014. Probation Service pensioners who are currently members of the Lancashire County Pension Fund are scheduled to transfer out to Greater Manchester Pension Fund at the end of September 2014. The transfer share of assets is expected to be in the region of £85m and the share of liabilities of the order of £109m.

Glossary

Accounting Policies

The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Accumulated Absences Account

The accumulated absences account absorbs the differences that would otherwise arise on the County Fund balance from accruing for compensated absences earned but not taken in the year,

Actuary

An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses

A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund’s assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Administrative Expenses (IAS 19)

The administration costs of running the pension fund

Agency services

Services which one council is responsible for, but which another council provides (as the agent). The council responsible pays the agent council the cost of the services provided.

Amortisation

An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation

A contribution to or from a financial reserve.

Audit qualification

A comment made by the auditors if they are not completely satisfied with the accounts.

Budget

A statement which reflects the County Council’s policies in financial terms and which sets out its spending plans for a given period.

Capital assets

Assets bought through capital expenditure. They are also known as ‘capital items’ and ‘fixed assets’.

Capital creditors

Amounts owed by the county council for spending on buying or improving assets.

Capital expenditure

Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads.

Capital funding

Money to support spending on capital projects.

Capital grant

Money received for capital items (see 'capital expenditure' above).

Capital investment

Money invested in capital projects.

Capital projects

Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

Capital receipts

Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital value

Amount spent on capital.

Capitalise

To treat as capital expenditure rather than revenue expenditure.

Cash equivalents

Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions

Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items

Central overheads e.g. payroll costs.

CIPFA

The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund

The system used by district and borough councils to keep council tax separate from their own accounts. The amount in the fund each year is fed into the council tax calculation for the following year.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the County Fund from the Collection Fund.

Construction contract

A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities

Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Corporate governance

The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

County Fund

The main revenue fund used to provide County Council services. Income to the fund consists of the county precept on the collection funds, government grants and other income.

Creditors

Amounts owed by the County Council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities

Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)

The increase in the County Council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailed cost (IAS 19)

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption

Where a debt is repaid early.

Debtors

Amounts owed to the County Council which had not been paid by the date of the balance sheet.

Deferred liabilities

Debts to be settled sometime in the future, but the actual date is not certain.

Defined benefit scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation

Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)

The county council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Direct service organisation (DSO)

An organisation set up within the county council to carry out certain activities subject to competitive tendering.

Employer's pension contributions

Payments to the pension scheme made by the county council for current employees.

Expected return on assets (IAS 19)

The average rate of return expected on investment assets held by the pension scheme.

Fair value

The amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

Financial Instruments Adjustment Account

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

Financial year

The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

Financing charges

Repayments on amounts loaned to the county council by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets

Assets intended to be used for several years – for example, buildings, machinery and vehicles.

Global custodian

A financial institution responsible for keeping up-to-date records of equities and bonds owned by a pension fund.

Government grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Historic cost

The cost of an asset at the time it was bought.

Impairment

Where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Infrastructure assets

Highways fixed assets – for example, roads and bridges.

Intangible assets

Assets which do not have a physical form. Examples include computer software, brand names, patents and copyrights.

Interest cost (pensions)

The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Investing activities

The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality

The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision

The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate (NNDR)

The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more than the retail price index. Rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

Net book value

The amount at which fixed assets are included in the balance sheet (i.e. their historical cost or current value less the cumulative amounts provided for depreciation).

Net nil trading position

This is where spending matches income.

Net pension liability

The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value

The amount for which an asset can be sold, less the cost of selling it.

Nil consideration

Where no charge is made for an item.

Nominal value of a financial instrument

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-distributed costs

These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets

Assets which are not in use.

Operating lease

A lease where ownership of the goods remains with the company leasing them.

Operational assets

Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Past service cost or gain (IAS 19)

The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to regulations.

Pension enhancements

Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

Pooled investment vehicle

Where a pension fund invests in a fund with other investors. This fund in turn buys and owns assets.

Precept

A charge made by one authority which is collected by another authority – for example, the council tax precept.

Principal

The amount of money borrowed, not including interest charges.

Principal repayment of debt

Re-payment of a loan, not including interest charges.

Prior period adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private finance initiative (PFI)

A means of securing new assets and associated services in partnership with the private sector.

Projected unit method (Pensions)

An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- (b) The accrued benefits for members in service on the valuation date (accrued benefits are the benefits for service up to a given point in time, whether vested rights or not).

Provisions

Liabilities of uncertain timing or amount.

Public Works Loan Board (PWLB)

A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Realisable value

The amount for which an asset can be sold.

Reconciliation

The process of checking figures from different sources which should logically match up – for example, matching invoices paid against amounts banked.

REFCUS (Revenue Expenditure Funded from Capital Under Statute)

Capital expenditure which does not create or add to the value of an item of property, plant or equipment belonging to Lancashire County Council.

Related party

A person or organisation which has influence over another person or organisation.

Remeasurements – Assets (IAS 19)

The return on assets net of administration expenses and interest on income

Remeasurements – Liabilities (IAS 19)

Remeasurement On liabilities that are subdivided into 'Experience gains (losses) on liabilities, gain (loss) on financial assumptions and gain (loss) on demographic assumption

Reserves

Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value

The amount an asset can be sold for, less the cost of selling it.

Revenue account

An account which records the county council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue expenditure

The county council's day-to-day spending. This consists mainly of salaries and wages, running costs and financing charges.

Revenue Support Grant

A general grant from central government to contribute towards the cost of providing services.

Reversed out

This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

Specific grants

Government grants for a particular service – for example, the Standards Fund Grant.

Tangible assets

Assets which have a physical form – for example, buildings, furniture and equipment.

Transfers in/out

Transfers of money either into or out of the pension fund, from another pension fund.

Transfer value

A payment made by one pension fund to another when a scheme member changes schemes.

Useful life

The period which an asset is expected to be available for use.

Write down

This is where amounts are charged to the revenue account or offset against another balance sheet account.

Audit & Governance Committee

Meeting to be held on 29 September 2014

Electoral Division affected:

All

External Audit

Lancashire County Pension Fund Audit Findings Report 2013/14

Contact for further information:

Karen Murray, 0161 234 6364, Director, Grant Thornton

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Executive Summary

The external auditor is required to report to you 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 the pension fund and their proposed opinion on those accounts.

Recommendation

The Committee is asked to:

- take note of the adjustments to the financial statements and the other issues raised by the auditor which are set out in the report;
- approve the letter of representation on behalf of the Council before the auditor issues their opinion.

Background and advice

Attached at Appendix 'A' is the external auditor's annual findings report for Lancashire County Pension Fund for the 2013/14 audit. The report has been produced in accordance with the Audit Commission's statutory Code of Audit Practice for Local Government bodies.

Karen Murray, Director will attend the meeting to present the report and respond to questions.

Consultations

The report has been agreed with the Treasurer and Deputy Treasurer.

Implications

This item has the following implications, as indicated:

N/A

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
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N/A



The Audit Findings Report for Lancashire County Pension Fund

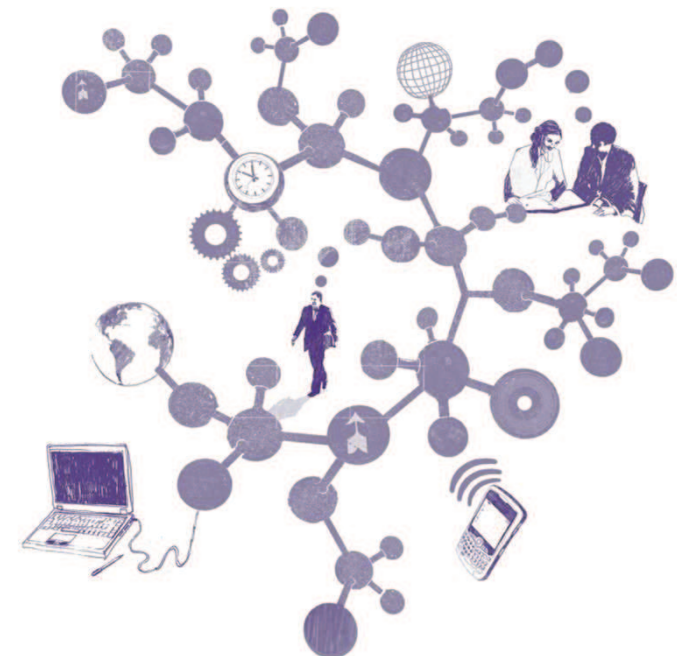
Year ended 31 March 2014

September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

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2. Audit findings	6
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4. Developments relevant to your pension fund and the audit	17
5. Communication of audit matters	19

Appendices

- A Audit opinion with Lancashire County Council statements
- B Audit Opinion for the Pension Fund Annual Report

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Future developments

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Lancashire Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 31 March 2014.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation;
- updating our post net asset statement events review up to the date of signing the audit opinion;
- our review of the Annual report; and
- our final review procedures, including agreement of amended accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unmodified opinion on the Fund's financial statements.

We have not identified any adjustments affecting the Fund's reported financial position, which recorded net assets carried forward of £5.2bn. We have agreed a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the draft financial statements were provided at the start of our audit work and high quality working papers were made available;
- one adjustment was required to the wording on a restatement to investments and liabilities 2012/13 balances on the Net Asset Statement to make it clear it is not a prior period adjustment but has been updated for comparability only;
- some disclosure and compliance improvements were needed, but no fundamental or other material adjustments were required;
- officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and resolved our queries promptly.

Further details are set out in section 2 of this report.

Acknowledgement

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

Grant Thornton UK LLP
September 2014

Section 2: *Audit findings*

01. Executive summary

02. **Audit findings**

03. Fees, non audit services and independence

04. Future developments

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 31 March 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 31 March 2014.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our audit opinions are set out in Appendix A and B.

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There no material adjusted or unadjusted misstatements to report.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Lancashire County Pension Fund. This is because:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is, in many respects, relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension Fund, its Fund Managers and the Custodian, provides a clear separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. <p>Other related revenue recognition audit work, included</p> <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual, significant transactions. 	<p>Our rebuttal presumption and other audit related work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken:</p> <ul style="list-style-type: none"> • a review of accounting estimates, judgements and decisions made by management • testing of journals entries • a review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular, our review of journal controls and testing of journal entries have not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	<ul style="list-style-type: none"> • Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed independent verification of year end holdings and in-year purchases and sales from the fund managers and the custodian. • a reconciliation between information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for any variances. • tested the valuation of a sample of the individual investments held by the Fund at the year end. For any unquoted investments we critically assessed the assumptions and basis of underlying estimations of investment values. • completed procedures to enable us to rely on pension fund's property valuers in respect of property investments and we have tested for completeness and validity. • confirmed the existence of investments directly with the independent custodian and property valuer or by agreement to relevant documentation. 	<p>Our audit work has not identified any investments held by the Fund that are not valid, or where the fair value measurement is not correct.</p> <p>Our audit work supports the valuations of investments where estimation techniques and judgement have been applied.</p>
Benefit Payments	<ul style="list-style-type: none"> • Benefits improperly computed/ liability understated 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • performed tests of controls over new pensions in payment and associated lump sum benefits. • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends have been satisfactorily explained. • compared the movements on membership statistics to material transactions in the accounting records. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks - continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	<ul style="list-style-type: none"> Recorded contributions not correct 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> performed a test of controls on the Administering Authority's contributions monitoring procedures. rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends have been satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Member data	<ul style="list-style-type: none"> Member data not correct Regulatory/scheme rules requirements not met Actuarial amounts not determined properly 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> confirmed the system of controls and reconciliations covering the determination of member eligibility, the input of evidence into the Pensions Administration System and the maintenance of member records. substantively tested changes to Member Data. examined the reconciliation of membership numbers for each category of member to previous year's figures via retirements, leavers and starters. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

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Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Contribution Income: normal contributions for both employee and employers is accounted for on an accruals basis. Transfers to and from the scheme: Transfers are recognised when they are received / paid. Investment Income: The Fund adopts several different recognition approaches dependent on the types of investment as disclosed within the statements. 	<ul style="list-style-type: none"> The revenue recognition policies of the Fund are appropriate and in line with the relevant accounting framework. The application of the revenue recognition policies at the Fund is not considered complex, and our testing has not identified any inappropriate revenue recognition. 	Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> investment valuation for unquoted, hard to value investments pension fund actuarial valuations and settlements. 	<ul style="list-style-type: none"> The valuation of the Fund's hard-to-value investments have been substantively tested to gain assurance that it is not materially misstated We have confirmed that the work of the actuary is in line with professional standards and regulation, and that they are a reliable source of estimation relating to the pension fund liabilities. 	Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any significant issues which we wish to bring to your attention, however, some minor presentational improvements have been agreed. 	Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Misclassifications & 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.

Adjustment type	Account balance	Impact on the financial statements
1 Disclosure	Leases (Operating Leases)	The rental arrangements relating to the investment properties of the Fund have been assessed as operating leases. Appropriate additional disclosures including minimum lease payments have been made.
2 Disclosure	<p>Other disclosure notes including:</p> <ul style="list-style-type: none"> • Accounting policies <ul style="list-style-type: none"> • Note 4 Critical judgements and estimates • Note 15 Reconciliation of movements in investments and derivatives • Note 16 Financial Instruments classification • Note 19 Nature and extent of risks arising from financial instruments • Footnote to Net Assets Statement 	<p>A number of other changes have been agreed to the financial instrument disclosure notes to ensure that they meet the Code and accounting standards requirements, and to other disclosures to improve clarity.</p> <p>The key changes amended by management have been:</p> <ul style="list-style-type: none"> • Accounting policies required additional narrative on investment income and financial liabilities disclosures. • Critical judgements and estimates disclosure updated to clarify which are the most significant judgements and to highlight which judgements are the most important. • Reconciliation of movements in investments and derivatives expanded to clarify the reconciliation between summary of portfolio values to investment categories. • Financial Instruments classification expanded to reflect these are not all designated at fair value through the profit and loss because there are assets and liabilities in other IFRS7.8 categories. • Nature and extent of risks arising from financial instruments edited so that fixed interest securities removed from the interest rate risk section and the price risk disclosures investment accruals was incorrectly classified as a cash equivalent. • Comparators on the face of the Net Assets Statement have been restated, but do not meet the requirements for a prior period adjustment (under IAS1). The amendment is to allow comparability, in line with Code of Practice on Local Authority Accounting (3.4.20).

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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. We have not identified any issues of significance to bring to your attention.

As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Administering Authority. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issue arose from our work. We identified a small number of areas where the Council's existing IT arrangements can be further developed. None of these are specific to the Pension Fund and have been shared with the Chief Financial Officer for information.

From the work we have completed we have not identified any significant weaknesses in internal controls.

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and were not informed of any significant matters in relation to fraud. 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements with exception of those listed on page 12.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed with the exception of key management personnel disclosures. However, this is due to a difference in interpretation of the CIPFA Code in this respect: IAS 24 requires the inclusion of an extended disclosure note about the compensation of key management personnel. The CIPFA code includes a specific dispensation from this requirement, instead following the regulatory disclosure requirements around remuneration of members and staff. The Fund has chosen to follow the CIPFA example pension fund accounts which refer to this dispensation in the Pension Fund disclosure notes, (note 24), and cross references the reader to the Council's main financial statements where such regulatory disclosures are made. In our view, such a disclosure is not appropriate since the regulatory disclosures in the Council's main accounts include senior management personnel who are not involved in the management of the pension fund and will exclude some who are. Additionally, in the context of the separately published Pension Fund Annual Report., such cross referencing is not helpful. In our view the Fund should either make the full IAS24 disclosures within the pension fund accounts, or make the regulatory disclosures set out in the Code specific to those key management personnel involved in the Pension Fund. However we recognise that the position taken by the Fund is not inconsistent with the Code or CIPFA's guidance (in the form of the example pension fund accounts provided by them).
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

01. Executive summary

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and providing assurance to other auditors agreed under the IAS19 protocol

Fees

	Per Audit plan £	Actual fees £
Fund audit	34,169	34,169
IAS19 Protocol audit work	1,737	1,737
Total audit fees	35,906	35,906

There is no change in the audit fee as reported in the Audit Plan. The audit fee of £1,737 relates to providing assurance to other auditors under the IAS19 protocol, which has been approved by the Audit Commission and discussed with officers.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the in-charge member of our team has a family member who works within the Pension Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake any work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 requirement of the Auditing Practices Board's Ethical Standards.

Section 4: Future developments

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Future development

05. Communication of audit matters

Developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
<p>1. Financial reporting</p> <p>CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.</p>	<p>2. Legislation</p> <p>Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.</p>	<p>3. Actuarial valuation</p> <p>Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.</p>	<p>4. Other issues</p> <p>The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on its exposure to risks and reflect on the impact this has for their investment strategies.</p>
Developments relevant to future periods			
<p>1. Financial reporting</p> <p>Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.</p>	<p>2. Legislation</p> <p>From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS.</p> <p>The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.</p>	<p>3. Structural reform</p> <p>DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds.</p> <p>The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.</p>	<p>4. Other issues</p> <p>The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.</p>

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Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion for Lancashire County Council as Administering Authority

We anticipate that we will provide the Fund with an unmodified audit report within the Lancashire County Council financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Lancashire County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2013/14.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of responsibilities for statement of accounts, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Introduction

to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the Introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Karen Murray
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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

30th September 2014

Appendix B: Audit opinion for the Annual Report

We anticipate that we will provide the Fund with an unmodified audit report within the Pension Fund Annual Report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Treasurer and the auditor

As explained more fully in the Statement of responsibilities for the statement of accounts, the Treasurer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Lancashire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only Foreword, Administration of Fund, Investment Policy and Performance and Actuarial Valuation.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Lancashire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Karen Murray
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
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30 September 2014



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Audit and Governance Committee

Meeting to be held on 29th September 2014

Electoral Division affected: All

Approval of the Lancashire County Pension Fund's Statement of Accounts 2013/14

(Appendix A refers)

Contact for further information:

Abigail Leech, 01772 530808, County Treasurers, Abigail.Leech@lancashire.gov.uk

Executive Summary

The Lancashire County Pension fund is administered by Lancashire County Council and the accounts of the Pension Fund are published in the County Council's Statement of Accounts and also in the Annual Report of the Pension Fund. The accounts of the Pension Fund are subject to the Accounts and Audit (England) Regulations 2013, governing the finalisation of the County Council's accounts. The regulations require that the Chair of the committee that approves the accounts must sign and date them by 30 September 2014. The 2013/14 Pension Fund Statement of Accounts is included as an attachment.

Recommendation

The committee is requested to review and approve the Lancashire County Pension Fund's Statement of Accounts for 2013/14 and the Chair of the committee is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

Under Government Regulations relating to the dates for the finalisation of Local Authorities' Statement of Accounts, the approval of the Statement of Accounts of the County Council and the Pension Fund has been delegated by the County Council to the Audit and Governance Committee. The regulations state that the deadline for approving the accounts for the financial year 2013/14 is 30th September 2014. The Chair of the Committee is required to sign and date the copy of the Statement of Accounts at the Audit and Governance Committee meeting.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and initial consultation with the Audit Commission.

The Lancashire County Pension Fund's Statement is attached at Appendix A.

The committee is requested to approve the Statement of Accounts and the Chair is requested to sign the tabled copy on page 5.

Consultations

The Accounts of the County Council, including those of the Lancashire County Pension Fund, were placed on deposit and available for public inspection between the 7th July and 1st August 2014.

Implications:

N/A.

Risk management

N/A

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

Paper	Date	Contact/Directorate/Tel
Final Accounts working papers	2013/14	Abigail Leech County Treasurers 01772 530808
Accounts and audit regulations	2013	

Lancashire County Pension Fund

Accounts 2013 / 2014

Accounts of the Fund

Responsibilities for the Statement of Accounts

The Responsibilities of the Administering Authority

The Administering Authority is required:

- ◆ To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the County Treasurer, who is also the Treasurer to the Pension Fund;
- ◆ To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The Responsibilities of the Treasurer to the Pension Fund

The Treasurer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Treasurer to the Pension Fund has:

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

In addition, the Treasurer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 2014 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
29 September 2014

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Treasurer and the auditor

As explained more fully in the Statement of responsibilities for the statement of accounts, the Treasurer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Lancashire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only Foreword, Administration of Fund, Investment Policy and Performance and Actuarial Valuation.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Lancashire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Karen Murray

Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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

29 September 2014

Fund Account

	Note	2013/14 £m	2012/13 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	214.0	202.7
Transfers in	7	7.1	9.9
		<u>221.1</u>	<u>212.6</u>
Benefits	8	(221.1)	(210.2)
Payments to and on account of leavers	9	(15.3)	(12.6)
Administrative expenses	10	(4.5)	(5.0)
		<u>(240.9)</u>	<u>(227.8)</u>
Net withdrawals from dealings with members		<u>(19.8)</u>	<u>(15.2)</u>
Return on investments			
Investment income	11	105.3	120.8
Profit and loss on disposal of investments and change in market value of investments	15	102.9	532.6
Investment management expenses	21	(11.3)	(7.2)
Net return on investments		<u>196.9</u>	<u>646.2</u>
Net increase (decrease) in the net assets available for benefits during the year		<u>177.1</u>	<u>631.0</u>

Net Asset Statement

	Note	31/03/14 £m	31/03/13 £m
Investment assets	15	5,192.8	*5,107.4
Investment liabilities	15	(21.3)	*(118.4)
Current assets	22	28.3	31.7
Current liabilities	23	(11.7)	(9.7)
		<hr/>	<hr/>
Net assets of the fund available to fund benefits at the period end		5,188.1	5,011.0
		<hr/>	<hr/>

*The prior year has been restated to present net forward currency contracts in a comparable manner.

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

**Treasurer to the Lancashire
County Pension Fund**

County Councillor Terry Brown

**Chair of the Audit and Governance
Committee**

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The county council is the reporting entity for this pension fund.

The published accounts show that in 2013/14 cash inflows during the year consisted of £326.4 million and cash outflows were £252.2 million, representing a net cash inflow of £74.2 million (compared with an inflow of £98.4 million in the previous year). Benefits payable amounted to £221.1 million and were partially offset by net investment income of £105.3 million (including £12.4 million accrued dividends); contributions of £214.0 million and transfers in of £7.1 million produced the positive cash inflow.

a) General

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

The fund is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees of Lancashire County Council, the district councils in Lancashire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The investments of the Pension Fund are managed by eleven external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at [Your Pension Service - Lancashire Fund Information](#)

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

The 297 organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation.

- Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Participation in the Pension Fund

	Number at 31 March 2014	Number at 31 March 2013
(1) Active Scheme Members		
Scheduled Bodies	50,536	49,391
Admitted Bodies	4,208	3,572
Total	54,744	52,963
(2) Pensioners		
Pensions in Payment	42,278	40,885
Preserved Pensions	53,895	49,837
Total	96,173	90,722
Total membership	150,917	143,685

c) Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employers' contributions are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2014 was done at 31 March 2010. The latest valuation was carried out at 31st March 2013 and will be applicable for 3 financial years commencing 1st April 2014. Currently employer contributions range from 8.6% to 70.3% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

LGPS 2014

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton.

After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay
- an accrual rate of 1/49th of pensionable pay
- revaluation of benefits in line with the CPI
- a Normal Pension Age equal to State Pension Age
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits
- a vesting period of two years

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing councillor members as at 31 March 2014 will leave the Scheme at the end of their current fixed term of office.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2013/14 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 29 of these accounts.

3. Accounting Policies

Fund Account revenue recognition

- **Contribution income**

Normal contributions both from members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

- **Transfers**

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the fund during the financial year and are calculated in accordance with Local Governance Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

- **Investment Income**

- i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

- iii. Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv. Rental income

Net rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are only recognised when contractually due.

v. Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account –expense items

- **Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net asset statement as current liabilities.

- **Taxation**

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

- **Investment Management expenses**

Investment management expenses are accounted for on an accruals basis. They include the fees paid and due to the fund managers, custodian, actuarial fees and performance measurement and investment consultant fees.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- MFS
- Morgan Stanley

Performance related fees paid in 13/14 were £1.5m. No performance related fees were paid in 12/13 as these managers were only appointed in October 2012.

Where an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2013/14 £2.8m of fees is based on such estimates (2012/13 £2.2m).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the fund.

Net asset statement

• Financial Instruments

Financial assets, other than loans and receivables, are included in the net asset statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

The values of investments as shown in the net asset statement have been determined as follows:

• Market-quoted investments

The value of an investment for which there is a readily available market price is determined by bid market price ruling on the final day of the accounting period.

• Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

• Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

- Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The fund's loans and receivables comprise of trade and other receivables and cash deposits.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2014. The fair value is the current bid price for quoted securities and unitised securities.

Transaction costs are included in carrying value of investments. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Investments in private equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2014. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

The Acquisition costs of investments are included within the purchase price.

- **Property**

The fund's freehold and leasehold properties were valued on 31 March 2014 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes or for any of the internally managed funds.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date.

- **Cash and cash equivalents**

Cash comprises of cash in hand and on demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

- **Financial liabilities**

The fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

- **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 29).

- **Additional voluntary contributions**

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 20.

- **Securities Lending**

Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation.

- **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Fund does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund. The Fund does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. Critical judgements in applying accounting policies

- **Unquoted private equity and infrastructure investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 28. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Pension Fund's net asset statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent.	The market value of private equity and infrastructure investments in the financial statements totals £512.9m. There is a risk that these investments might be under or overstated in the accounts.
Local authority bond valuations.	The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.	The market value of local authority bonds totals £17.4m in the financial statements and there is a risk that this may be under or overstated.
Indirect overseas property valuations.	Overseas indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Overseas indirect property investments in the financial statements total £25.4m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £300 million. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £128m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £139m.

6. Contributions receivable

	2013/14 £m	2012/13 £m
Employers' contributions		
County Council	67.5	61.3
Scheduled Bodies	74.0	71.2
Admitted Bodies	13.1	12.6
	<u>154.6</u>	<u>145.1</u>
	2013/14 £m	2012/13 £m
Pension Strain		
County Council	1.6	2.1
Scheduled Bodies	3.6	3.5
Admitted Bodies	0.2	0.3
	<u>5.4</u>	<u>5.9</u>
	<u>160.0</u>	<u>151.0</u>
Employee contributions		
County Council	22.2	20.6
Scheduled Bodies	26.8	26.3
Admitted Bodies	5.0	4.8
	<u>54.0</u>	<u>51.7</u>
Total contributions	<u>214.0</u>	<u>202.7</u>

Within the employee contributions figure for 2013/14, £0.4m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2013/14 £m	2012/13 £m
Individual transfers in from other schemes	7.1	9.9
	<u>7.1</u>	<u>9.9</u>

8. Benefits

	2013/14 £m	2012/13 £m
Pensions	183.9	176.5
Lump sum retirement benefits	33.2	28.3
Lump Sum death benefits	4.0	5.4
	<u>221.1</u>	<u>210.2</u>
Relating to:		
County Council	93.4	91.4
Scheduled Bodies	112.9	105.7
Admitted Bodies	14.8	13.1
	<u>221.1</u>	<u>210.2</u>

9. Payments to and on account of leavers

	2013/14	2012/13
	£m	£m
Individual transfers to other schemes	12.9	12.6
Bulk transfers to other schemes	2.4	0
	<u>15.3</u>	<u>12.6</u>

10. Administrative expenses

	2013/14	2012/13
	£m	£m
Administration and processing	4.2	3.8
Audit fee*	0.1	0.1
Legal and other professional fees	0.2	1.1
	<u>4.5</u>	<u>5.0</u>

*The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £38k (£41k in 2012/13).

11. Investment income

	2013/14	2012/13
	£m	£m
Fixed interest securities	31.5	21.5
Equity dividends	36.8	59.5
Index linked securities	1.6	1.2
Pooled investment vehicles	6.4	6.3
Net rents from properties	23.5	25.0
Interest on cash deposits	3.2	2.8
Other	2.3	4.5
	<u>105.3</u>	<u>120.8</u>

12. Net rents from Properties

	2013/14	2012/13
	£m	£m
Rental Income	27.4	28.1
Direct operating expenses	(3.9)	(3.1)
Net income	<u>23.5</u>	<u>25.0</u>

13. Operating Leases

The pension Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2013/14	2012/13
	£m	£m
Leases expiring in the following year	2.0	2.9
Leases expiring in two to five years	11.9	13.2
Leases expiring after five years	12.4	13.6
Total	<u>26.3</u>	<u>29.7</u>

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to Market Rent, a fixed uplift or in line with an index.

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to Market Rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

14. Stock Lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2013/14 was £1.2m (2012/13 £0.6m)

Securities on loan at the 31st March 2014 were £131.7m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £129.9m of equities and £1.8m of bonds.

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £139.8m of government bonds.

15. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2013	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investments	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5
Derivative contracts:					
Forward currency contracts asset value	121.4				21.4
Cash deposits	170.5				315.5
Investment accruals	21.6				12.4
Investment assets	5,107.4				5,192.8
Forward currency contracts liability value	(118.4)				(21.3)
Portfolio value	4,989.0				5,171.5

	Market Value at 1 April 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	623.4	501.1	(471.9)	191.0	843.6
Equities	1,613.7	1,409.8	(1,581.2)	307.0	1,749.3
Index linked securities	124.6	16.1	(29.1)	53.3	164.9
Pooled investments	1,466.3	696.6	(558.9)	(2.8)	1,601.2
Property	383.9	72.1	(5.3)	(15.8)	434.9
	<u>4,211.9</u>	<u>2,695.7</u>	<u>(2,646.4)</u>	<u>532.7</u>	<u>4,793.9</u>
Derivative contracts:					
Futures	0.2	0.4	(0.5)	(0.1)	0.0
Forward currency contracts asset value	3.1				121.4
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
Investment assets	<u>4,361.4</u>				<u>5,107.4</u>
Forward currency contracts liability value	<u>(1.5)</u>				<u>(118.4)</u>
Portfolio value	<u><u>4,359.9</u></u>				<u><u>4,989.0</u></u>

Within the £102.9m increase in market value of investments during the 2013/14 financial year, a reduction in market value of £33.9m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 18.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2013/14 amounted to £1.4m (2012/13: £2.2m).

The investment assets at 31 March 2014 were managed by eleven external investment managers, with the remaining managed in-house. The following table shows the split of the investment assets by investment manager.

Summary of Manager's Portfolio Values	31/03/14		31/03/13	
	£m	%	£m	%
<u>Externally Managed</u>				
<u>Equities</u>				
Baillie Gifford	793.0	15%	703.1	14%
Robeco	366.7	7%	354.5	7%
NGAM	285.8	6%	245.7	5%
MFS	269.6	5%	245.0	5%
AGF	239.9	5%	0.0	0%
Morgan Stanley	239.4	5%	234.1	5%
Magellan	197.5	4%	0.0	0%
Nomura Transition	1.9	0%	1.7	0%
<u>Private equity</u>				
Capital Dynamics	221.5	4%	229.1	4%
<u>Infrastructure</u>				
Capital Dynamics	118.6	2%	77.5	1%
<u>Credit and fixed income transition</u>				
BNYM Transition	82.5	2%	929.4	19%
<u>Property</u>				
Knight Frank	450.5	9%	434.9	9%
<u>Index tracking – multi asset</u>				
Legal & General	0.0	0%	582.1	12%
Externally Managed Portfolios	3,266.9	64%	4,037.1	81%
<u>Internally Managed</u>				
Credit Strategies	784.1	15%	424.0	9%
Bonds and cash	715.7	14%	224.4	5%
Equity Funds	206.6	4%	0.0	0%
Infrastructure Funds	172.8	3%	76.9	1%
Indirect Property Funds	25.4	0%	7.5	0%
Emerging Markets ETF	0.0	0%	219.1	4%
Internally Managed Portfolios	1,904.6	36%	951.9	19%
Total Portfolio Values	5,171.5	100%	4,989.0	100%

	31/03/14 £m	31/03/13 £m
Fixed Interest Securities		
UK public sector quoted	0.0	294.9
UK corporate bonds quoted	76.0	225.0
Overseas corporate bonds quoted	157.0	323.7
	<u>233.0</u>	<u>843.6</u>

	31/03/14 £m	31/03/13 £m
Equities		
UK quoted	231.3	218.3
Overseas quoted	1,689.8	1,531.0
	<u>1,921.1</u>	<u>1,749.3</u>

	31/03/14 £m	31/03/13 £m
Index Linked Securities		
UK quoted	0.0	164.9
	<u>0.0</u>	<u>164.9</u>

	31/03/14 £m	*31/03/13 £m
Pooled Investment Vehicles		
UK Managed Funds:		
Equity funds	0.0	166.0
Fixed Income funds	47.0	0
Venture Capital	264.8	*218.8
Overseas Managed Funds:		
Equity Funds	644.1	632.2
Fixed Income funds	970.3	*412.0
Property funds	25.1	7.5
Venture Capital	287.6	164.7
	<u>2,238.9</u>	<u>1,601.2</u>

*The custodian has provided the statutory notes for the accounts, this change has led to a review of the prior year disclosure categories and some assets being reclassified and restated.

	31/03/14 £m	31/03/13 £m
Properties		
UK – Freehold	389.8	346.4
UK – Long Leasehold	60.7	88.5
	<u>450.5</u>	<u>434.9</u>

	31/03/14	31/03/13
	£m	£m
Balance at start of the year	434.9	383.9
Additions	15.0	72.1
Disposals	(43.3)	(5.3)
Net gain/loss on fair value	43.9	(15.8)
Balance at the end of the year	<u>450.5</u>	<u>434.9</u>

Derivative contracts (forward currency positions)

one to six months	USD	3.7	AUD	(4.2)	2.2	(2.3)
one to six months	USD	30.5	CHF	(26.6)	18.3	(18.1)
up to one month	GBP	0.1	USD	(0.1)	0.1	(0.1)
up to one month	JPY	17.0	GBP	(0.1)	0.1	(0.1)
up to one month	USD	0.4	EUR	(0.3)	0.3	(0.3)
up to one month	USD	0.7	JPY	(70.1)	0.4	(0.4)
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1
Prior year comparative						
Open forward currency contracts at 31 March 2013					121.3	(118.4)
Net forward currency contracts at 31 March 2013						2.9

Forward Foreign currency contracts are used to hedge against foreign currency movements.

	31/03/14	31/03/13
	£m	£m
Cash Deposits		
Sterling	148.0	116.6
Foreign currency	167.5	53.9
	<u>315.5</u>	<u>170.5</u>

16. Financial Instruments classification

The accounting policy on financial instruments describes how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31/03/14

2013/14

	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	1,661.4	-	-
Pooled property investments	25.1	-	-
Venture Capital	552.4	-	-
Derivative Contracts	21.4	-	-
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total Financial Assets	4,426.8	343.8	-
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total Financial Liabilities	21.3	-	11.7
31/03/13	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	843.6	-	-
Equities	1,749.3	-	-
Index linked securities	164.9	-	-
Pooled investment vehicles	1,601.2	-	-
Derivative contracts	4.9	-	-
Cash deposits	-	170.5	-
Investment accruals	21.6	-	-
Debtors	-	31.7	-
Total Financial Assets	4,385.5	202.2	-
Financial liabilities			
Derivative contracts	1.9	-	-
Creditors	-	-	9.7
Total Financial Liabilities	1.9	-	9.7

17. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £59.0m (2012/13 £548.4m)

18. Financial Instruments – Valuation

Valuation of financial instruments carried at fair value

The valuation of financial instruments carried at fair value has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. The technique for valuing these assets is independently verified.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure, local authority bonds and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparables and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

31/03/14	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total Financial assets	3,314.6	179.9	929.9	4,424.4
Financial Liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total Financial Liabilities	21.3	-	-	21.3

31/03/13	*Level 1 £m	*Level 2 £m	*Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	*2,881.5	*977.1	*648.3	4,506.9
Total Financial assets	2,881.5	977.1	648.3	4,506.9
Financial Liabilities				
Financial liabilities at fair value through profit and loss	*118.4	-	-	118.4
Total Financial Liabilities	118.4	-	-	118.4

* Financial instruments at 31st March 2014 have been categorised into levels 1, 2 and 3 based upon a review of individual investments rather than on the basis of investment manager portfolios as was the policy at 31st March 2013. Comparatives have been restated accordingly.

19. Nature and extent of risks arising from Financial Instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks

faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	4.8%
Overseas bonds	4.8%
UK equities	11.9%
Overseas equities	11.9%
Index linked Gilts	4.8%
Cash	0%
Alternatives	3.8%
Property	2.7%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest

rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is shown below):

Asset Type	31/03/14	Percentage	Value on	Value on
	£m	Change	Increase	Decrease
		%	£m	£m
Investment portfolio assets:				
UK bonds	76.0	4.8%	79.6	72.3
Overseas bonds	157.0	4.8%	164.5	149.5
Total equities	1,921.1	11.9%	2,149.7	1,692.5
Alternatives	2,238.9	3.8%	2,324.0	2,153.8
Property	450.5	2.7%	462.7	438.3
Total asset available to pay benefits	4,843.5		5,180.5	4,506.4

Asset Type	31/03/13	Percentage	Value on	Value on
	£m	Change	Increase	Decrease
		%	£m	£m
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.8	496.0
Overseas bonds	323.7	8.7%	351.8	295.5
Total equities	1,749.3	12.8%	1,973.2	1,525.5
Index linked gilts	164.9	8.1%	178.2	151.5
Alternatives	1,601.2	3.6%	1,658.8	1,543.6
Property	434.9	1.8%	442.7	427.1
Total asset available to pay benefits	4,793.9		5,148.5	4,439.2

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/14	31/03/13
	£m	£m
Cash and cash equivalents	315.5	170.5
Fixed interest securities	1,250.3	1,255.5
Total	1,565.8	1,426.0

Interest rate risk sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the

Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	31/03/14 £m	Change in year in net assets available to pay benefits	
		+100BPS £m	-100BPS £m
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in asset available	1,565.8	15.6	(15.6)

Asset Type	31/03/13 £m	Change in year in net assets available to pay benefits	
		+100BPS £m	-100BPS £m
Cash and cash equivalents	170.5	1.7	(1.7)
Fixed interest securities	1,255.5	12.5	(12.5)
Total change in asset available	1,426.0	14.2	(14.2)

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than £.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous year end:

Currency exposure – asset type	31/03/14 £m	31/03/13* £m
Overseas quoted securities	1,689.8	1,531.0
Overseas corporate bonds (quoted)	157.0	323.7
Overseas fixed income	970.3	*412.0
Overseas pooled investments	956.8	*804.4
Total overseas assets	3,773.9	3,071.1

*Classification by asset type has been reviewed at an individual asset level at 31st March 2014. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6% (as measured by one standard deviation).

A 6% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Change to net assets available to pay benefits		
	31/03/14	+6.0%	-6.0%
	£m	£m	£m
Overseas quoted securities	1,689.8	1,791.1	1,588.4
Overseas corporate bonds (quoted)	157.0	166.4	147.6
Overseas fixed income	970.3	1,028.5	912.1
Overseas pooled investments	956.8	1,014.2	899.4
Total change in assets available	3,773.9	4,000.2	3,547.5

Currency exposure – asset type	*Change to net assets available to pay benefits		
	31/03/13*	+6.1%	-6.1%
	£m	£m	£m
Overseas quoted securities	1,531.0	1,624.4	1,437.6
Overseas corporate bonds (quoted)	323.7	343.5	303.9
Overseas fixed income	*412.0	*437.1	*386.8
Overseas pooled investments	*804.4	*853.5	*755.3
Total change in assets available	3,071.1	3,258.5	2883.6

*Classification by asset type has been reviewed at an individual asset level at 31st March 2014. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remain outstanding, and the cost of replacing the derivatives position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivatives contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31st March 2014 was £315.5m (31 March 2013: £170.5m.) This was held with the following institutions:

Summary	Rating	31/03/14	31/03/13
Bank deposit accounts		£m	£m
Ulster Bank	Baa3	5.0	5.0
Northern Trust	A1	248.0	75.0
Svenska Handelsbanken	Aa3	61.4	0.0
Bank of Scotland	A2	0.0	50.0
Bank Current Accounts			
NatWest Account	Baa1	1.1	40.5
Total		315.5	170.5

Liquidity risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Fund's investment strategy.

All financial liabilities at 31 March 2014 are due within the one year.

20. Additional Voluntary Contributions (AVC's)

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2013 to 31 March 2014 for Prudential and 1 September 2012 to 31 August 2013 for Equitable Life and are not included in the Pension Fund accounts in accordance with

Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional Voluntary Contributions

	Equitable Life £m	Prudential £m	Total £m
Value at the start of the year	1.1	15.9	17.0
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	5.3	5.4
Expenditure (incl. Benefits, transfers out, change in market value)	(0.1)	(1.4)	(1.5)
Value at the end of the year	<u>1.1</u>	<u>19.8</u>	<u>20.9</u>

21. Investment management expenses

	2013/14 £m	2012/13 £m
Administration, management and custody	11.0	6.9
Performance measurement service	0.1	0.2
Other advisory fees	0.2	0.1
	<u>11.3</u>	<u>7.2</u>

22. Current assets

	31/03/14 £m	31/03/13 £m
Contributions due from: Employers	14.4	12.5
: Members	4.4	4.4
Debtors: Bodies external to general government	9.5	14.8
	<u>28.3</u>	<u>31.7</u>

	31/03/14 £m	31/03/13 £m
Other local authorities	15.5	18.9
NHS bodies	0.1	0.1
Public corporations and trading funds	0.1	0.1
Other entities and individuals	12.6	12.6
	<u>28.3</u>	<u>31.7</u>

23. Current liabilities

	31/03/14 £m	31/03/13 £m
Unpaid benefits	0.6	2.3
Accrued expenses	11.1	7.4
	<u>11.7</u>	<u>9.7</u>

	31/03/14	31/03/13
	£m	£m
Other local authorities	4.0	4.2
NHS bodies	0.0	0.4
Other entities and individuals	7.7	5.1
	<u>11.7</u>	<u>9.7</u>

24. **Contingent Assets**

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigation, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts.

The Pension Fund has entered into a number of other claims that are not financially material which may result in additional income for the Fund.

25. **Contractual Commitments**

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £594.5m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

The Fund entered into a new venture capital commitment in November 2013. This will be internally managed and as at 31st March 2014 there had been no drawdowns on the commitment of £17.9m.

In April 2013, the Fund approved the direct investment into a property development in St Albans. The Fund is the sole investor in this town centre hotel and retail development. The Fund has a commitment to pay monthly staged payments to fund the development plus a balancing payment at completion. The outstanding commitment at 31st March 2014 amounts to £7.1m.

26. **Related Party Transactions**

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions. They include:

- At 31 March 2014, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 99 scheduled and 198 admitted bodies.

- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2013/14. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £4.2 million (2012/13: £3.8 million) in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to Pension and Investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £69.1 million to the fund in 2013/14 (2012/13:£63.4m million). All monies owing to and due from the fund were paid in year.

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

27. Icelandic Investment

The Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2013; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 51.8% of the total claim has now been repaid and the outstanding balance at 31st March 2014 is £1.2m. The exact timing and amount of future distributions is not known at this stage. The deposit is treated as an asset on the net asset statement and the carrying value is written down as distributions are received.

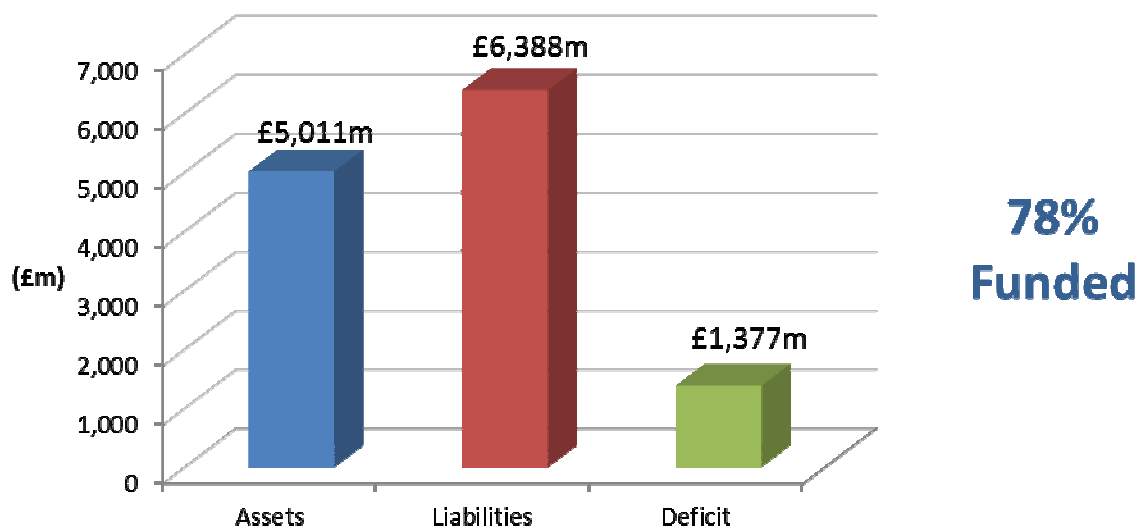
28. Funding Arrangements

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement. [Your Pension Service - Lancashire Fund Information](#)

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

29. Actuarial Present Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.4% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year-end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation alongside a reduction in the long-term rate of real pay growth (1.5% p.a. versus 2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £7,373 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£614 million. Adding interest over the year increases the liabilities by c£310million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£33 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£185 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £6,917 million.

30. Events after the net asset statement date

Greater Manchester Pension Fund has been chosen by the Ministry of Justice to administer the Local Government Pension Scheme in respect of the National Probation Service and Community Rehabilitation Companies with effect from 1st June 2014. Active and deferred members of Lancashire County Pension Fund who are affected by this change transferred to the Greater Manchester Pension Fund on 1st June 2014. Probation Service pensioners who are currently members of the Lancashire County Pension Fund are scheduled to transfer out to Greater Manchester Pension Fund at the end of September 2014. The transfer share of assets is expected to be in the region of £85m and the share of liabilities of the order of £109m.

Audit and Governance Committee

Meeting to be held on 29 September 2014

Electoral Division affected: None

Update on Treasury Management Activity

Appendix A refers

Contact for further information:

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mike.jensen@lancashire.gov.uk

Executive Summary

The report set out in Appendix A is a review of the County Council's treasury management activities in 2014/15. Management activities are regulated by the CIPFA Code of Practice and it is best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions during 2014/15
- An assessment of the appropriateness of treasury strategy within the current and predicted economic environment
- Borrowing activity
- Investment activity
- Actual results measured against 2014/15 Prudential indicators and Treasury Management Indicators.
- Investment in Landsbanki update

Recommendation

The Committee is recommended to note the review of treasury management activities in 2014/15 for the period 1 April to 31 August 2014.

Background and Advice

As part of the County Council's governance arrangements for its treasury management activities, the Audit and Governance Committee is charged with oversight of the County Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the County Treasurer and the content of these reports is used as a basis for this report to the Committee.

This report outlines a review of the borrowing and lending activity during the period 1 April to 31 August 2014 and sets this activity against the current economic background including risk management strategies to protect the capital value of the County Council's reserves and balances.

Consultations

Arlingclose provides advice on treasury management.

This item has the following implications, as indicated:

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

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

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2014/15	Feb 2014	Andy Ormerod Ext 34740
Financing the Council Council's borrowing requirement	July 2014	Andy Ormerod Ext 34740
CIPFA TM Code of Practice	2011	Andy Ormerod Ext 34740

Treasury Management Activity Report 1 April – 31 August 2014-15

1. Background

The County Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

This report considers treasury management activity between 1st April and 31st August 2014.

2. Economic Overview

UK Monetary Policy: The MPC has made no change to the Bank Rate of 0.5% and maintained asset purchases at £375bn during this period. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June, Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. The minutes of the MPC's June meeting outlined the Bank's central view that whilst wage growth and inflation had been weak, economic activity had been stronger than expected and the policy decision had therefore become more 'balanced' for some members on the Committee than earlier in the year.

Growth: The recent strong performance of the UK economy continued with GDP growing at an average rate of 0.8% per quarter since the middle of 2013. Whilst still largely driven by household consumption, business investment is recovering, albeit from a very low base, and should support the continued expansion of GDP throughout the year.

Unemployment: The labour market continued to improve, with job growth strong and the headline unemployment rate falling to 6.6%. However, earnings growth continues to deteriorate with an annual decline of -0.2% in June. Employment growth is masking extensive spare capacity with self-employment and a large number on zero-hour contracts and working part-time involuntarily, underemployment is still a significant factor within the workforce.

Inflation: CPI inflation for May fell to 1.5% year-on-year from 1.8% which was lower than market expectations. Even though inflation was expected to tick marginally higher in coming months, it was still expected to remain just below the Bank's 2% target.

The Bank's Financial Policy Committee also announced a range of measures to cool the UK's housing market to avert the potential of spiralling house prices derailing a sustainable economic recovery. Key recommendations included lenders stress-testing mortgage applicants can cope with a 3% rise in interest rates; putting a 15% cap on the number of mortgages at more than 4.5 times the borrower's income; and a separate Treasury pledge banning anyone applying for a loan through the Help to

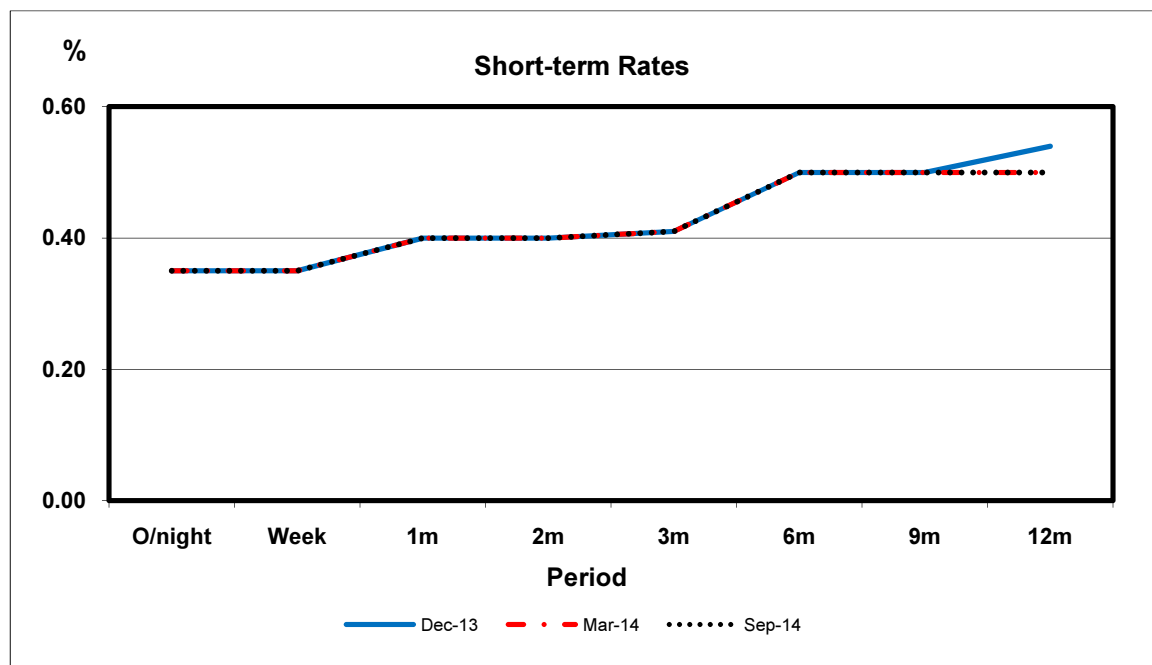
Buy scheme borrowing more than 4.5 times their income. The Prudential Regulation Authority also announced that it intends to consult on capital requirements for mortgages.

Against a darkening economic background in Europe in June and again in September the European Central Bank announced interest rate cuts along with a raft of non-conventional measures to head off the growing threat of deflation in the Eurozone. The ECB cut main policy rates (refinancing rate) from 0.25% in May to 0.05% by the beginning of September to encourage banks to lend to businesses and generate economic growth, it also cut the deposit rate to -0.20% which in effect means that commercial banks must pay to deposit funds at the central bank.

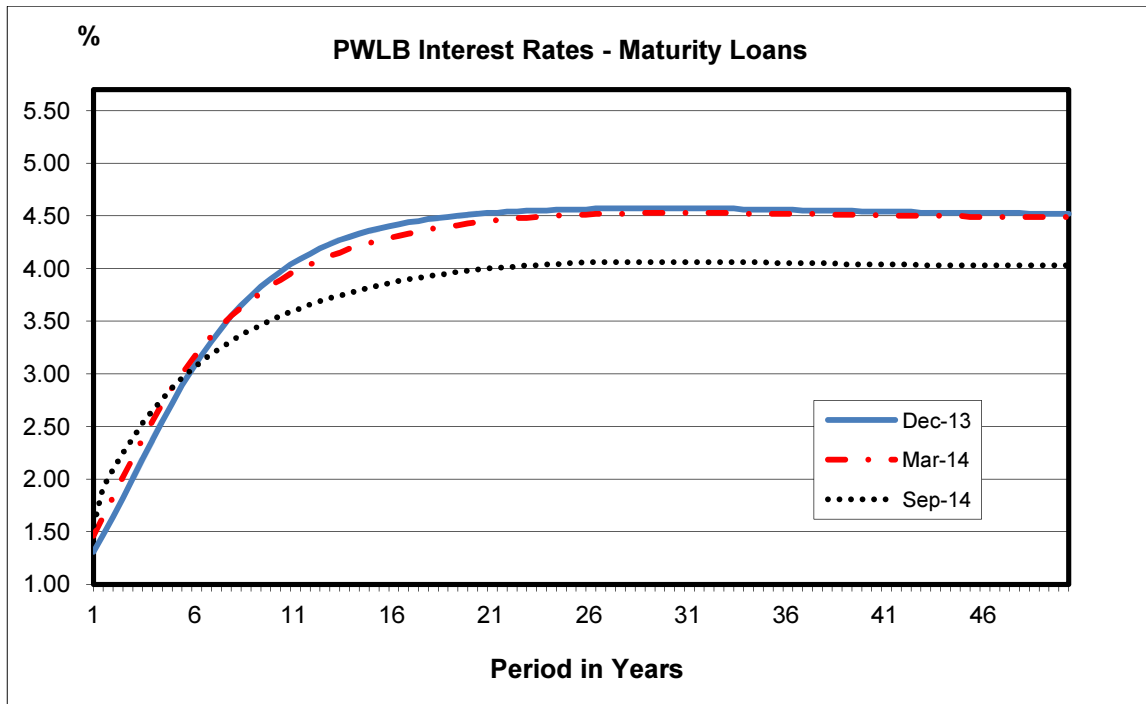
There was no change from the US Federal Reserve as the central bank kept policy on its current track with a reduction in asset purchases by \$10 billion to \$35 billion per month. The sharp downward revision to US GDP in Q1 to -2.9% annualised was strongly influenced by severe weather deterring consumers from going out and spending. GDP in Q2 of 2014 is expected to rebound, taking the annual average rate of growth over the last four quarters ending in Q2 to a more sustainable level of 2%.

2.1 Interest Rate Environment

Short term interest rates continue at the very low levels since the Bank of England reduced base rate to 0.5% in March 2009. The chart below shows that there has been very little movement in short term interest rates over the first three quarters of the calendar year.



Current longer term PWLB rates are shown below.



Following a period where central bank liquidity injections, the abatement of the euro crisis and the economic recovery has seen a reduction in demand for safe haven assets including UK Government gilts, towards the end of the period geopolitical factors weighed heavily on gilt yields and consequently in Public Works Loan Board interest rates, with a noticeable flattening of the curve in the medium term.

2.2 Outlook for Interest Rates

Treasury Consultants Arlingclose Ltd forecast the first rise in official interest rates in Q3 2015, which is earlier than general market sentiment. There is clear momentum in the economy, but inflation is benign and currently sits below target. This situation is expected to persist for some time, reducing the need for immediate monetary tightening

Arlingclose project Gilt yields to climb on an upward path through the medium term as the recovery takes hold, notwithstanding temporary volatility due to the UK General Election and other geo-political events.

Period	Bank Rate	3 month LIBID	12 month LIBID	20-year Gilt Rate
Q3 2014	0.50	0.50	0.90	3.00
Q4 2014	0.50	0.55	0.95	3.20
Q1 2015	0.50	0.60	1.00	3.40
Q2 2015	0.50	0.65	1.05	3.55

Q3 2015	0.75	0.85	1.20	3.65
Q4 2015	0.75	1.00	1.35	3.70
Q1 2016	1.00	1.15	1.45	3.75
Q2 2016	1.00	1.25	1.55	3.80
Q3 2016	1.25	1.40	1.65	3.85
Q4 2016	1.25	1.50	1.70	3.90
Q1 2017	1.50	1.65	1.80	3.95
Q2 2017	1.50	1.70	1.90	3.95

2.3 Implications for Lancashire County Council Treasury Strategy

Whilst LCC continue to fund a substantial portion of its financing needs through short term borrowing taking advantage of the extremely low interest rates, we are always mindful of the potential for some form of rate normalization and how that would alter our funding strategy.

Having enacted this strategy in 2010, with an original expectation that base rate would remain lower for longer than generally assumed by markets, we had expected that full economic recovery would be a 10yr process.

The current recovery in the UK is earlier and slightly stronger than our base case, and in the normal course of events we would now be looking to see slowly rising interest rates, but external risks are forcing the Bank of England to remain cautious;

- Slow/zero European recovery plus potential for Quantitative Easing
- Growth risks in China and emerging markets
- Potential for UK economic destabilization as a result of Scottish independence vote
- Low and falling G7 inflation
- Falling wholesale energy prices

In light of all of these factors we continue with our cautious funding approach, whilst retaining sufficient flexibility to make necessary changes should the path of interest rates change.

3. Current Issues

PFI

In July the County Council refinanced the Waste Private Finance Initiative contract. In order to facilitate this operation within the treasury policy the limit on borrowing was increased and the limit on long term liabilities was reduced. This change to the Prudential Indicator limits was agreed by the County Treasurer under her delegated powers and reported to cabinet on 15th July.

Bond Issuance

Whilst the County Treasurer expects the current low rate environment to continue for a further period, the MPC is setting the scene for a slow rise in short term rates to a point somewhat lower than historic average, and therefore it is prudent for the Treasury team to prepare for a further change in capital financing strategy.

As a part of active treasury management, a series of funding options are regularly examined by the Treasurer with regards the medium to long term financing of the Council's capital programme. The aims of this are two fold – to ensure the Council has a secure route to finance its debt and that it achieves value for money.

On 15 July cabinet approved the establishment of two additional channels of long term funding for future capital requirements and responding to a rising interest rate environment by fixing short term borrowing for a longer period:

- A discrete Lancashire County Council EMTN programme
- Participation in the proposed Local Government Association Bond Agency

Either of these routes will access the same pool of medium/long term debt capital available for investment in "high quality" bonds, or a combination of both may be used. The major benefit of this method of financing is the financial certainty it can provide in terms of both cost and liquidity.

In order to facilitate these programs a temporary increase in the borrowing and long term investment limits is required to replace the rolling short term debt to longer term debt financing. An increase of both these limits by £300m for a nine month period in 2014/15 was agreed by Cabinet and approved by Full Council.

4. Current Treasury Management Policy

The Full Council approved the 2014/15 treasury management strategy at its meeting on 27th February 2014. The Council's stated investment priorities were:

- (a) Security of capital and
- (b) Liquidity of its investments.

The Council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

The Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans.

The County Treasurer can report that all treasury management activity undertaken during the financial year complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

The current borrowing policy of keeping a higher proportion of borrowing at variable rates or short dated maturities is enabling the County Council to take advantage of the very low rates available on short term borrowing. Rates will be carefully monitored and the proportion of borrowing held on longer term fixed rates will be increased as rates are expected to rise.

The current investment policy of accessing high credit quality institutions through bond investments as opposed to placing fixed term deposits directly with banks continues to be appropriate given the continued difficult credit environment.

4.1 Investment Activity

The table below shows investment activity between 1st April and 31 August 2014

	Bank and Local Authority Deposits			
	Call/MMF £m	Fixed £m	Structured £m	Total £m
Balance 1 April 2014	57.74	66.50	73.68	197.92
Maturities	-106.57	-20.00	0.00	-126.57
New Investments	138.10	10.00	0.13	148.23
Balance 31 August 2014	89.28	56.50	73.81	219.59

	Bonds			
	LA Bonds £m	Gilts £m	Others £m	Total £m
Balance 1 April 2014	20.31	227.59	141.24	389.14
Maturities	-0.22	-1,315.03	-207.91	-1,523.15
New Investments	0.00	1,131.10	256.81	1,387.91
Balance 31 August 2014	20.09	43.66	190.15	253.90

Overall the level of investments have decreased in the period by £113.57m. This is partly due to sales of the liquidity asset to refinance the long term liabilities associated with the Waste PFI project. These Liquidity assets will be rebought over the following months to cash back the council's reserves.

Significant sales have also been made from the Council's core bond holdings as a rebalancing exercise by the Chief Investment officer in response to market movements.

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 2.044% which compares favourably with the benchmark 7 day LIBID which averages 0.35% over the same period.

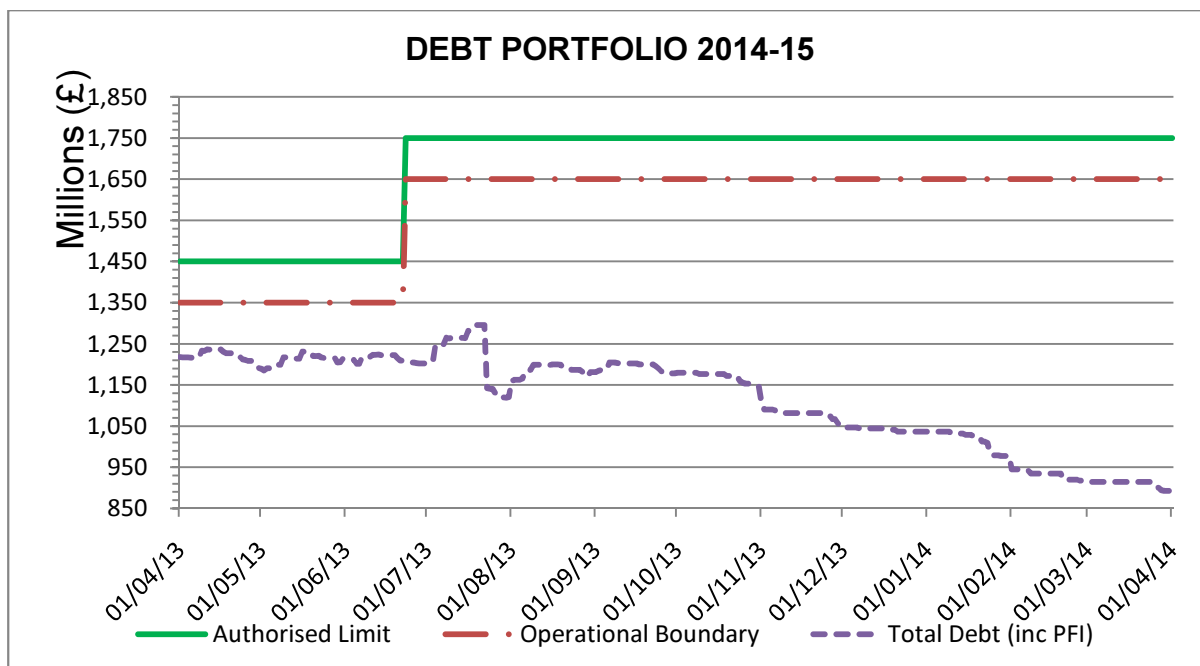
4.2 Borrowing Activity

Current market conditions continue to enable the County Council to take advantage of short term market borrowing. The table below shows the borrowing activity which has taken place between 1st April and 31 August 2014

	PWLB Fixed £m	PWLB Variable £m	Long Term Market Loan £m	Other Locals £m	Police, Fire & Lancashire District Councils £m	Total £m
Balance 1st April 2014	213.10	125.75	52.27	330.97	92.77	814.86
New Borrowing	0.00	0.00	0.00	269.30	278.04	547.34
Maturities	0.00	0.00	0.00	-93.00	-266.15	-359.15
Balance 31 August 2014	213.10	125.75	52.27	507.27	104.66	1,003.05

Treasury borrowing has increased over the period, due to the refinancing of the Waste PFI project. Total borrowing now stands at £1.181bn.

The graph below shows the level of debt for each day of the current financial year compared with the prudential indicator operational and authorised boundaries. The prudential indicator boundaries include headroom to enable a bond issue should the optimum conditions arise. The graph shows there have been no breaches of the prudential indicator boundary to date and the reducing balance of debt going forward should maturing debt not be replaced.



The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.679%. On 31st March the rate for the year was 2.04%, which compares favourably with the average rate for all Arlingclose clients of 4.14%.

5. Budget Monitoring Position

The financing charges budget is forecasted to be on budget at the end of the financial year.

This position is kept under regular review taking account both of ongoing performance and also market movements and the forecast is provided to the County Treasurer on a monthly basis.

6. Prudential Indicators 2014/15

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

The prudential indicators were revised in July, these changes were approved by Full Council on 17 July 2014.

A comparison of the actual position at 31 August 2014 compared to these revised indicators, is set out below.

Treasury Management Prudential Indicators

	2014/15 £M	31 st Aug Actual £M
1. Adoption of CIPFA TM Code of Practice		ADOPTED
2. Authorised limit for external debt - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	1,544	1,003
Other long-term liabilities(PFI schemes)	206	119
TOTAL	1,750	1,122
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.		
Borrowing	1,494	1,003
Other long-term liabilities	156	119
TOTAL	1,650	1,122

4. Capital financing requirement to gross debt

	Estimate	Actual
Capital financing requirement (excl PFI)	645	871
Estimated gross debt	815	1,003
Debt to CFR	126%	115%

The actual capital financing and gross debt figures are higher than the estimate as a result of refinancing the waste PFI. The estimated gross debt figure will be revised in the 2015/16 Strategy to take into account this refinancing.

Gross borrowing is higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation.

7. Treasury Management Indicators

The following indicators are set as part of adopting the treasury management code.

The code states that local authorities should have regard to the following treasury indicators.

A comparison of the agreed indicators and the actual position at 31 August 2014 is set out below.

1. Interest rate exposure

	Upper limit	Actual
	£m	£m
Net Interest Payable Fixed rate	37.6	5.5
Net Interest Payable Variable rate	5.0	1.6
1yr impact of 1% rise	25.0	1.7

2. Maturity structure of debt

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	43
12 months and within 2 years		75	18
2 years and within 5 years		75	7
5 years and within 10 years		75	6
10 years and above	25	100	24

3. Investments over 365 days

	Upper limit	Actual
	£m	£m
Total invested over 364 days	900	383

4. Minimum Average Credit Rating

	Benchmark	Actual
Average counterparty credit rating	A+	AA

5. Daily Liquidity

	Minimum Requirement	Actual
	£m	£m
Cash maintained on call	20	89

This report on the latest Treasury management activity shows that the Treasury Management Strategy set in February, and updated at Full Council on 17 July 2014, is still appropriate for the current market conditions and that the level of borrowing and investments are in line with this strategy and within the revised indicator limits

The Council confirms that it has complied with its Prudential Indicators for 2014/15, which were approved on 27th February 2014, as part of the Council's Treasury Management Strategy Statement, and updated at Full Council on 17 July 2014.

8. Investment in Landsbanki is.

Under the previous Treasury Management Strategy, Lancashire County Council made a £6.4m deposit with the Icelandic Bank Landsbanki Is (LBI) which was still on deposit when the bank collapsed in October 2008. Following four distributions made by the bank winding up board, 48% of the claim currently remains outstanding.

The County Treasurer closely monitors developments in the bank's winding up process and the progression of the County Council's priority creditor claim through the administration process.

Based on a number of factors the County Council's legal representatives have suggested that the risk of recovering the rest of the claim from the winding up board have increased and they have recommend that the County Council should consider selling the claim at the current market price.

The Deputy Leader has approved the sale of claim at his decision making session on 10th Sept with a set reserve price. The price is subject to legal privilege and cannot be disclosed in this report for legal reasons.

Selling the claim at the reserve price will lead to a loss of approximately £196k based on current balance sheet values. This loss will be shared between the County Council, Pension Fund, Police and Crime Commissioner and the Combined Fire Authority. The Council's estimated share of this loss is £191k. This loss will not lead to an overspend in the Council's finance charges budget as it can be covered by other investment income.

Negotiations are ongoing to facilitate the sale but at this stage further information is held under legal privilege for commercial reasons.

Audit and Governance Committee

Meeting to be held on 29 September 2014

Electoral Division affected: All

Public Interest Disclosure Act 1998 (Whistleblowing Act) Summary 2013/14 (Appendix A refers)

Contact for further information:

Ian Rushworth, Audit Manager, County Treasurer's Directorate, (01772) 534779

Katie Dunne, Service Manager (Corporate HR Team), OCL, (01772) 535355

Executive Summary

This report summarises the concerns dealt with arising from the council's Whistleblowing Policy in the previous 12 months.

Recommendation

The Committee is asked to note the report.

Background

The Public Interest Disclosure Act, 1998, more commonly known as the 'Whistleblowing Act', requires employers to make arrangements which allow their employees to make complaints on serious matters without fear of victimisation.

The council's Whistleblowing Policy was revised in June 2013 to reflect the changes to the UK legislation, primarily which whistleblowers must believe their disclosure is in the public interest to be protected by the Act. The current arrangements for publicising the policy include periodic news items in staff communications, the continued display of posters in council buildings and the intranet site.

The whistleblowing arrangements do not override other existing statutory complaint arrangements and are only available to employees where serious or potentially serious matters are of concern. Concerns are expected to relate to:

- Conduct which is an offence or a breach of law
- Disclosures related to miscarriages of justice
- Health and Safety risks
- Damage to the environment
- Unauthorised use of public funds
- Possible fraud and corruption
- Sexual or physical abuse of clients
- Other unethical conduct

In the 12 months since our last report in 2013 we have received 21 concerns (same number as the previous 12 months) which fall under the whistleblowing policy. Details of these concerns are provided at Appendix A.

Whistleblowers are directed to either the council's Internal Audit Service for concerns with a financial implication or to the council's Human Resources Service for other concerns. 12 of the 21 whistleblowing concerns had a financial implication.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

Not applicable.

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

Paper	Date	Contact/Directorate/Ext
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Reason for inclusion in Part II, if appropriate:

Summary of whistleblowing cases: June 2013 – May 2014

Complaint No.	Date Received	Area	Nature of Complaint	Source Named / anon / caller / letter / email	Action Taken	Outcome		
						Not Upheld	Upheld	Under Investigation
191/F (F = financial issue)	01/06/2013	Schools	Concern about the use of funds/assets by a Lancashire school.	Anon – letters (x2)	Complaint investigated by Internal Audit.		Concerns substantiated. Disciplinary action was taken against the Headteacher and a number of recommendations raised to improve controls.	
192/G (G = general issue)	06/06/2013	Schools – Primary School	Concern about behaviour of Headteacher.	Named – email	Complaint referred to Chair of Governors (with support from Schools HR) for investigation and action.		Concerns substantiated. Headteacher resigned.	
193/G	07/06/2013	Schools - Children's Centre	Concerns about Children Centre Manager.	Anon – letter	Complaint referred to service (with support from Schools HR) for investigation and action.	Concerns not substantiated.		
194/G	22/07/2013	ASHW	Concerns that alleged misuse of the email and internet Acceptable Use Policy not being addressed by management.	Named – caller	Complaint referred to service (with support from Corporate HR) for investigation.	Concerns not substantiated.		
195/F	23/07/2013	CYP	Concerns that overtime being approved at the incorrect rate.	Named – caller	Complaint investigated by Internal Audit.	Concerns not substantiated.		
196/F	30/07/2013	ASHW	Concerns about a senior manager returning to undertake work as a Consultant for the Council after taking VR.	Named – caller	Complaint referred to County Treasurer and investigated by Internal Audit.	Concerns not substantiated.		
197/G	30/07/2013	ASHW	Concerns about the H&S risks of a subway in Burnley.	Named – caller	Complaint referred to service (Highways) for investigation.		Concerns partially substantiated. Remedial works undertaken.	
198/F	07/10/2013	Schools	Concerns regarding an academy use of school funding.	Anon – caller	As the concerns relate to an Academy which does not buy into the council's Responsible Officer service the whistleblower was given advice on how to take forward their concerns.	N/A		
199/F	14/11/2013	ENV	Concerns regarding staff carrying out private work in council time.	Anon – caller (x2)	Complaint investigated by Internal Audit. Surveillance confirmed the council staff were carrying out private work. However, they had both requested annual leave and had informed their line manager that they were carrying out private work.	Concerns not substantiated.		
200/G	19/12/2013	OCL	Concerns about comments made in relation to Information Governance in a Scrutiny Committee webcast on 11/12/2013.	Named – email	Complaint referred to Deputy County Secretary and Solicitor for investigation and response.	Concerns not substantiated.		

201/F	16/01/2014	LCCG	Concerns regarding the selection of contractors/ stock records and the use of funds.	Named – letter	Complaint investigated by Internal Audit.	Concerns not substantiated. However, significant control weaknesses were identified and a number of recommendations have been raised to improve controls.		
202/F	20/01/2014	OCL	Concerns raised regarding the payment of expenses.	Anon – letter	Complaint to be included in Chief Internal Auditor's ongoing investigation regarding OCL.			Ongoing
203/F	11/03/14	CYP	Concerns raised that a provider was bullying their staff and amending supporting information.	Anon - letter	The concerns were discussed with management and were agreed to be outside the scope of the county council. The supporting documentation that had allegedly been changed did not impact the level of funding provided or place service users at risk.		N/A	
204/F	11/04/14	ASHW	Concerns that a Care Provider is charging the council for work not completed.	Named – letter	The concern is being investigated by Internal Audit with support from the business. Visits have been made to the Care Provider and our investigation is ongoing.			Ongoing
205/F	11/04/14	ASHW	Concerns regarding making an individual redundant.	Named - letter	The concern is being investigated by Internal Audit.			Ongoing
206/F	15/04/14	ENV	Concerns regarding staff working hours and overtime.	Anon – letter	The concerns have been investigated by Internal Audit.	Concerns not substantiated. However, control weaknesses were identified and a number of recommendations have been raised to improve controls.		
207/F	17/04/14	ENV	Concerns regarding the selection of contractors.	Anon – letters (several)	The concerns have been investigated by Internal Audit.	Concerns not substantiated. However, significant control weaknesses were identified and a number of recommendations have been raised to improve controls.		
208/G	23/05/2014	ASHW	Concerns regarding racist comments made by an employee on their Facebook page in 2010. Page clearly states they are an employee of LCC.	Named – email	Complaint referred to Service (ASHW) for investigation.		Concerns substantiated. Informal action taken.	
209/G	21/05/2014	LCC	Alleged that an LCC employee has been abusing someone on Facebook.	Named – email	No records to show any current or former employee, contingency worker or agency worker by the name provided in the complaint Emailed complainant to inform them of this.	Concerns not substantiated based on information provided.		
210/G	29/05/2014	LCCG	Concerns regarding racist comments made on Playstation 4 chat site which is in the public domain by an LCC employee.	Anon – email/Twitter	Complaint referred to Service (LCCG) for investigation.		Concerns substantiated. Employee resigned with immediate effect.	

211/G	30/05/2014	ASHW	Concerns regarding alleged harassment by ex-partner and complaints raised by ex-partner to Management.	Named – email	Enquiries have previously been undertaken into complaint by Service. No new evidence to support the complaint and no action therefore taken.	Concerns not substantiated.		
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