Lancashire County Council

Audit and Governance Committee

Monday, 26th September, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 30 June 2016** To be confirmed and signed by the chair.	(Pages 1 - 6)
4.	**Risk and Opportunity Register**	(Pages 7 - 20)
5.	**Liquid Logic System Update**	(Pages 21 - 28)
6.	**Internal Audit progress report**	(Pages 29 - 40)
7.	**Statement of Accounts - Waste Plant - Valuation**	(Pages 41 - 42)
8.	**Annual Governance Statement 2015/16 Update**	(Pages 43 - 72)
9.	**Approval of the County Council's and County Pension Fund's Letter of Representation 2015/16**	(Pages 73 - 88)
10.	**External Audit** **Lancashire County Council - Audit Findings Report 2015/16**	(Pages 89 - 134)
11.	**Approval of the County Council's Statement of Accounts 2015/16**	(Pages 135 - 380)

Lancashire County Council

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.

The next meeting of the Committee will be held on Monday 30 January 2017 at County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Thursday, 30th June, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Terry Brown (Chair)

County Councillors

K Brown	C Pritchard
D Clifford	A Schofield
C Dereli	B Winlow
G Driver	B Yates

1. Apologies

None received.

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

Resolved: That,

i. The appointment of County Councillors T Brown and D Clifford as Chair and Deputy Chair respectively of the Audit and Governance Committee for 2016/17 be noted.

ii. The membership of the Audit and Governance Committee for 2016/17 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 9 May 2016

The minutes of the meeting held on 9 May 2016 were presented and agreed.

Resolved: That the Minutes of the meeting held on 9 May 2016 be confirmed and signed by the Chair.

5. Update on Treasury Management Activity

The Committee considered a review of Treasury Management activities in 2015/16.

The review included:

- A review of the economic conditions during 2015/16;
- Borrowing activity;
- Investment activity; and
- Actual results measured against 2015/16 Prudential indicators and Treasury Management Indicators

The Committee was advised that Treasury Management activity was influenced by the economic situation and anticipated movement in interest rates and that therefore, the decision to leave the European Union was likely to have a substantial effect on the council's Treasury Management Strategy going forward.

Assurances were also sought regarding the provision of Treasury Management by Local Pensions Partnership Limited (LPPL) having regard to the fact that key staff had now transferred to LPPL. It was reported that negotiations with LPPL were ongoing for the Company to provide the Treasury Management function which would mitigate the "key man" risk. For the present the function continued to be delivered by the former Council officer under separate arrangements with the Council.

Resolved: That the review of treasury management activities for 2015/16 to date as shown at appendix A to the report now presented, be noted.

6. The Council's Code of Corporate Governance

The Committee considered a report on amendments to the Council's Code of Corporate Governance for the County Council and the implementation of an Action Plan for 2015/16.

The Code had been updated to reflect the seven new core principles and included sources of evidence as previously shown. The Committee was asked to consider any amendments or revisions it wished to make to the Code before submission to Full Council for approval. The Committee was also asked to consider the outcomes of the Action Plan agreed for 2015/16 based on the previous Code.

Resolved: That:

i) The revised Code of Corporate Governance as shown at Appendix B to the report, be recommended to Full Council for approval

ii) That the updates set out in the report on the implementation of the Action Plan for 2015/16 be noted.

7. The Council's Annual Governance Statement 2015/16

The Committee considered the draft Annual Governance Statement (AGS) presented at Appendix 'A' to the report for inclusion in the Council's Annual Statement of Accounts for 2015/16.

Officers responded to concerns raised by the Members including the ability to access timely and accurate information and data from the council's Liquid Logic systems. The Committee was advised that steps were being taken to address this area of concern and that a report on the proposed improvements to the systems would be presented to the next meeting of the committee on 26 September, 2016.

It was noted that the Annual Governance Statement 2015/16 would be updated for the September meeting to reflect progress being made on areas such as the delivery of the Ofsted Improvement Plan and the outcome of the Local Government Association's Peer Review of the Council's Finance Service.

Resolved: i) That the draft Annual Governance Statement for 2015/16 presented at Appendix A to the report be approved for inclusion in the County Council's Statement of Accounts for 2015/16.

ii) That a report on the proposed improvements to the Liquid Logic systems be presented to the next meeting of the Committee on 26 September 2016.

8. Risk and Opportunity Register

A report was presented on an update on the Risk and Opportunity framework and an updated Risk and Opportunity Register for the Committee to consider and comment upon.

It was noted that the Risk and Opportunity register provided a brief, high level description of the risks and opportunities along with current controls and further proposed mitigating actions.

Resolved: That the revised framework and the updated Risk and Opportunity Register as shown at Appendix A to the report be noted.

9. 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.

Resolved: That the response to Grant Thornton's request for information as shown at Appendix B to the report, be approved and signed by the Chair of the committee.

10. Waste Facilities Valuation - Business Decision Analysis

The Committee considered a report on the evaluation of 'property, plant and equipment' in respect of the waste plants owned by the Council.

It was noted that the Council had requested valuation advice from an independent financial services company to support a decision on the appropriate treatment of the above assets for the 2015/16 Statement of Accounts.

The External Auditor advised that she was happy with the progress being made in this respect.

It was agreed that a further update report would be presented to the next meeting of the committee on 26 September, 2016.

Members commented that it would be more appropriate to 'note' the conclusions rather than 'agree' the conclusions drawn in the report. It was therefore agreed that the 'Recommendation' in the report, be amended accordingly.

Resolved: i) That the report be noted.

ii) That a further update be presented to the next meeting of the committee on 26 September, 2016.

11. Urgent Business

The Chair informed the committee that he had agreed that the following report should be considered at the meeting as items of urgent business. The special circumstances for the use of the urgent business procedure was set out under the heading to the report.

12. External audit update report June 2016

Reason why the business is considered to be urgent

As the progress report relates to the period ended June 2016, it was considered more appropriate and timely for it to be considered at this meeting rather than at the next meeting on 26 September 2016.

A report was presented on the progress to date on the 2015/16 Audit Plan for the Council and set out the accounting and auditing issues relevant to the 2015/16 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.

Resolved: That the report be noted.

13. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Monday 26 September 2016 at 2:00pm at County Hall, Preston.

I Young
Director of Governance, Finance and Public Services

County Hall
Preston

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected:
(All Divisions);

Risk and Opportunity Register
(Appendix A)

Contact for further information:
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Executive Summary

This report provides an updated (Quarter 2) Risk and Opportunity Register for the Committee to consider and comment upon.

Recommendation

The Committee are asked to note the updated Quarter 2 Risk and Opportunity Register at Appendix A.

Background and Advice

Following the corporate approach to reporting on risk and opportunity the quarter 2 Risk and Opportunity register was recently reported to Management Team. Following this the reports are presented to the Cabinet Committee on Performance Improvement (CCPI) and then to the next Audit and Governance Committee. However, given that the last CCPI meeting was cancelled the register will be reported to the next meeting in October. An updated Risk and Opportunity Register is attached at Appendix A and the Committee is asked to comment upon it.

The key highlights in the register include:

- allowing for mitigating actions, the residual risk score for the following entries remain 12 or above so the issue remains on the register:

Risk Identification Number (RIN)	Risk Description & Update
CR1	**Failure to implement the county council's MTFS**. Further mitigating actions include the work being undertaken by PWC; further communications; support from the Programme Office and an update on the 15/16 outturn.
CR2	**Risk to the on-going financial viability of the county council**. Further mitigating actions include a meeting with DCLG, work on developing the councils operating model, communications and an update on the 15/16 outturn position.
CR4	**Delivering Organisational Transformation**. Further mitigating actions include reporting on the Property Strategy and the publication of further information about the transformation.
CR5	**Inability to adequately protect and safeguard children**. Further mitigation actions include the CIN Ofsted inspection early September and a review of the referral process.
CR6	**Failure to comply with statutory requirements and duties relating to CLA, children in need and children leaving care**. Further actions include the CIN Ofsted inspection.
CR7	**Failure to recruit and retain experienced staff within Children's services**. Additional vacancies are being filled.
CR8	**Reputational damage and risk of direct intervention by DFE**. Additional posts established.
CR12	**Inability to implement/maintain systems that produce effective management information**. The operational failure in the main computer suite has been added to this risk.
CR15	**Delivering new waste management arrangements – Budget Option Proposal (BOP) 046 and GRLOL transformation**. There is a potential for increased diversion from landfill but costs pressures elsewhere could lead to an over spend.
CR16	**Management of the County Council's assets**. Property Strategy consultation presented to cabinet September 16
CR20	**Transforming care (Winterbourne).** Ongoing discussions with CCG about pooled budgets
CR21	**Service user/customer risk associated with the inability to influence behaviour change in demand and expectations continue to rise**. Further communications to ensure stakeholders understand the council's position.
CR24	**Failure to achieve targets with National Troubled Families Unit.** No change
CR25	**Failure to implement and meet the statutory requirement to children and young people with special educational needs and/or disabilities** No change
CR26	**Proposed museums closures.** Heritage lottery funding application
CO1	**Developing a new model for public service delivery in Lancashire. Further maximising actions added and scores reassessed**. Through the shadow Combined Authority, work programmes being developed.
CO2	**Delivering economic growth.** Submitted growth deal 3
CO3	**Opportunities through delivering the corporate strategy and property strategy**. Property Strategy consultation presented to cabinet September 16
CO4	**Health & Social Care Integration**. Further work is being undertaken on the Sustainability & Transformation Plan (STP)

There are no deletions or additions to this quarters register.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management
Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to develop and maintain a Corporate Risk & Opportunity Register means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix A: Corporate Risk & Opportunity Register Q2 2016

Risk Identification Number (RIN)	Risk Description	Risk Type	Possible Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	Failure to implement fully the councils medium term financial strategy including the delivery of planned budget reductions	Economic	Financial Savings not achieved resulting in in-year overspends with pressure on following year budget and reserves depleted more quickly than planned. Reductions in service and/or drop in quality of delivery leading to JR and damage to Council's reputation. New legislative requirements not being met and uncertainty over being able to deliver and/or implement future large projects. Potential for infrastructure to deteriorate.	• Monthly budget monitoring processes for Heads of Service and Directors with particular focus on agreed savings delivery. • Ensure key programmes of activity (particularly linked to savings / downsizing) are adequately resourced. • Quarterly Money Matters budget monitoring reports, MTFS, reserves and Treasury Management reports presented to members (includes capital). • Management Team actions to monitor key areas of expenditure and consider remedial courses of action to address budgetary pressures. • Robust Medium Term Financial Strategy and Plan, updated to reflect variations to resource and demand assumptions. Reserves regularly monitored and reviewed. • Resources allocated to Base Budget Review. Rebalance budget savings via an ongoing risk assessment.	25	• Implementation of recommendations (Base Budget Savings Options and from scheduled Zero Based Review activity) from the Base Budget Service Review to be considered by members. • Appropriate consultation to take place. • Improve commercial and financial acumen. • Continuously revalidate budget assumptions. • Initial brief for council's business and operating model has been agreed by Cabinet and progress reports to be presented to the Political Governance Working Group. • Work progressing by PWC in reviewing the Councils MTFS/Statutory Services review with a report going to October Cabinet • Develop a future public service model for Lancashire in conjunction with its partners – stakeholder engagement plan in place and briefings being delivered by PWC. • Development of response to the Treasury and DCLG regarding the implementation of business rate retention and future needs assessment/allocation formula. • Communicating with stakeholders to ensure an understanding of the councils financial position and need for change • Communicating specific proposals and service developments in the context of the financial scenario • Programme Office supporting services to deliver savings and bring forward savings wherever possible • Outcome of property strategy consultation was presented to Cabinet in September • 15/16 outturn reported to Cabinet in July and reflected in revised MTFS. Reserves position and Q1 revenue monitoring was agreed by Cabinet in September 16.	16	Section 151 Officer	As time progresses the risk to some extent reduces. However, the risk cannot be fully mitigated until all the necessary enabling decisions have been taken and the relevant budget options have been realised.
CR2	Risk to the ongoing longer-term Financial Viability of the County Council	Economic/ Political/So cial	Problems stored up for the future as a combination of delivery issues in CR1 and further national funding reductions causing minimum reserve position not to be maintained with the risk of not being able to set a balanced legal budget	• Base Budget Review has identified the risk of the County Council not being able to meet statutory obligations by 2018/19. The actual timing of when this situation may occur will be identified from the various monitoring and review process outlined in CR1 above	25	• Zero Based Review activity will determine the scope for additional savings in all remaining services within the County Council (ongoing). • Links to Combined Authority work including Healthier Lancashire programme with the NHS as to any opportunities / additional pressures (ongoing). • Lobbying – Treasury and DCLG by utilising ongoing existing networks MP's / Members, LGA,	25	MT	Level

			in future years.			CCN, SCT (ongoing) – met with DCLG in July outlining financial position and outlook. Also explained PWC work and will meet again when this is available. • Funding Model – Review of borrowing Strategy & Treasury Management Strategy (Q1 2016)- going to Cabinet in October 16. • Initial brief for council's business and operating model has been agreed by Cabinet and progress reports to be presented to the Political Governance Working Group. • Report on the Councils future operating model will be reported to Cabinet in December 16. • Develop a future public service model for Lancashire in conjunction with its partners. • Development of response to the Treasury and DCLG of future needs assessment/allocation formula. • Communicating with stakeholders to ensure an understanding of the councils financial position and need for change • Communicating specific proposals and service developments in the context of the financial scenario • Outturn position for 15/16 better than originally anticipated. This along with additional review of revenue commitments has enabled additional money to be available in the transitional reserve in supporting the revenue budget for 17/18.			
CR4	Delivering organisational transformation including capacity and resilience	Organisational	The failure to clearly implement the draft corporate strategy that sets out our vision, aims and priorities could result in a lack of purpose, direction and have an impact on service delivery and produce an adverse external audit report. The new structure that seeks to provide the ability to join up our services in a new way may not be fit for purpose. Ineffective employee engagement and buy in. A fall in staff morale could increase sickness absence and stress. Loss of knowledge and skills due to turnover puts demand on remaining staff which can expose the council to key person dependency and the risk of poor resilience.	• The draft corporate strategy has now been amended to reflect the consultation outcomes and has been to full council. • The draft corporate strategy is being used to inform the development of the property review and proposed neighbourhood plans. • As part of the base budget review process options for service delivery and redesign have been developed including proposals to stop some services. • Management Team approval of all new appointments and cessation of temporary staff contracts. • Senior Management Development programme implemented. • Positive employee communication and engagement. • Wellbeing initiatives and support for managers and employees. • Introduced a new scheme of delegation for heads of service.	16	• The corporate strategy has been amended to reflect the consultation outcomes and subject to amendment approved by full council. This process is on-going. • Interim structures to reflect the base budget review options are being developed. • Property strategy and accommodation review being progressed and approach to neighbourhood plan being developed. • Independent challenge • See specific actions in relation to other risk entries i.e. Ofsted inspection • Use of transformation reserves to fund temporary staffing • Property review – preparatory work on planned premises closures • Implementation of recruitment and retention strategies • Defining new service models across the organisation • Adults service transformation – recruitment of temporary staff • Children's services transformation – implementation of the framework contract and appointment of temporary staff • Extensive information is made available through	12	MT	Level

						the councils website which is also used by the customer service centre as a core council information resource			
CR5	Failure to adequately protect and safeguard children	Social	Children are put at risk of harm.	• MASH hub. • Serious incident reporting. • Quarterly safeguarding report, to include LSCB. • SCR learning shared. • Case file audits. • Multi-agency inspections. • Supervision with HOS. • Performance Data	25	• Post Improvement Inspection Board with Independent Chair appointed. • LSCB membership of Improvement Board and acting as critical friend. • Post Inspection Improvement Plan. • Review of all CiN cases using internal and external capacity. • Social Work Recruitment Strategy. • Peer Challenge. • Newton Europe review of pathways. • Established new QA system - developed risk sensible model develop CIN teams. • LSCB have established new QA system including multi-agency case file audits. • Monthly compliance recording of Strategy Meetings. • Strengthen quality assurance role of Independent Reviewing Officers. • Management Team approval of 15 additional IRO posts and 3.5 additional Quality and Review Manager posts post inspection. • IRO completion of mid-point checks on case files. • Prepared for and supported Ofsted inspection of children in need and child protection cases that took place early September • Serious case review rota in place • Lancashire Safeguarding Children's Board to review the referral process • Completed diagnostic of MASH & Contact & Contact and Referral assessment Centre	16	Director of Children's Services	SW recruitment has improved. Senior managers are now working in districts. Independent Board Chair appointed. CSC remodelling including new CIN Hubs and PPA teams. 2 qualified social workers now working in Customer Access Service to ensure appropriate referrals to CSC and timely response to S47 enquiries.
CR6	Failure to comply with statutory requirements and duties relating to children looked after, children in need and children leaving care.	Legal/ Political	LA is legally and possibly financially liable, judicial review. Further OFSTED intervention.	• Corporate legal oversight. • Quarterly safeguarding report. • Serious incident reporting. • Serious case review learning. • Peer review and challenge. • Stronger management oversight in Districts.	25	• Monthly compliance recording of Strategy Meetings and S47 Enquiries. • LSCB have established new QA system including multi-agency case file audits. • Revised audit framework to be launched on 13 May 2016, will strengthen management grip and quality assurance of practice. • Back to basics SW practice training. • Locality Practice Improvement Meetings. • Develop PPA Teams. • Prepare for Ofsted inspection of children in need and child protection cases early September	16	Director of Children's Services	Compliance reporting shows multi-agency Strategy Meetings are taking place in the majority of cases.
CR7	Failure to recruit and retain experienced Social Work staff Failure to recruit and retain Independent	Organisatio nal	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	• Vacancy monitoring. Recruitment strategy. Quarterly safeguarding report. • Reliance on agency staff risk of high staff turnover and inconsistency of practice. CYP experience frequent changes of IRO. Lack of consistent	25	• Additional funding envelope. Enhanced recruiting – vacancies being filled with a high proportion of newly qualified staff. Newton Europe pathway review. Increased focus on retention. • External agency contract to look at CIN cases and work following MASH	16	Director of Children's Services	Recruitment is ongoing to include USPs and IRO Service Improving Social Work recruitment is

	Reviewing Officers. Failure to recruit and retain experienced BSO staff.			IRO oversight of Care Plans and CP plans. Impact on the budget - cost of agency staff. • Insufficient BSO support resulting in increased administrative tasks for managers and practitioners.		• Vacancy monitoring. Interim revised structure agreed with additional new posts. • Framework agreement in place			now at the levels within the original funding envelope prior to the £5M and recruitment is continuing
CR8	Reputational damage and risk of Direct Intervention by DFE. Negative media exposure.	Reputational	DFE manages services directly and removes them from the LA. Commission arrangements brought in. Loss of reputation. Impact on partner agencies.	• Safeguarding and Audit arrangements. Direct management oversight of services. • Media planning around key issues and Serious Case Reviews. Scrutiny of key reports and information. Communication with Comms Team.	25	• Post Improvement Inspection Board with Independent Chair appointed. Post Inspection Improvement Plan. Senior management input into each of the 3 Children Social Care Districts. Review of all CiN cases using internal and external capacity. Social Work Recruitment Strategy. Peer Challenge. Newton Europe review of pathways. • The council has been issued with an Improvement Notice by DFE which is the lowest level of implementation. • Communication planning surrounding publication of Serious Case Reviews. Two way communication between LSCB and partner agencies. • Additional IRO and Advanced Practitioner posts • LGA peer review later in the year	16	Director of Children's Services	Positive - given feedback from OFSTED and appointment of Independent Chair Risk remains high given high profile of SCRs in the media.
CR12	Failure to implement/maintain systems that produce effective management information Failure to improve quality of data in Liquid Logic's systems (LCS/LAS) Operational failure in the main IT Computer Suite (T101)	Organisational	Ineffective collection, collation and input of data Ineffective use of business intelligence, resulting in the inability to identify and respond to changing trends and inform strategic decisions. Impact on strategic planning, understanding and management demand e.g. around demographics and ageing population profile Ineffective reporting arrangements. Statutory returns will be compromised, so incorrect performance will be reported nationally. OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be	• Information management strategy. Data Quality processes. Oracle. Local Information Systems. Corporate performance information. JSNA and other needs assessments • Weekly provision of information to operational managers. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. Use of exception reports to flag up data quality issues. • Over £200k has been invested to improve the back-up services for T101 to improve reliability. However, there are still potential risks regarding A/C cooling, maintenance of UPS units and insurance requirements regarding fire alarm links	15	• External support to focus on Children's Services data issues. Introduction of new governance arrangements for children's services. Introduce a new performance management framework that is aligned to draft corporate strategy. Agree performance, financial data and intelligence required for all levels within the County Council. Agree milestones and metrics. • Project Accuracy being supported by Newton Europe, SRO and close involvement of Business Intelligence. • Developing improvement plan that includes culture and assurance. The plan will include systems such as Controcc and LAS • Performance sub-group reporting the Improvement Board Chair • Additional temporary resource employed within Business Intelligence to provide reports for Project Accuracy 2. • Multimillion pound refurbishment programme including upgrading the electrical infrastructure of county hall complex - to improve the reliability of	12	MT	Level

			severely compromised. Reliance on uninterrupted operation of T101 cannot be over emphasised. Power up following an uncontrolled failure takes 5 times longer than after a controlled shutdown. Impact on service delivery			the IT Suite.			
CR15	Delivering new waste management arrangements Delivery of BOP 046 and GRLOL Transformation Delivery within 16-17 budget	Economic Environmental Reputational Legal	Excessive transitional costs. Excessive operating cost. Operational hazards and liabilities. Health and Safety issues. Permit non-compliance. Increased landfill/reduced recycling. Public disillusionment regarding recycling services. Impacts on WCAs and LWP. Employee and Union claims. Impacts Potential for budget overspend based due to following attributing factors: Initial calculation of waste budget (and MTFS); Increased and uncertain in year company operating costs; One off and uncertain company transitional costs; uncertainty with regards to delivery of operational changes (i.e. odour management systems, insurances)	• LCC strategic leadership of waste company. LCC HR, Legal and Financial support. Programme office monitoring of savings targets. Regular liaison with Environment Agency. Cabinet Member briefing. Union consultation. Regular liaison with WCAs and Blackpool Council. Communications strategies • Regular budget monitoring and forecasting exercises. Monthly monitoring meetings. Direct financial support to waste service. Dedicated liaison with waste company.	16	• Approval of GRLOL structure by Board and Employment Committee. Staff consultation and notice of redundancy. Review and reconsideration of operating proposals. Submission of permit modification • Review calculation of waste budget with finance. Development of detailed company operating and transition costs. Capitalisation where possible of transitional costs. Potential to reduce operational cost over and above GRLOL model. Potential delivery of additional one-off savings • Potential for increased diversion from landfill at reduced costs. However, an increase in residual waste arisings of 4% is being forecast (compared to a previously assumed 1%) which is resulting in forecast overspends. This is partly offset by forecast underspends in a number of other areas including garden waste composting. The high cost of insurance premiums at the waste recovery parks, and deflated markets for the sale of recyclable materials, continue to put pressure on the waste budget. • Commencing process to obtain external value of assets	12	Head of Waste Management	Need for implementation of formal and legal processes increases time taken to deliver transformation and subsequently increases risk. Elements of risk will reduce further as each stage of transformation is completed. Upward. Clear potential exists to reduce various budget costs but realisation of these cannot be assumed to be guaranteed at this stage. Current monitoring identifying potential overspend
CR16	Management of the County Councils Assets	Organisational	Failure to maintain council owned assets and buildings. Inability to deliver in the timescale required and impact on organisational ability to achieve savings Failure to timely deliver a smaller more affordable property portfolio and associated savings.	• Effective planning and programming method of delivery. Management of organisational transition and effective engagement with operational services • Manage health and safety risks of customers and staff and ensure budgets are managed effectively to maintain assets to a satisfactory standard. • Consider and manage risks	16	• Asset Management Strategy and accommodation review • Establishment of a Premises Compliance Team • Short-medium term facilities management strategy defined to deliver the spike in resource demand during the organisational transition period • Property Strategy - Ongoing work to develop initial recommendations and to undertake public consultation continues. Multi-service working ensures the relevant professional input, including communications. Following Cabinet approval delivery of Neighbourhood Centres will be	12	Head of Asset Management/ Head of facilities Management	Stable – risks are significant but currently managed

			Inability to deliver service plans and savings effectively within required timescales, risks to service delivery across a number of services. Due to the high profile of Property Strategy (Neighbourhood Centres) delayed delivery could have reputational effect. Legal or public challenges.	associated with redundant properties. Planned maintenance approach. Risk assessments and regular H&S inspections. Presently undertaken by various operational service areas. • Delivery of Property Portfolio Rationalisation Programme (PPRP) is being managed by the programme board. Asset Management Service are working to specific timescales for the public consultation and delivery of recommendations to Cabinet. Office rationalisation is ongoing and is being managed by the PPRP team as a whole. Risks for each part of the project are registered and reviewed by the PPRP team and Board on a regular basis, reporting to Management Team separately. • Communications strategy for property strategy		undertaken by the wider PPRP team. • Communicating with stakeholders to ensure an understanding of the councils financial position and need for change • Communicating specific proposals and service developments in the context of the financial scenario • Libraries – public consultation has taken place to help inform service design and future strategy. • Report presented to Cabinet in September 16.			
CR20	Transforming Care (Winterbourne)- the accelerated discharge of the population of adults with a Learning Disability from secure hospital in-patient beds into community houses	Economic/ Political/Social	Increased pressure on the adult social care budget. Resettlement from hospital to community health and social care packages shifts the funding responsibility from solely NHS to a shared responsibility between CCG's and LA's to fund these high cost intensive health and social care packages. LCC may not be able to afford these new packages of care in the current financial climate. There is a National Plan to facilitate discharge therefore there is a reputational and political risk in not achieving as Lancashire is identified as a National Fast Track programme for this work due to the high number of Lancashire residents currently in in-patients LD hospitals. The closure of Calderstones hospital is part of this national plan. Failure to agree locally a reasonable figure for a dowry that is planned to	There is a governance structure for the Fast Track programme through the Fast Track Steering Group with representation from LCC Director Adult Social Care and HoS Commissioning working alongside SRO's from NHS and CCG's in order to achieve agreement on financial issues including the dowry and any future agreement for a pooled budget. There are identified work streams each with a defined action plan with leads identified from commissioners across Lancs. Work streams are monitored by the Steering group in addition to oversight by NHS England. The trajectory for possible discharge Sept 15- Mar 19 is to be carefully monitored so appropriate development and procurement of suitable housing and care can be planned for.	16	• Improved engagement with procurement colleagues to ensure due process is followed operationally in meeting the needs of this population. • Lancashire's Fast track plan identifies the implementation of a revised model of care for people with LD improving crisis support through multi-disciplinary teams. • This approach is aimed at reducing admissions and supporting providers to maintain a person's tenure in their chosen house rather than re-enter hospital. • The plan commits to securing improved and alternate care and housing solutions for this population with the aim of creating shared tenancies with back ground support, rather than the current single tenancy model currently used, which will be more cost effective. There are plans to stimulate the provider market to inform innovative solutions to providing for these peoples care • Health covering the costs from transformation fund whilst developing pooled budgets. • STP budget considerations • Currently the financial risk has been negotiated	12	Director of Adult Services	Downwards

			follow a person from hospital (NHS) to LA's is a further financial risk.			with the CCG and immediate pressures have been offset whilst negotiations around the pooled budget take place.			
CR21	Service user/Customer risk associated with the inability to influence demand whilst expectations continue to rise	Reputational/social/economic/political	Demand and expectations continue to rise against a backdrop of reduced resources, thus leading to service failure and an increase in complaints. Failure to integrate health and social care to reduce pressures on demand and expectations as a result of ageing population. Unacceptable waiting times for assessment and reviews including occupational therapy, safeguarding and social care reviews.	Consultation and engagement with service users and customers. Co-ordination of communications. Changes and impacts communicated to stakeholders. Impact assessments. Alternative delivery options being explored as part of base budget review option development. Learning from complaints and oversight at CCPI.	16	• Alternative delivery options being explored as part of base budget review option development • In relation to adult and children's social care Newton's Europe have been partly been engaged in this area of work • See opportunities entry on Healthy Lancashire • Early help and prevention investment in integrated wellbeing services • Children's demand management strategy • Additional capacity is being secured in key areas such as social work and occupational therapy • Realignment of management capacity in adult social care to provide improved focus on operational priorities • Clear triaging/prioritisation schemes at Customer Access Centre • Work with Newton Europe is underway to improve productivity • Working with health partners to improve arrangements around discharges from hospital • Communicating with stakeholders to ensure an understanding of the councils financial position and need for change • Communicating specific proposals and service developments in the context of the financial scenario	12	MT	↓ Downwards.
CR24	Failure to achieve targets agreed with National Troubled Families Unit team due to the specific requirements of the programme. Failure to provide robust data to evidence the impact on outcomes for those families engaged with the programme	Economic Political	Failure to accrue maximum income from the programme for the authority Possible reputational risk as a result of failing to meet the national target. Risk of additional scrutiny of Lancashire's response to the programme	• Manual tracking processes in development with view to maximising payment by result claim opportunities • Improvement plan with operational staff with implementation to ensure that 'attached' cases meet national TFU principles • Ongoing data matching to identify new eligible families	16	• Development of reporting processes to ensure monthly progress checks against targets • Business case to request additional resources to support tracking and claiming processes • Redesigning of outcomes plan to set more achievable/realistic targets • Establishment of multi-agency CYPTB task and finish group to drive multi-agency partnership working and explore how to embed the TFU principles within partner organisations • Exploration of digital systems that can be used to undertake the necessary analysis for Lancashire's response to the programme. • Workforce development ongoing for CAF and LP working. • Revised CoN thresholds and CAF documentation, Quality Assurance and processes to assist in meeting requirements.	12	Head of Wellbeing, Prevention and Early Help	Downwards
CR25	Failure to implement and meet the statutory requirement to children and	Organisational	Not providing adequate service to SEND leading to inspection failure. Lack of appropriate IT platform. Failure to recruit and retain staff. Commissioning	• Self-assessment completed against new framework • N/W regional peer support group established	16	• Implementation of the early help (IT) module. • Recruitment of qualified staff funded by the SEND reform grant. • Commissioning arrangements with Health being reviewed.	12	Head of Special Education Needs and Disability	Level

	young people with special educational needs and/or disabilities.		arrangements with health not consistent.						
CR26	Proposed museum closures	Organisational/political/reputational/financial/legal	The proposal to close five museums has attracted negative publicity nationally, regionally and locally due to the national importance of the sites and collections Impact on staff leading to sickness absence The Council could be challenged by Judicial review if the process by which museums are either closed or transferred to a third party cannot be shown to be fair and legally robust	• Weekly meetings between Museums managers and asset management, equality and diversity, communications and business intelligence to proactively manage the process. • Decisions on process continue to be cleared through legal services and cabinet member as appropriate. • Expressions of interest have been invited for interested parties that can show they have the resources and expertise to continue operating the museum and ensuring the collections continue to be made accessible to the public.	16	• Public consultation has taken place to inform future service design and strategy of the museum service • EIA detailing the mitigating actions have been completed • A Cabinet Working Group with cross party membership has been established to ensure that any transfer of assets which may take place is transparent, fair and robust. • Information has been circulated to all staff to assist them with their health and wellbeing as a result of closures. • Senior management update staff on a weekly basis • To help develop a revised cultural offer an application for heritage lottery funding submitted	12	Head of Libraries, museums, culture & registrars	Level

Opportunity Identification Number	Opportunity Description	Opportunity Type	Possible Benefits	Progress to date	Opportunity Score	Maximising Actions	Residual Opportunity Score	Opportunity Owner	Direction of Travel
C01	Establishing a new model for public service delivery in Lancashire	Political	The establishment of a Lancashire Combined Authority and securing a devolution deal with central government. A Combined Authority is an accountable body in its own right – this means it is a single point of decision making on agreed functions (quicker and simpler decisions); has powers delegated to it from Government and the individual local authorities (subject to local discussion and determination); can hold substantial amounts of Government and European funding. In relation to transport, greater co-operation will allow improvements to the region's public transport network.	Lancashire Leaders to formally take proposals for a new model (in principle) to their authorities. Briefings for County Council members. Progression of work streams.	12	• Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government. • Constituent authorities of the proposed combined authority have agreed to proceed with the establishment of a shadow CA in July 16 – cross cutting themes identified and work programmes being developed • One Public Estate submission has been developed and submitted • A workshop to take place on 5th October 16 facilitated by PWC. This will be an information sharing session to identify potential opportunities for a pan Lancashire approach to service delivery. Key public sector partners will be invited.	16	Chief Executive	↑ Upwards

CO2	Delivering economic growth	Economic	Continued successful delivery of the LEP's current strategic economic growth programmes. Successfully secured new resources for Lancashire to support job and business creation, housing growth and the delivery of strategic transport infrastructure linking to drive economic growth and regeneration, linking residents and businesses with economic opportunities.	Lancashire Enterprise Partnership has secured almost £1 billion of national resources to deliver a transformational programme of economic growth which see the delivery of new jobs, business and housing growth and strategic transport infrastructure. Key programmes/projects secured include the Preston, South Ribble and Lancashire City Deal, Growth Deal, three Enterprise Zones, Growing Places Funding, Boost Business Lancashire and Superfast Broadband.	12	• Work with local authority partners on the establishment of a Combined Authority for Lancashire and in securing a Devolution Deal with Government to ensure national resources to support economic growth and regeneration are secured. • Maximise the support from key local and national public and private sector stakeholders outside of the County Council. • Submitted growth deal 3	16	Director of Economic Development	↑ Upwards
CO3	Opportunities through delivering the draft corporate strategy and property strategy	Economic/Social	This strategy seeks to ensure we continue to meet the immediate needs of our communities while shaping the council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. It sets out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire. The strategy will help to ensure that we deliver on the following strategic outcomes: - To live a healthy life - To live in a decent home in a good environment - To have employment that provides an income that allows full participation in society	A draft Corporate Strategy, has been produced and has been subject to Consultation. Cabinet considered the Strategy document and the approach contained within it at its meeting of the 26 November 2015. The Strategy was submitted to full Council on the 17 December 2015. The Strategy was debated and amendments agreed. It was resolved that the Corporate Strategy, as now amended, be approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration. That review process is ongoing	12	• Use the strategy and associated evidence base to guide our decision making and as the overarching framework for planning interventions which will meet the needs of communities • Digital by design • Embedding evidence based policy/decision making to plan for the future • Aligning with health to meet need • Property strategy consultation presented to cabinet September 16	16	MT	↑ Upwards
CO4	Health and Social Care Integration	Organisational	The principle of the separate organisations working together to align plans, strategies and budgets will involve the development of new delivery models and ways of working, to avoid duplication and focus activity where it is needed, recognising that current models of service delivery are unsustainable. Integration would provide the best opportunity to	Participation in the Healthier Lancashire programme building upon the "Alignment of the Plans" work undertaken Sustainability and Transformation Plan (STP). • Influencing and shaping the process to take account of Combined Authority objectives if and where appropriate. • Aligning, where appropriate with existing work at a pan Lancashire level, and within individual health economies. • Consideration of new models of	12	• Recognise the need for: an ambitious vision, robust partnerships, clear and credible delivery plans, and strong leadership and governance arrangements at a pan-Lancashire level. • Lead the integration agenda, recognising the need for an ambitious vision, robust partnerships, clear and credible delivery plans. Strong leadership and governance arrangements at a pan-Lancashire level.	16	MT	Level

			minimise the impact of funding reductions as well as providing a better offer for service users	delivery and potential new funding arrangements, such as pooled budgets where appropriate.						

Key to Scores

	CATASTROPHIC (for risk) OUTSTANDING (for opportunity)	5	10	15	20	25
	MAJOR	4	8	12	16	20
	MODERATE	3	6	9	12	15
IMPACT	MINOR	2	4	6	8	10
	INSIGNIFICANT	1	2	3	4	5
		RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
			LIKELIHOOD			

Audit and Governance Committee
Meeting to be held on 26 September 2016

Electoral Division affected: N/A

Liquid Logic System Update

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Executive Summary

The Audit and Governance Committee requested that a report be presented at the September Committee that set out the proposed improvements to the Liquid Logic system. In response to this request, this report sets out the recent progress that has been made improving the system since the Ofsted report of September 2015 and also the proposed next steps for the system and the new governance arrangements for system developments and implementations.

Recommendation

The Audit and Governance Committee is asked to note the progress to date.

Background and Advice

In September 2015, Ofsted raised concerns about the Liquid Logic system and its ability to produce reliable information on which decision making could be based. In response to this, a working group 'Project Accuracy', chaired by the deputy Chief Executive, was established. The group was made up of a range specialisms from service delivery and business intelligence to systems development. This was in recognition of the fact that the issues raised resulted from a range of problems and that in order to resolve these, the input of a wide range of services was needed.

The programme of work that was developed took both a short term and a longer term view due to the fact that some issues could be resolved relatively quickly however, there were some fundamental issues that would take a longer time to resolve. Significant progress has already been made and this been recognised in the recent Ofsted inspection, however a continued programme of improvement and governance is still needed and is in place as there are still some considerable challenges to overcome before the council can be confident that the data in the system is as accurate as it can be across all services. Of equal importance is the need to ensure the culture of accountability for systems and data that is starting to emerge continues and becomes an embedded part of social care. Achieving this will take longer and a framework for monitoring and governing the data and the way in which we make changes to our systems. This framework has been developed to assist monitor progress and identify any new issues that may emerge and to ensure the improvement in the accuracy that has been achieved will be maintained on an ongoing basis through 'business as usual' activity.

The learning from Project Accuracy can be equally applied to all systems and will be used as the model to be applied elsewhere across the council. To illustrate this, the approach that is being adopted for Liquid Logic Adults is set out later in the report.

Project Accuracy

The work of the project accuracy group has focussed on the following types of activity;

- **System ICT Implementation**

Liquid Logic is used successfully by many different local authorities so the choice of the system itself was not an issue. All systems however need to be configured to meet the processes of individual organisations and it was clear that the way in which the system had been configured in Lancashire was causing problems operationally. Backlogs of work were building up and social workers were developing and using off-line, manual workarounds to overcome some of the problems.

Getting to the root of the problem was key and after discussions with Liquid Logic it was established that Lancashire had customised its system more than other local authorities. Blackburn with Darwen Council use the Liquid Logic successfully and a comparison of the two systems was suggested as a way forward to compare how others use their system and see if any learning could be obtained. Rather than undertake a full comparison of the system that could potentially take months and may cover processes that were operating efficiently, it was agreed that those processes that were proving to be the most problematic for Lancashire's social workers would be focussed on. A workshop involving key individuals from practice, corporate services (systems and business intelligence), BTLS, Liquid Logic and Blackburn with Darwen was held and from this the following priority areas/actions were determined;

- The way in which data was requested from social workers was the same for every type of process even though some of the questions were not relevant to all cases. This was both frustrating and taking up valuable time for front line social workers. A refinement of the forms that made them more intuitive and relevant to particular types of cases and risks was developed in conjunction with the service and these 'smart' forms are currently being introduced into the business. Some of the forms needed to be developed by Liquid Logic were originally planned to be in place for September but were delayed due to the Ofsted inspection. The next available date for resources being available from Liquid Logic is October and this has been secured for the outstanding changes.
- Some work processes were not moving through the system and were therefore not being authorised/actioned etc. This was largely due to the fact

that were no processes in place to ensure that changes to staffing hierarchies, i.e. as staff moved within the organisation or joined or left, were reflected in the Liquid Logic system. This meant that social workers could not move tasks on or could not have a clear view of what work was left in their worktrays to action. A significant piece of work was undertaken to ensure that the actual social work structure, authorisation levels etc. were updated in the system and processes have been defined and implemented to ensure that they remain up to date in the future. This has required a significant amount of work by Children's Social Care service as well as HR, BTLS and the Core Systems team. As a result of this, transactions are now flowing through the system in the way that they should and social workers have worktrays that only contain the outstanding tasks that they need to carry out.

- Some processes had been configured so that they had to be carried out sequentially when this did not always reflect operational practice. This meant that social workers were prevented from moving on to the next part of their work by the system and so they were recording things off line. A review of practice and processes was carried out and where it was determined that there was no real risk of allowing access to the next stage of the process before the previous one was fully completed, the system controls were changed.
- Some changes were identified as being beneficial but discussions with Liquid Logic established that these had already been identified by other local authorities and in response to this they had developed a new release of the system to accommodate the changes. Lancashire is currently on V10 of the system and the changes are in the new V12. A review of the benefits has been carried out and a decision has been made that Lancashire moves to V12. In making the decision, it was recognised that this upgrade must be implemented in a controlled way that identifies impacts, allocates adequate resources to key activities such as testing and training and manages the system change into the business. As a guide, a 20 week implementation period is needed and it is anticipated that the new version 12 will be implemented before the end of March 2017. Preparatory work has already started.
- System changes were being requested by a range of individuals in the service and control and ownership of the system was not clear. Without this, some changes were contradictory, impacted on reporting and meant that resources within BTLS and other teams were not always focussed on priorities. The need to instil enhanced governance, discipline and control was established as being vital to overcome these as well as giving overall visibility of system changes to senior managers. New governance arrangements have been agreed and are set out later in the report. When implemented, this enhanced control will ensure that all system changes are planned for, have clear timescales, have identified resources and crucially are implemented in such a way as to give a period of stability within the service. The constant change process that was in place previously will not continue.

- **Reporting from Liquid Logic Systems**

Addressing the reporting issues was key to improving confidence in Liquid Logic and aiding decision making. A number of actions have been required not only to address the structure of reports but to ensure there is consistency in working practices and a discipline amongst social workers that ensures data is captured and entered into the system in a consistent way and on a timely basis,. To address the issues identified, the work was divided into 2 waves:

- Wave 1 of Project Accuracy concentrated on seven priority areas to address specific areas of weakness identified by Ofsted and managers. The project was launched with briefings to all children's social care practitioners and managers. A suite of weekly reports was generated and weekly improvement cycles (comprising reporting, analysis, brief meetings and short term action plans) were used to investigate anomalies and put plans in place to improve data quality. The work is largely complete for Wave 1, and there is a recognised improvement in the quality of data being reported in these areas by Ofsted and by managers in Children's Services.
- Wave 2 of Project Accuracy is focussed on the delivery of a wider suite of accurate, useable and timely management reports and the production of Annex A. Annex A is required by Ofsted and is child-level data supplied by every local authority prior to an inspection. It provides data analysts within Ofsted with a means to assess data quality and supplies inspectors with a way of selecting cases for further tracking. A robust Annex A is therefore essential.
- Work is underway to finalise the management information requirements for children's services. Initially concentrating on Children's Social Care, a suite of regular reports which will be provided weekly or monthly to operational managers is being developed. These reports will ultimately enable managers to have full oversight of the work being undertaken by their teams, and will aid planning and decision making at all levels. Particular emphasis is being given to developing reports that are easy to use and truly informative. They will complement the performance analysis reports that are supplied for monthly Practice Improvement Meetings and will form part of a Performance Framework for Children's Services.
- There is a report release schedule which shows that the reports required by Children's Social Care will be written by the end of November 2016. Each report will have a full implementation plan, including assessing the accuracy of the data and the usability of the report. Experience gained in Wave 1 of Project Accuracy means that there is an accepted process of assessing the reports and dealing with any issues being identified.

- A plan is also being developed to address the reporting requirements for Fostering and Adoption Services and SEND (children with Special Educational Needs or Disabilities). The work is starting to be scoped up, and the plan will include developing a list of requirements, a report release schedule and an implementation plan for each area of work.

- Work to improve Annex A is well underway; the suite of reports required to generate Annex A have now been written and these are used to create a monthly analysis of data and performance. Plans are developed to deal with any issues highlighted and progressed is tracked monthly. A synopsis of data and performance issues was provided to Ofsted in their recent inspection which demonstrated a much better understanding of data deficiencies.
- The structure of the reports is however only one element of the process and to be meaningful data accuracy is key. As previously mentioned, Project Accuracy undertook a process to improve the accuracy of the data in the systems. This identified a number of key issues that needed to be addressed that related to practice and culture:
    - Some additional training needs were identified for data that was consistently input into the system in the wrong way. The correct processes were reviewed and, if still relevant, were communicated to all social workers. Where necessary, additional training has been provided;
    - Some processes had not previously been fully defined and consequently were operating in different ways in different teams. Team managers as well as social workers have been informed of/trained on the correct processes and mechanisms are in place to produce exception reports that can be referred to team managers so that action can be taken where these are not being followed;
    - Training on the Liquid Logic system was in two parts. The first part was the general overview of the system and how to access key parts of it as well as data protection etc. This training is delivered on-line and is mandatory before any social worker can have access to the system. The second part of the training is delivered face to face by the Learning and Development team. This training is specific to the processes that operate in Lancashire and is therefore key in ensuring that social workers understand key processes and how data should be captured and entered in the system. Previously this training was not mandatory and therefore take-up was very low. This training is now compulsory and must be undertaken by all social workers within 3 months of starting work. The training is also available to current social workers and regular training on the system and processes is being built into the ongoing annual CPD requirements for social workers in Lancashire.
    - A framework for ensuring data accuracy is maintained and that changes to reporting requirements are identified early and can be fully specified and implemented has been developed as part of the enhanced governance arrangements that are now in place within the social care service.

Culture

The need for a culture change around systems and data has been mentioned previously. This covers the full spectrum from control and governance through to operational accountability for using the system in the prescribed manner and being accountable for the data. This culture change is starting to emerge as social workers see the importance of accurate data and how it impacts on decision making. At the same time, there is the need corporately to recognise the importance of 'gatekeeping' and carefully overseeing the way in which changes are managed into the business. Ongoing engagement with stakeholders at the right level is also key to successful and integrated working relationships across a range of professional services. Systems do not sit outside the business but are integral to it and this is starting to be recognised in our services.

Governance Arrangements

Strong governance arrangements are now in place and the Director of Children's Services is required to sign off all changes to the system. To support this;

- System ownership for all systems has been transferred to the Core Systems/Transformation team with dedicated, named resource attached to the system. This first line of contact will be crucial in ensuring a line of sight for the Director of Children's services on all system related activity.
- Roadmaps will be developed for each system and will set out timelines for changes, resource requirements etc. This will be a key monitoring document for senior managers within the service.
- Best practice guidance for all system implementations has been developed and will be followed in all cases. The Core Systems/Transformation team will be responsible for carrying out the 'gatekeeper' role for all changes.
- A series of working groups will meet on a regular basis, chaired by senior staff, and will report to the Startwell Senior Management Team and the 0-25 Board on a regular basis. Sign-off and approvals are required, in most instances, by the Director of Children's Services to ensure that senior oversight of these issues remains as part of the ongoing 'business as usual' processes. The remit of the working groups covers reporting, systems and accuracy and ensures there is a both a top down and bottom up approach to identifying service needs, change requirements and understanding impacts. Expectations about the knowledge, skills and level (seniority) of staff expected to attend the meetings has been determined.
- From January 2017, the accuracy of data and governance of reporting requirements will be managed via a fortnightly 'Accuracy Working Group'. The Accuracy Working Group will be chaired by the Head of Service for Children's Social Care (Central) and will have full oversight of all issues impacting on accurate recording and reporting. Any changes to reports, and the implementation of new reports will be managed through this group.

Other Systems

There are already a number of systems under development that affect Children's Social care including the need for an Early Help Module and a module for Education, Health and Care Plans. Work has already taken place to determine the statement of requirements for these. The governance processes set out in the section above will be followed to ensure these modules are implemented in a controlled way.

The adults systems and how they operate are similar to the children's systems and it is important that these are not overlooked. There is a considerable amount of learning from the Project Accuracy Group that can be used and passported into a similar process for Liquid Logic Adults systems. Preparatory work is already underway to determine what needs to be done, the resources required and by when. As a first step, hierarchies are in the process of being cleansed and enhanced with authorisation/approval levels etc. Once this work is completed, the data can be migrated into the Liquid Logic system. The scale of the adult's service is significantly larger than that for children's and therefore the scope of work and the length of time it will take to complete will be longer. An assessment of realistic timescales is underway as any migration of new data will need considerable resource from the service to check, correct etc. This will need to be done in a controlled and planned way.

To oversee the work on the adult's system, a Steering group is to be set up. This will set the direction and pace of change and will meet on a weekly basis to ensure the pace of change required is being achieved. The data accuracy Improvement cycle will be determined by the group and will need careful planning given the amount of resource that will be required from the service to quickly check data reports, highlight inaccuracies and return for correcting. To do this in children's social care, additional capacity has been brought in both to help clear a backlog of work and also to focus on data that is known to be a particular issue/problem. It is estimated that this additional capacity has cost in the region of £400k. In planning the programme of work for adults, there will be a cost of carrying out the work and this will need to be factored into the budget for the current and next financial year. At this stage this cannot be quantified but is likely to be significantly more than the cost for children's social care due to the fact that adults is significantly bigger.

Consultations

N/A

Implications:

Financial Implications

The cost of the work to date is estimated to be £400k. Additional funding will need to be identified to support the work on the Liquid logic Adults system. At this stage this cannot be quantified but will form part of the financial planning arrangements within the council.

Risk management

None. The report updates the Committee on progress made to date.

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

Paper	Date	Contact/Tel
N/A		

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected:
(All Divisions);

Internal Audit progress report
(Appendix A refers)

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Executive Summary

This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the Council's governance, risk management and internal control framework. It highlights key issues arising from the work undertaken during the period to 9 September 2016 by the Internal Audit Service under the agreed Internal Audit Plan.

Recommendation

The Audit and Governance Committee is asked to:

1. Note the Internal Audit Service progress report for the period to 9 September 2016, and
2. Consider the nature of the external validation of the Internal Audit Service's internal quality self-assessment, and support the proposal that this be undertaken by the Chartered Institute of Internal Auditors.

Background and Advice

Definition of internal auditing

> "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
>
> "The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

The Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2013

Lancashire County Council

Relevant regulations

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

Regulation 5. (1)

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control … and (b) prepare an annual governance statement."

Regulation 6. (1)
Accounts and Audit Regulations 2015

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

The Director of Governance, Finance and Public Services, and the Director of Financial Resources have been consulted on this report.

Implications:

None.

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/Tel

Reason for inclusion in Part II, if appropriate

Not applicable.

Internal Audit Service progress report on implementation of the strategic internal audit plan: 2015/16, 2016/17 and beyond

1. Introduction

1.1. In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond, and the Internal Audit Service has been working to that plan throughout 2015/16 and the year to date. All work in respect of 2015/16 has now been completed, and work is taking place across a number of the planned audits for 2016/17. The Audit and Governance Committee's terms of reference require it to consider periodic reports of internal audit activity and outcomes and this report provides a summary of the Internal Audit Service's work under the strategic internal audit plan.

1.2. As was noted in January, the plan may be subject to amendment as the scopes of individual audits are developed with further input from directors and heads of service. At this point an audit of the operation of the revised scheme of delegation to officers has been added to the plan, supporting work on the council's governance arrangements; and the audit of the measures in place to monitor and achieve the council's planned budget reductions has been removed because the Committee will be able to take assurance from work now completed by PricewaterhouseCoopers.

1.3. The resources available to the service have now been agreed. Recruitment is under way to fill four auditor vacancies, as well as a senior auditor post that will become vacant as the current post-holder takes up a post within the ICT Service. A further update will be reported verbally to the committee at its meeting.

1.4. Public Sector Internal Audit Standards and the Internal Audit Service's quality assurance and improvement programme require that an external quality assessment be conducted at least once every five years by a qualified, independent external assessor. The Standards expect the Audit and Governance Committee to discuss the form of that external assessment and the qualifications and independence of the external assessor, including any potential conflict of interest, and it should consider and agree the scope of the external assessment. More information is provided at Section 3 below.

2. Internal audit work completed

2.1. Work relating to 2015/16 was reported to the committee in May 2016, but the audits of accounts receivable and debt management, and cash and banking were incomplete at that point. A summary of the matters arising from these audits and other audit work now completed is provided below. The agreed programme of work for 2016/17 and notes of the progress against each audit are also set out in the table in Appendix B.

System	Assurance
Business processes: Financial processes	
The general financial ledger	Substantial (2015/16)
Accounts payable system	Substantial (2015/16)
Accounts receivable and debt management system (a centrally managed system but with input from across the council)	Limited (Work for 2016/17 incorporating testing of transactions processed in 2015/16).

Cash and banking (central functions)	Substantial (Work for 2016/17 incorporating testing of transactions processed in 2015/16).
Payroll	Substantial (2015/16)
Treasury management	Substantial (2015/16)
VAT	Substantial (2015/16)
Service delivery: Economic development	
Lancashire Enterprise Partnership: governance and accountability	Substantial (2016/17)
Lancashire Enterprise Partnership: assurance framework	Substantial (2016/17)

Accounts receivable and debt management system

2.2. There have been significant improvements in the application of debt collection strategies within the Oracle financial system and in the work of the Debt Management Team, particularly in the automation of reminder letters and workflow emails and the development, implementation and monitoring of new collection strategies since July 2015. Furthermore, the Debt Management Team now has access to Oracle reports that provide full details of all debts owed to the council. There are good practices in place relating to reporting to senior management and the Cabinet Committee on Performance Improvement (CCPI), monitoring of collection trends and performance data, the preparation and authorisation of write off and credit notes, and receipting of income collected against outstanding invoice debt.

2.3. However although long-term corporate debt (that over 180 days old) had begun to fall by the end of 2015/16, significant manual intervention by the Debt Management Team is required to enable managers in services across the council to manage the debt they raise. Further, problems specific to adult care services have caused debts relating to care services to increase by £2.8 million over the year from £10.2 million to £13.0 million.

2.4. The aged debt reports that can be generated from Oracle by the Debt Management Team enable that team to monitor the council's debt position. However automated reports are not available to budget holders to monitor either their service's debt overall or the debt on individual invoices. This has been a long-standing issue and it is intended that automated reporting for budget holders will be progressed during 2016/17. In the meantime the Debt Management Team is developing detailed reports for a number of budget holders and intends to roll these out further to other services during the year.

2.5. In respect of adult care services specifically, there are significant delays in inputting care package details into the social care system and completing financial assessments. This leads to invoices for high values being raised against individuals for care over long periods. (Our sample included cases in which invoices were raised 22 months after the care packages began).

2.6. The complex nature of the debt recovery process is acknowledged, and the interdependencies of a number of key areas are well understood by the teams involved in taking action to reduce the council's overall debt position.

Cash and banking

2.7. The council's income identification and allocation process is being carried out effectively and has been significantly improved by moving to greater automation and the use of fewer manual processes than formerly. At the end of 2015/16 unidentified and unallocated receipts amounted to only £9,254, which is trifling.

2.8. However we also reviewed the application of controls over the Streamline card payment system within the three of the council's offices that take payments for services. We found weaknesses in the design of controls and inconsistencies in practice at all three locations, particularly with regard to card data security and the processing of refunds. Since the Streamline card payment system accounts for only 0.12% (£16 million) of the council's total cash income this has not affected our opinion on the council's overall control of its cash.

2.9. We also reviewed the reconciliation of the Parent Pay system operated in the county's schools to the council's financial system. None of the three schools we visited were fully reconciling the funds receipted on Oracle to their Parent Pay settlement records and the Oracle records for one of the schools held transactions that did not relate to that school, which it had not investigated.

Lancashire Enterprise Partnership: governance and accountability

2.10. The operation of the LEP is heavily circumscribed by central government and the council is compliant with those requirements.

2.11. Strategic priorities for the partnership, and specific targets and outcomes for individual schemes, are agreed and approved by the LEP Board. Performance against these targets will be collated through the Performance Committee but this committee is in its infancy and has met only three times to date. However, an agreed meeting schedule and work programme are in place and key LEP initiatives such as City Deal are already the subject of on-going review. Performance against targets is reported and monitored by members of the LEP for each funding stream and, although this is not consistent across all streams, work is ongoing to develop a full performance monitoring framework under the remit of the Performance Committee.

2.12. Membership of the Performance Committee has been strengthened to include two additional LEP directors including the LEP chair and, at the request of the LEP Board, the Leader of Preston City Council on behalf of Lancashire's local authorities has joined the committee and provides a non-LEP director perspective.

2.13. A two-year funding agreement covering the period 2016/18 is in place between the LEP and county council regarding core economic development officer support and company secretarial services. However, no formal partnership agreement has been established to require a contribution by the council's partners to the LEP's administrative costs or a contribution of staff resource to carry out administrative duties around legal and financial management. Furthermore, there is no agreement between the LEP's partners to share the risk of financial loss to the council in the event of any clawback of funding.

Lancashire Enterprise Partnership (LEP): assurance framework

2.14. A formal assurance framework for the LEP was required by the former Department for Business, Innovation and Skills (BIS), which has been recently restructured to form the new Department for Business, Energy and Industrial Strategy. This was approved by the LEP Board on 17 March 2015 and audited by the North West Office of BIS in early 2016, being reported to the LEP Board in April 2016. This work identified just two minor administrative points, one of which has already been implemented. The LEP was also randomly selected to undergo a review of its Assurance Framework by Government's Internal Audit Office which identified one minor administrative point that has since been rectified.

3. External validation of the Internal Audit Service's internal quality self-assessment

3.1. Public Sector Internal Audit Standards and the Internal Audit Service's own quality assurance and improvement programme require an external quality assessment to be conducted at least once every five years by a qualified, independent assessor external to the organisation. The last such review was undertaken in mid-2012 and reported in September 2012: another is due by September 2017.

3.2. In May 2016 it was intended that the county council's Internal Audit Service would participate in the peer review process being conducted by a number of the authorities across the North West region. However the Committee is now asked to consider the likelihood that it will receive stronger and more independent assurance regarding the Internal Audit Service's compliance with professional standards from one of the institutes responsible for those standards.

3.3. It is proposed that the council commissions the Chartered Institute of Internal Auditors (CIIA) to undertake an external assessment of its Internal Audit Service, validating the service's own self-assessment against the International Professional Practices Framework, the Public Sector Internal Audit Standards and the Local Government Application Note. Whilst the Chartered Institute of Public Finance and Accountancy (CIPFA) could also provide such an assessment, the head of internal audit has for the last ten years been a member of that institute's technical Internal Audit Panel. The CIIA is in every way independent of the county council and its officers and the assessor expected to undertake the review has undertaken other work in the public sector including a review of at least one other county council.

3.4. It is intended that this review will be carried out during September 2017 to give sufficient time for the newly restructured service and its staff to complete a full year's operation and report to the council on its work for 2016/17.

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
Governance and democratic oversight					
Corporate governance framework	Documentation of the council's governance arrangements	Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements.	Key component of opinion	Work to scope this audit work has recently begun, and will be supplemented by additional work to assess the operation of the revised scheme of delegation to officers.	
	Operation of the scheme of delegation to officers	Review of the introduction of the revised scheme of delegation and its operation in practice.	Coverage of control across the organisation	This audit has been added to the plan following further discussion with senior management and will be undertaken in conjunction with the audit of the council's governance arrangements as a whole.	
	Effective oversight of corporate governance by the Audit and Governance Committee	Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	Key component of opinion	Members have recently been contacted to discuss this audit, on the basis of a draft risk and control framework.	
Business effectiveness					
Risk management	Preparation and use of the corporate risk register	Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.	Key component of opinion	A risk and control framework has been developed and agreed. Work has started on the operation of the risk management process in the first two quarters of the year, but further controls testing will take place in the third quarter.	
Financial governance	Delivery of the council's financial strategy and budget reductions	Risk and control assessment of the measures in place to monitor and achieve planned budget reductions.	Controls to mitigate a significant risk	Whilst scoping this work it became clear that the work undertaken by PricewaterhouseCoopers has addressed the same risks. Although their report is still in draft at this point, we expect that it will provide the council with the assurance it requires and do not intend to undertake any additional work. We understand that the council will be able to take substantial assurance that its controls to mitigate the risks of monitoring and achieving the planned budget reductions are adequately designed and operating effectively.	Substantial
	Oversight of the Lancashire Pension Fund	Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.	Controls to mitigate a significant risk	Testing on this work is scheduled for February 2017 but some early work has already begun.	
	Acting as accountable body for funding	Evaluation of the controls that manage the risks in taking on the role of accountable body, taking a sample of the most significant funding streams.	Coverage of controls across the organisation	We understand that the council now acts as accountable body for very few, but significant, funding streams. The most important ones are the Lancashire Economic Partnership and the Better Care Fund, both of which are subject to specific audit work in the plan for 2016/17. There are no longer a number of disparate smaller funding streams requiring the council to establish and operate a standardised control mechanism, and this work will therefore be removed from the audit plan for this year.	
Performance monitoring	Corporate performance monitoring	Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.	Support to management to improve controls	A risk and control framework relating to the current process has been developed and is being considered by the audit sponsor, but testing will largely take place in the third quarter of the year.	

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
Service delivery					
Children's services	Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate	Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams. This work could be replicated in other service areas but will be piloted here first.	Controls to mitigate a significant risk, and supporting work relating to risk management	Work is scheduled to start in October.	
	Identification of, and responses to, external feedback on children's services and schools	Assessment of the potential sources of feedback and operational services' responses to these including escalation of the information to senior management.	Controls to mitigate a significant risk	This audit work is just beginning, and will be informed by other work done during July and August arising from a whistleblowing call.	
	Data held on LCS (Lancashire Children's Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LCS.	Controls to mitigate a significant risk	We intend to draw on the experience of developing and testing the risk and control framework for the data held on LAS. This will be confirmed, but work is scheduled to start in October.	
	Oversight of schools' financial management	Risk and control evaluation of the arrangements to oversee schools' financial management.	Coverage of controls across the organisation	A risk and control framework has been developed and, once agreed, testing will start immediately.	
	Certification of claims made under the Working Together with Families Programme	Testing to certify that central government's grant funding requirements have been met.	Requirement to comply with funding terms	We have been working with the service as it has identified the risks and controls framework for the programme and related funding claims, and will review the validation check list and sample claims prior to the first claim being submitted.	
Adults' services	Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.	Controls to mitigate significant risks in a number of individual instances	A risk and control framework has been developed and agreed with the principal social worker. We will test the current system once we have obtained the information we need about the sample population.	
	Data held on LAS (Lancashire Adult Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LAS.	Controls to mitigate a significant risk	This audit will be undertaken in conjunction with the three audits of case management below, all of which impact on the data held on LAS. A risk and control framework has been developed for this audit and will be agreed with the director of adult services. Testing of this will take place during November, and will be informed by testing of the case management processes.	
	Case management: assignment of officers to cases	Risk and control evaluation of assignment of cases and workloads, with compliance testing following implementation of new team working arrangements.	Controls to mitigate significant risks in a number of individual instances	A single risk and control framework has been developed for these three areas of case management and testing on all three is scheduled for October.	
	Case management: timely completion of action to statutory and advisory deadlines	Compliance testing of the timeliness of case management action against the deadlines set in legislation and the council's policies.	Controls to mitigate significant risks in a number of individual instances		
	Case management: delegation of responsibilities to accredited social workers	Compliance testing of the accreditations awarded to social workers to facilitate their taking on enhanced responsibilities for case management decisions.	Coverage of controls across the organisation		
Public health & wellbeing services	Commissioning and oversight of commissioned public health service provision	Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.	Coverage of controls across the organisation	A risk and control framework has been agreed, and testing of the controls in operation has been completed. Our findings are being considered but we have not yet prepared our report.	
Public health &	Operation of the Health and	Assessment of the constitution and operation of the	Coverage of controls across	A risk and control framework has been agreed and	

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
wellbeing services	Wellbeing Board	Board against professional guidance, local requirements and current best practice,	the organisation	testing of the controls in operation has been completed. Our findings are being considered but we have not yet prepared our report.	
with Corporate commissioning	Operation of the Better Care Fund	Including assessment of the governance arrangements for the council's use of the Better Care Fund.	Coverage of controls across the organisation	A risk and control framework has been agreed, and testing of the controls in operation has been completed. Our findings are being considered but we have not yet prepared our report.	
Corporate commissioning	Commissioning, design and monitoring of the capital programme	Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for the Lancashire Economic Partnership.	Controls to mitigate a significant risk	We have begun to scope this audit but further work is necessary and the introduction of the new suite of systems has temporarily delayed this.	
	Provision of school places	Risk and control evaluation of the provision of school places.	Coverage of controls across the organisation	This work has begun: a risk and control framework has been developed for discussion with management, and detailed testing of the effectiveness of controls is scheduled to start in October.	
	Operation of the Premises Compliance Team in strategic premises management	Assessment of risk and controls in relation to the council's property assets.	Coverage of controls across the organisation	Work is scheduled to start in October once the property strategy has been approved (subject to any amendments following the public consultation) and compliance officers appointed. Given the change still going on in this area it is possible that the timing of this work may slip.	
Economic development	Lancashire Economic Partnership (LEP): governance and accountability	Assessment of the constitution and operation of the Partnership against guidance and local requirements, to ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme).	Controls to mitigate a significant risk	This work is complete and a draft report is being discussed with management, but the findings can be reported and are included in the narrative above.	Substantial
		Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.	Maximising the value of audit work in other control areas	This has been addressed at the same time as the work on the LEP's governance and accountability as it is closely related. An audit was undertaken by the North West Office of the Department for Business, Innovation and Skills in early 2016, which found only two insignificant administrative issues.	Not applicable
	Local Growth Fund certification	We have certified that the Department for Communities and Local Government's requirements in respect of Growth Deal funding have been met.	Requirement to comply with funding terms	The council's use of £39.35 million of grant funding under the Local Growth Fund has been certified as meeting the conditions of that funding.	Not applicable
Emergency planning	Adequacy of the plans in place to address emergencies and civil contingencies	Risk and control evaluation of the adequacy of emergency planning, including involvement of appropriate partners and adequacy of testing.	Controls to mitigate a significant risk	A risk and control framework has been developed and discussed with the audit sponsor, and this audit is now under way.	
Pension fund administration	Administration of the fund to serve its members	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate significant risks in a number of individual instances	Work is scheduled to start in November.	
	Accounting for the fund	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate a significant risk	Work is scheduled to start in November.	
Pension fund	Fund investment management	Assessment with management of the assurance	Controls to mitigate a	Work is scheduled to start in November.	

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
administration		framework and available assurance over the Fund's investments.	significant risk		
	Fund investment management	Follow-up of actions agreed in relation to monitoring the performance of the Pension Fund's investments.	Follow-up as required by professional standards	Work will take place in November with the other work on the Pension Fund.	
Service support					
Business systems	Monitoring of the contract with BTLS	Risk and control evaluation of contract monitoring, with compliance testing.	Coverage of controls across the organisation	Work has begun with the audit sponsor and key contact and a risk and control framework has been developed. Work to establish and test the controls in place is now under way.	
Business processes					
Financial processes	Treasury management	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Work for 2015/16 is now complete and a report has been issued. The only significant (medium) risk exposure we identified is the lack of compliance with the requirement under Treasury Management Practices that all Audit and Governance Committee members are trained in their oversight role, and the resulting potential for a lack of understanding amongst members of both that committee and the Cabinet. Further compliance testing for 2016/17 will be started in December.	Substantial for 2015/16
	Oracle general ledger	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	This work will be scoped with the audit sponsor and heads of service shortly.	
	Accounts receivable and debt management: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Work for 2016/17 incorporating testing of transactions processed in 2015/16 is now complete. The actions agreed by the Finance Team will be implemented during the remainder of 2016/17 and we do not intend to undertake any further work (including follow-up of the agreed actions) on this system during the rest of the year.	Limited
	Accounts receivable and debt management: feeder system controls	Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder systems.	Controls to mitigate a significant risk	Work is scheduled to start in November 2016.	
	Cash and banking: central controls including checks over completeness and compliance in other locations	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	Work for 2016/17 incorporating testing of transactions processed in 2015/16 is now complete and we have concluded that the council's central cash receipt and allocation process is adequately designed and operating effectively.	Substantial
	Oversight of payroll payments	Risk and control evaluation of the council's monitoring and oversight of BTLS's processes, with annual compliance testing.	Controls to mitigate a significant risk	Work is scheduled to start in January 2017 including follow-up of actions agreed in 2015/16.	
	Accounts payable: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk	This work will be scoped with the audit sponsor and heads of service shortly.	
	VAT	Risk and control evaluation of the controls in place, with periodic compliance testing.	Coverage of controls across the organisation	Work, including follow-up of actions agreed in 2015/16 is scheduled to start in December.	
Investment	Implementation of the treasury	Compliance testing of operational policies and	Controls to mitigate a	Work is scheduled to start in January 2017.	

Service area	Operational area of activity	Audit work	Planning principle	Progress/ findings	Assurance
	management strategy, including refinancing the council's debt	procedures, and work with management to understand the nature of the representations being given to lenders and credit rating agencies.	significant risk		
	Compliance with borrowing limits and any other restrictions on investment	Evaluation of the in-service compliance programme and management's responses to its findings.	Controls to mitigate a significant risk	Work is scheduled to start in January 2017.	
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders	Risk and control evaluation with annual compliance testing.	Controls to mitigate a significant risk	A risk and control framework has been developed and agreed. Controls testing is scheduled to start in September.	
Payroll processing	Effectiveness of inputs to the system: the inputs required and how they are processed	Risk and control evaluation focussed on system inputs.	Controls to mitigate significant risks in a number of individual instances	Work is scheduled to start in January 2017.	
	Processing of payments by BTLS, using information supplied by LCC	Risk and control evaluation, with annual compliance testing.	Controls to mitigate significant risks in a number of individual instances	Work is scheduled to start in January 2017.	
Human resources (and finance)	Amendments to the council's establishment: completeness, accuracy and currency of records	Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.	Controls to mitigate a significant risk	Work is scheduled to start in January 2017.	
ICT	Possible work may include general IT controls, IT security and continuity planning, and application controls including the new identity management system	External advice is required, including discussions with BTLS, to properly assess the ICT audit work that is appropriate and achievable.	Controls to mitigate significant risks	Procurement of specialist ICT audit services will begin shortly.	
All	Completion of agreed action plans	Follow-up of work initiated during 2016/17. Action plans agreed in respect of earlier audit periods will not be pursued.	Follow-up as required by professional standards	As we undertake follow-up work it will be incorporated into the areas of work listed above.	
Various funding streams	Various: predominantly relating to funding for the former Environment Directorate, plus the Working Together with Families Programme	Work must be undertaken to meet EU and central government departments' grant funding requirements where funding is given on condition that the Internal Audit Service provides assurance to these bodies that their funding has been spent as intended.	Requirement to comply with funding terms	Work to certify that the council has met the conditions associated with any grant programme will be listed above in future progress reports. At this point, we are aware only of claims associated with the Working Together with Families Programme, and a claim under the Local Growth Fund.	

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected:
(All Divisions);

Statement of Accounts - Waste Plant - Valuation

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

Executive Summary

At the meeting of the Audit and Governance Committee in June 2016, the Committee considered the views of the External Auditors in relation to the valuation of the Waste Facilities at Farrington and Thornton to be contained in Statement of Accounts for the financial year 2015/16.

It was noted that the Council would seek advice from external professional valuers on whether the change in anticipated use of the facilities would materially change the value of the facilities to be reported in the Council's Statement of Accounts.

Having done so, the independent valuation has concluded that there has been a reduction in the value. However, the value of the facilities is not deemed to have materially changed. The value of the assets held in the accounts is therefore considered materially correct and no change has been made.

Recommendation

The Committee are asked to note the report.

Background and Advice

At the meeting of the Audit and Governance Committee in June 2016, the Committee considered the views of the External Auditors in relation to the valuation of the Waste Facilities at Farrington and Thornton to be contained in Statement of Accounts for the financial year 2015/16.

It was noted that the Council would seek advice from external professional valuers on whether the change in anticipated use of the facilities would materially change the value of the facilities to be reported in the Council's Statement of Accounts.

Hilco Global have now carried out a desktop valuation of the plant and equipment which determined that the estimated change in value could be in the region of £22m as relating to the Council.

Lancashire County Council

The CIPFA code does not specify a quantitative threshold but requires authorities to consider whether or not a change or omission could influence decisions that users make on the basis of the financial information. In relation to the accounts for 2015/16, the External Auditors have set out a materiality limit of £32m. The value of the facilities is therefore considered not to have materially changed, and the valuation held in the Statement of Accounts has been upheld.

It must be noted that the value of property, plant and equipment held in the Council's Balance Sheet does not represent an estimate of how much the Council would receive if they sold the asset. In the event that there is a change in valuation there are a number of accounting rules that have to be followed. These would result in changes in the Balance Sheet but there is no associated funding requirement and no impact on the Council's budget.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Financial

As set out in the report.

Risk management

Material misstatements in the accounts could lead to a qualified audit opinion.

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

Paper	Date	Contact/Tel
Waste Facilities Valuation – Business Decision Analysis Audit & Governance Committee	June 2016	Khadija Saeed, Head of Corporate Finance 01772 536195

Reason for inclusion in Part II, if appropriate

N/A

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected:
(All Divisions);

Annual Governance Statement 2015/16 Update
Appendix "A" refers

Contact for further information:
Ian Young, Tel: 01772 533531, Director of Governance, Finance and Public Services
ian.young@lancashire.gov.uk

Executive Summary

At its meeting held on 30 June 2016 the Committee considered and approved the Council's Annual Governance Statement (AGS) for 2015/16.

This report provides an update to the AGS, attached at Appendix "A", to reflect developments since June.

Recommendation

The Committee is asked to approve the updated Annual Governance Statement for inclusion in the Council's Statement of Accounts.

Background and Advice

The 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, 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.

At its meeting held on 30 June 2016 the Committee considered and approved the Council's Annual Governance Statement (AGS) for 2015/16. The AGS at Appendix "A" has been updated to reflect developments within the Council since June and is presented for approval, following which it will be signed by the Chief Executive and the Leader of the Council and included within the Council's approved Statement of Accounts. The Statement of Accounts and the AGS will then be published on the Council's website.

Risk management

Good governance enables a local authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. A local authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to publish an AGS means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

Financial Implications

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

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

Paper	Date	Contact/Tel
Audit and Governance Committee - Annual Governance Report	30 June 2016	Ian Young Director of Governance, Finance and Public Services. Tel: 01772 533531

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Annual Governance Statement – Financial Year 2015/16

1. 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, 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.

In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 205/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

2. 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.

3. Governance issues in 2014/15

In the light of the exceptional circumstances that had been reported over the previous two years, the Internal Audit Service had been unable to complete a risk-based programme of work sufficient to support an overall opinion on the Council's overall governance framework.

The Annual Report concluded that the level of assurance previously provided had gradually deteriorated and therefore only limited or no assurance had been provided over the majority of control systems audited during 2013/14. At Management Team's request internal audit work during 2014/15 was therefore directed towards reassessing key areas of control weaknesses and follow up actions agreed by management to improve controls across a number of systems and services identified in previous years' reviews.

As a result of that work it was concluded that substantial assurance could be provided over the areas of high and medium risk. Substantial assurance was also provided over the Council's key financial systems and it was reported that there had been a robust improvement over areas such as information governance.

The External Auditor's Value for Money (VFM) conclusion contained in the Audit Findings Report for 2014/15 also identified a number of areas of concern which had resulted in a qualified opinion as follows:

- The Head of Internal Audit's inability to provide an overall opinion on the system of internal control for 2014/15;
- Procurement risks following the return of the Procurement Service from One Connect Limited, in particular the need to waive procurement rules to extend a number of existing contracts;
- The financial pressures facing the Council, in particular the risks around the delivery of savings necessary to meet a spending gap from 2016/17 to 2020/21

At their meeting held on 25 January the Committee received a report providing an update on the performance of the Procurement Service following its transfer back from One Connect Limited. The report set the progress made in implementing the procurement Service Improvement Plan and the Service's current performance against the key performance indicators aligned to the Procurement Strategy and was commended by the Committee.

In relation to both the financial pressures facing the Council and the absence of an overall Audit Opinion for 2015/16, both issues remain concerns and are commented on later in this report.

4. The Head of Internal Audit's report 2015/16

In June 2015 the Audit and Governance Committee noted the Internal Audit Annual Report for the year ended 31 March 2015 which stated that during 2015/16 the Internal Audit Service would work to support management and in particular a number of members of the team will be seconded into the Finance service to provide extra, necessary capacity on key projects, therefore it would not undertake work that would support an overall opinion in 2015/16 but would, so far as resources allowed, provide consultancy support to services.

Subsequently, in January 2016, the Committee approved the Internal Audit Service Strategic Internal audit Plan 2015/16, 2016/17 and beyond, the report noting that the Service would not be in a position to complete a risk-based programme of work to support an overall opinion on the Council's framework of governance, risk management and control for 2015/16 but would focus its assurance work solely on the Council's centrally managed key financial systems.

The key financial systems are as follows:

- The general financial ledger;

- Cash and banking;
- Accounts payable system;
- Accounts receivable and debt management system;
- Payroll;
- Treasury management; and
- VAT

All this work is now complete with all areas assessed as providing substantial assurance other than in respect of accounts receivable and debt management where further actions agreed are being implemented during 2016'17 including the appointment of debt recovery staff in Legal Services.

5. Emerging governance issues in 2015/16

A number of risk areas emerged or came to prominence during 2015/16 including:

- The challenges associated with fully implementing the Councils medium term financial strategy and the longer term financial viability of the Council;
- Continuing to deliver organisational transformation. Phase 2 of the original transformation process has been stopped and an alternative base budget review process adopted;
- The delivery of a joint service between the Lancashire Pensions Fund and the London Pension Fund Authority.
- The Ofsted inspection judgement of "inadequate" in relation to Children's Services;
- The delivery of new waste management arrangements to achieve significant budget savings by introducing changes in operations and processes at the two recovery parks;
- Health and social care integration and the requirement to produce Sustainability and Transformation Plans by June 2016, to be fully implemented by 2018;
- Developing new model for public service delivery through the establishment of a combined authority for Lancashire and securing a devolution deal with central government and securing economic growth, of which public sector reform is one strand.
- The implementation of the Council's Property Strategy agreed by Cabinet in September 2016

All of these risk areas have been the subject of detailed reports to Cabinet and/or other committees/Full Council.

The following sections comment in more detail on the issues identified above:

6. The Financial Viability of the Council

The Council's Risk and Opportunity Register identifies the risk to the ongoing longer-term financial viability of the County Council as one of its highest level risks. The Medium Term Financial Strategy (MTFS) presented to Cabinet on 21st January 2016 noted that there is a strong likelihood that the Council will, during the course of this financial strategy period (up to 2020/21) be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered. The assessment of statutory services followed a detailed base budget review undertaken earlier in the year.

The budget approved at Full Council was based upon £129m of savings being delivered in 2016/17and 2017/18 and the use of c£117m of reserves to support the revenue budgets in these years. Despite this, there remains a funding gap of c£200m by 2020/21 reflecting reducing resources and increasing demand for services, particularly social care as a result of demographic changes including an increasingly ageing population and also the increased cost of commissioning and delivering those services, a financial pressure further impacted by the introduction of the National Living Wage from 1st April 2016 at £7.20 per hour and which will rise to at least £9 per hour in 2020. The additional financial pressures on Adult Social Care budgets are only partially mitigated by the ability to raise the 2% Adult Social Care Precept.

Budget reports to Cabinet during the year identified several strands to seeking to address the future financial challenge facing the County Council. This includes a continuous review of efficiency, with a Zero Based Budget Review being undertaken in 2016/17 of every service within the Council's current operating model to identify the potential for removing any non-essential expenditure. These reviews have reference to benchmark unit costs with the intention of moving towards the lowest quartile of the most appropriate comparator group.

The outcome of these reviews is unlikely to deliver a sustainable financial position in the medium term and therefore the November budget report identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed to assist the Council in scoping and undertaking the review of its operating model. It is anticipated that this review will be undertaken during 2016/17 with the key aspect being to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21. This review is likely to involve looking at opportunities across all public services in Lancashire as the County Council is not alone in this financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a budget shortfall of over £800m by 2020/21.

Price Waterhouse Cooper have been appointed to provide this support to the Council and their review is ongoing. PwC's ongoing review of the Council's operating model involves looking at opportunities across all public services in Lancashire, engaging other public sector partners where appropriate, in the context that the Council is not alone in its financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a significant budget shortfall by 2020/21.

The remit of the Political Governance Working Group has been extended to include this review and to make recommendations to Full Council.

Whilst the scale of the financial challenge is a hugely significant one, the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast earlier in the year. The

Director of Financial Resources provides regular reports on budget and performance to Management Team and Cabinet and fundamental to this will be the delivery of approved savings plans which are subject to ongoing detailed scrutiny and monitoring.

7. Organisational Transformation

With effect from 1 April 2015 the transformation of the Council's senior management structure at grade 11 and above (Phase 1) is complete. Phase 2 of the transformation (all other grades of staff) was put on hold shortly after the completion of Phase 1 due to the increasing certainty of an even more severe financial position for the Council than had been previously forecast.

A revised transformation approach was established which incorporates a fundamental review of all Council services to determine which services will be provided in the future. Posts at all grades (including posts established as part of Phase 1) are being reviewed, and revised structures, on a service by service basis, are being developed, consulted on and implemented. This process commenced in 2015/16 and will continue in 2016/17, with a view to establishing a new operating model for the Council by April 2018.

The review of services referenced above commenced in the summer of 2015 with a base budget review of all County Council services. The review established which services the Council has to provide as a statutory minimum. A "legal challenge" test was applied to all services. The outcome of the review demonstrated at that point that by the end of the financial year 2017/18 the Council would not have sufficient funding to provide a minimum level of statutory service provision.

The next stage of the transformation approach is a zero based budget review exercise, which commenced in January 2016. This review will determine, for the services that the Council is still providing, the lowest achievable cost model, for a minimum level of service provision. The exercise will incorporate a benchmarking exercise and consideration of alternative service delivery models. The exercise will also determine minimum staffing level requirements and inform staffing structures, on a service by service basis. This will incorporate new management arrangements for each service.

This approach will ultimately result in the Council being significantly smaller and providing services in a very different way. As noted in the preceding section, the Council has recognised that it needs the support of external consultants to assist and advise on the reconfiguration of its major services and the establishment of its new operating model and has engaged PwC to assist with this work.

Newton Europe were also procured during 2015/16 to support the reconfiguration of adults' services and to undertake a diagnostic for children's services. This work will play a vital part in supporting the delivery of budget savings agreed by Full Council in relation to adult social care.

8. Establishment of Local Pensions Partnership Limited (LPPL)

At its meeting held on 24 March 2016, the Full Council approved recommendations (subject to a number of conditions precedent) from the Pension Fund Committee in relation to the creation of a partnership between the Lancashire Pension Fund (LPF) and the London Pension Fund Authority.

PricewaterhouseCoopers had advised on the viability of the financial model to be used by LPPL and confirmed the benefits likely to accrue to LPF in agreeing to enter into the joint venture. Uncertainties however remain in relation to the Government's wish to establish "Wealth Funds" which will require the pooling of existing pension funds with a value of not less than £25 billion.

At the time of writing the LPPL fund falls well short of this and the Government have indicated that they are not prepared in this case to make an exception for a smaller fund, therefore the final position for LPPL is unclear.

However, currently LPPL and the Council are in the process of reviewing the basis of the current joint venture arrangements in the context of the potential for another pension fund becoming a shareholder.

Negotiations between the Council and LPPL continue in relation to LPPL taking over the Council's Treasury Management activity and it is hoped that this will be implemented from 30 September 2016.

9. Ofsted Inspection of Children's Services

Ofsted carried out an unannounced inspection of Children's Services which commenced on 14 September 2015 which lasted for four weeks.

The inspection focused on the experiences and progress of children in need of help and protection, children looked after and care leavers. It also included looking at the effectiveness of the Council's services and arrangements to help these children, including adoption and fostering. Ofsted also carried out a review of the effectiveness of the Lancashire Safeguarding Children Board (LCSB) at the same time.

Ofsted published its report on Friday 27 November 2015 rating the overall effectiveness of the Children's Services as "inadequate". The judgement for the LSCB was "good".

A number of actions have been put in place and developed since the outcome of the Ofsted inspection so that we can quickly improve services for children and young people and ensure that they are safe and protected. These include:

***Director of Children's Services* -** Agreement has been reached between Lancashire County Council and Blackburn with Darwen Borough Council for BwD's Director of Children's Services to fulfil that role for both authorities, the arrangement being for an initial 6 month period which has now been extended. This arrangement began in February 2016 and ensures additional leadership capacity and extensive expertise around children's social care and the improvement agenda.

***Child in Need Reviews* -** A concern raised by Ofsted was whether there was sufficient social work oversight over Child in Need cases and therefore a clear understanding of the levels of risk to children. In response, 2345 Child in Need cases have been being reviewed and, where necessary, appropriate levels of intervention are being put in place to ensure children are safe. Work is also underway to ensure that in future, there is an effective social care model that provides sufficient oversight to manage risk in child in need cases. Plans to revise the approach and structure of the Early Help and Wellbeing Service, with the implementation of a Neighbourhood Centre model agreed by cabinet, will also strengthen and support this new model for Children in Need.

***Improvement Seminar* -** Ofsted facilitated an improvement seminar on the 13 January which was attended by senior colleagues from the County Council, representatives from partner organisations and also social care managers and frontline social workers.

The purpose of the seminar was to provide a comprehensive understanding of the inspection judgements and this is being used to help shape and inform the improvement plan. Whilst the focus of the seminar was the areas of improvement that need to be made a key message from the inspectors was that' it is not all broken'. The new Children Services Scrutiny Committee (see below) will have a role in ensuring that these other areas of children's services do not "drift" or deteriorate particularly given that inspections of Youth Offending and Special Educational Needs and Disabilities services are expected in the near future.

***Lancashire Children's Services Improvement Board* -** The Improvement Board has been established, which is usual practice following an 'inadequate' inspection judgement. The Board will be responsible for closely monitoring the development and delivery of an improvement plan which will be critical to achieving a much improved outcome when Ofsted carries out a further inspection in due course.

The independent chair of the Improvement Board has been appointed, being a specialist children's services improvement advisor for the Department for Education (DfE). He was previously the Director of Children's Services at Cheshire East Council and has more recently been working with Leicester City Council through their improvement journey as chair of their Improvement Board. As Chair he is responsible for reporting improvement progress to the Secretary of State.

***Improvement Notice* –** The Independent Chair has undertaken a diagnostic aimed at establishing a detailed understanding of the capacity and capability of the Council's ability to improve children's services. The diagnostic was informed through interviews with managers and partners, focus groups with staff and analysis of performance information and existing policy, plans and strategy.

The diagnostic was reported in March directly to the Minister of State for Children and Families to inform the approach taken by the DfE and has resulted in the lowest level of intervention in the form of an improvement notice to the Council specifying the areas of concern, the level of improvement required and how progress will be assessed and reported.

***Improvement Plan* -** An Improvement Plan has been developed, agreed by the Improvement Board and was submitted to the DfE on 4 March 2015. This Plan outlines in detail the activity and action that will be developed to make the improvements to children's services that are needed at the scale and pace that is required. The Improvement Plan responds to all the concerns that have been raised by Ofsted in their inspection report. The Improvement Board is responsible for the development of this Plan and for overseeing its implementation and impact.

***Ofsted Improvement Offer* -** Ofsted have agreed that their follow up work will entail a quarterly, two day monitoring inspection for two inspectors commencing in September 2016, the outcomes of which will be fed back to the Council.

***Children's Services Pathway Review* -** A team from Newton have completed work in developing an understanding of the effectiveness of the process, systems, structure and approach within children's services. The initial findings of the review indicate that there are opportunities to improve the effectiveness of social care practice and increase the amount of time that Social Workers spend in direct contact with families.

***Children's Services Scrutiny Committee* –** A new Children's Services Scrutiny Committee has been established which will operate in addition to existing committees and its remit will cover all issues relating to children and young people's services. Education matters will still be reserved for the Education Scrutiny Committee. Representatives, including five lay members, one from each of the local Children's Partnership Boards, have now been agreed and the Committee has had a briefing session so that members can better understand the key issues across children's services. The Committee has now agreed its work plan for the first six months, focussing on youth offending and Special Educational Needs and Disability (SEND) in view of forthcoming inspections and it has also looked at the fostering and adoption services.

***Increasing Capacity* –** Additional management capacity has been redirected from existing resources into the districts to allow increased oversight of social work practice. There are two additional senior managers in North, East and Central Lancashire working with social care district managers.

Recruitment to posts in social services have ensured that structures are now at establishment levels and plans are being developed to further increase capacity both at practitioners and management levels. A recruitment and retention strategy has also been agreed by Management Team and a range of innovative measures have been introduced to attract high calibre candidates.

External support has also been engaged for help in reviewing the child and family assessments of 720 child in need cases, an area of work specifically identified by Ofsted. Going forward a framework arrangement has been put in place to provide further external support.

There is weekly reporting and monitoring of children's social care vacancies and recruitment. A refresh of the recruitment and retention strategy is also being developed to enable a renewed and sustainable approach to ensuring appropriate staffing of children's social care both in terms of numbers but also in terms of experience and skills. This is in the context of a national shortage of trained social work staff which is reflected at a regional level.

***Communication and engagement* –** Staff awareness and engagement in developing and delivering improvement activity will be key in ensuring progress is effective and sustainable. Regular communication and briefings are already in place and communications strategy and action plan have been developed to support the improvement process and activity.

Care Leavers – There is a need to improve the support to care leavers so that they are able to make the right choices and can access that support that they are entitled to. Guidance has been issued to all workers to raise awareness and understanding of the Leaving Care Regulations. Care Leavers have also received an information pack which details and explains their full entitlements. In addition, proposals are being developed to that will provide additional capacity so that care leavers can access the support they need. A mentoring Service for care leavers has also been launched. In their October monitoring visit Ofsted commended the work that had been undertaken and the improved service.

***Performance Management* -** Weekly reporting arrangements have been established and continue to focus on children's services staffing vacancies, the audits of all Child in Need, the timelessness and multi-agency engagement in section 47 strategy discussions and social worker caseload levels. Work is also underway to streamline the performance reporting approach and ensure that key measures have clear and robust targets set against them. This will include the development of a performance dashboard that will be used by the Improvement Board to monitor and challenge the progress being made in delivering help and protection to children and young people.

External expertise is also currently being agreed through the region and Ofsted to support the development of improvement performance reporting.

***LiquidLogic Children's System (LCS)* -** A key area of concern raised by Ofsted was the ability to access timely and accurate information and data from LCS. Newton have been commissioned to lead a project to enhance the accuracy of the information held on LCS and provide confidence in this as the key system for providing performance information. This work is being progressed with accountability to a newly established 0-25 Board chaired by the Chief Executive with support and challenge from the Chair of the Improvement Board.

The improvement work will also be supported and informed by a completed health check where colleagues from LiquidLogic worked with practitioners and have produced a report that outlines amendments to the system that will streamline processes. Support is also being drawn from neighbouring authorities, learning from how they have implemented and use the LiquidLogic system.

A separate report has been provided to the Committee concerning improvements to the Liquidlogic system.

Development post-June 2016

Following the inadequate judgement provided by Ofsted there has been a strong commitment to ensure that all children in Lancashire are safe and protected. Significant resources have been invested and large scale change activity is being implemented, all of which is captured within the Lancashire Children's Services Improvement Plan.

This Plan was agreed by the Improvement Board and approved by the Department for Education in March 2016 and good progress is being made to deliver the Plan. In addition, a 12 week plan has been agreed by the Improvement Board with the intention that this provides an additional focus on some short term priorities and the pace at which these can be addressed.

The 12 week plan will have been implemented by 31 August 2016 and below is a summary of the key areas covered:

Workforce
- Creation of more specialised team structures
- Reducing caseloads
- Recruitment of additional capacity
- Improved IT equipment

Managing Change
- Accurate and complete performance information
- Implementation of new audit model
- Implementation of a single operating model

Managing Demand
- Implement new risk sensible assessment model
- Establish effective interface between children social care and early help
- Multi Agency Safeguarding Hub redesign
- Refresh the Continuum of Need

September and October will provide some key points of external scrutiny to assess whether these plans are improving services and making the intended difference to children and families. Ofsted conducted a two day monitoring inspection in September and their feedback was that the Council is making expected progress which concurs with the judgement of the Improvement Board Chair. The next Ofsted monitoring visit will be in October which will be proceeded by a peer review undertaken by colleagues from other authorities in the region.

To see the Improvement Plan, the 12 week plan or a summary of discussion and decisions from each Improvement Board click on Children's Services Improvement.

The Council's Employment Committee have also recently agreed to advertise for a Director of Children's Services on the basis of revised responsibilities to ensure strong connectivity between children's social care, special educational needs and disability, adoption, fostering, residential care and youth offending, all of which will form part of the new DCS role which is currently out to advertisement.

10. Waste Management - GRLOL

In July 2014 the Cabinet authorised the termination of its waste PFI Contract. Under the termination arrangements the existing waste operating company, Global Renewables Lancashire Operations Limited (GRLOL), transferred to the ownership of the County Council in order to facilitate the necessary and continued provision of waste services.

The Company transfer took place on 31 July 2014 and since this date a new Board of Directors, consisting of elected Members, was appointed and revised Articles of Association for the Company adopted.

The County Council's budget decisions relating to GRLOL taken in November 2015 and subsequent requirements relating to residual waste processing significantly change the service which the Council requires the Company to provide.

On 11th April 2016 the GRLOL Board considered a report setting out proposals for a new company structure based on the revised service requirements and these proposals were subsequently approved by the Employment Committee on 18 April.
In addition to the new permanent structure, a temporary structure necessary in the short term to protect and preserve the Company's physical assets has also been agreed to support the Company's transition.

The new structure agreed reduces the Company's staffing from 352 posts at a cost of £11,651,500 at the outset of 2015/16 to 62 posts with a forecast, full-year labour cost of £2,007,700.

11. Health and Social Care Integration

Since April 2015 the Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). This involves a pooled budget of c£90m, hosted by the County Council, with the purpose of commissioning services more effectively for citizens and patients through better integrated health and social care systems to reduce demand on acute hospital and care home services particularly.

Building on this, every part of the NHS is required to have a locally led Sustainability and Transformation Plan (STP) in place by 2017 which should be implemented by 2020. This needs to be seen in the context of the substantial financial challenges for the health and social care system in Lancashire.

The plan is therefore required to cover better integration with Council services and reflect Health and Wellbeing strategies. The approach is backed by a dedicated Sustainability and Transformation Fund worth £2.1 billion nationally in 2016/17 and rising to £3.4 billion in 2020/21. The level of funding received will be dependent on the quality of the STP with the nature of local authority engagement seen as an indicator of quality.

The development of the STP, together with the ongoing considerations of options for integration and joint working (including potential for more extended pooled budget arrangements), will involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for service users.

Cabinet has now agreed Operating Principles, which have been shared with partners, to enable the Council to participate effectively in the shaping of the STP process. The principles agreed cover the following areas:

- Governance – supporting a single pan-Lancashire Health and Wellbeing Board with the development of local Health and Wellbeing Partnerships covering the five local health economy footprints;

- Citizen-focused Integration – to provide joined-up and seamless services to citizens as the primary focus of health and social care integration;
- Local Health Economies – to support integration on the basis of the five local health economy footprints subject to a commitment to avoid duplication and to plan services on a pan-Lancashire footprint where this is the best fit model;
- Joint Strategic Needs Assessment (JSNA) – to support the development of the JSNA at a pan-Lancashire level, to support activities of the Health and Wellbeing Board, and at a community level to support the commissioning of local services;
- Pooled Budgets – to ensure that the financial resources available for the provision of services are most effectively utilised;
- Single Commissioning arrangements – for those services covered by the pooled budget to drive the most cost-effective outcomes.

A draft Sustainability and Transformation Plan for Lancashire and South Cumbria 2016/21 was submitted to NHS England in June. Discussions have since taken place with NHS England and other representatives from the health and social care system focusing on the plans for delivering on targets to close the financial gaps in 2016/17 and 2017/18, with positive feedback from NHS England.

Significant emphasis was placed on the need to achieve financial sustainability in the current year and to then establish for transformation in years 3-5 of the STP, spreading the work to bridge the gap, avoid cost and take cost out over the whole lifetime of the STP. STP footprints have now been asked to submit further detailed financial analysis on the plans for 2016-18, and show how those gaps will be bridged, by 16 September 2016 with a final STP being submitted by October following consideration by the Council's Health and Wellbeing Board as well as the Boards for Blackpool and Blackburn with Darwen Councils.

12. A Combined Authority for Lancashire

Local Authorities in Lancashire have continued to work together to develop proposals for a Combined Authority (CA). Fourteen authorities in Lancashire, including Lancashire County Council, made a decision at their full council meetings in November/December 2015, based on a full governance review and outline proposals on future governance, to progress with discussions on arrangements for a potential CA.

Significant work has gone into developing the governance structure, and a cross-authority working group was formed in February 2016 to develop a new constitution for the CA. Agreement has already been gained from all participating authorities on Overview and Scrutiny arrangements, and the outline arrangements, including structure and voting rights. This includes provisions for unanimous voting on key elements, such as finance.

At meetings held in March/April 2016 all fourteen councils agreed to become constituent Members of a Lancashire CA and to submit proposals to do so to the Secretary of State, with the CA commencing in shadow form with effect from 11 July 2016. The first meeting of the shadow Combined Authority was held on that date and an interim Chair and Vice-Chair appointed.

Future proposals for a devolution deal with Government will be considered by all Constituent Members of the CA in due course. In addition, the shadow Combined Authority is focussing on the development of a Lancashire Plan which will highlight those things that local government in Lancashire can do better by joining up and without the need for further powers and budgets to be devolved by Government.

13. Implementation of the Council's Property Strategy

A key element in the delivery of continuing Council services is the property portfolio from which services can be directly accessed by citizens or from which the Council's employees can deliver outreach services into the community.

The Council's property portfolio (excluding schools) comprises in the order of 500 operational sites. As part of the approved Property Strategy a total of 222 premises have been identified as part of the review, excluding those which are clearly unsuitable for front facing service delivery.

The proposals have been developed around the Neighbourhood Centre model approved in November 2015 and are designed to ensure that all Lancashire's residents can continue to be provided with high quality services from a reduced number of properties.

The proposals are designed to provide a flexible response to future patterns of service delivery and take account of:

- Data analysis based on a weighting and scoring methodology previously agreed by Cabinet;
- Dialogue with elected members and partners;
- Consideration of how the proposals align with service delivery strategies and the delivery of approved budget options

In May 2016 Cabinet approved the proposals for the purposes of a 12 week public consultation. The outcomes of that consultation were reported to Cabinet on 8 September when revised proposals were agreed also taking account, amongst other things, of a Planning and Needs Assessment for the Library Service and a revised Library Strategy.

Cabinet also agreed to instruct officers to consider the viability of expressions of interest received in relation to the transfer of council premises and to bring back a further report to the October Cabinet meeting. Cabinet also agreed to explore the development of alternative options for the future delivery of library services, including the extended use of volunteers and the development of a model which would allow the Library Service to be run independently of the Council, potentially through a community interest company or industrial or provident society.

14. Other Sources of Assurance

Understanding the nature and scale of the risks facing **adult social care** in Lancashire is important for the Council and all its public sector partners and citizens. To help frame a systematic and comprehensive understanding of these risks a framework has been developed under the auspices of the Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS) which Directors of Adult Social Care have been encouraged to use.

This risk assessment tool has been completed for Lancashire in November 2015 using the data available at the time. The top five risks (as well as the full completed risk awareness tool) were reported to CCPI at its meeting held on 8 June 2016. The report to CCPI highlighted the top five risks and sought endorsement of the high level plans proposed to mitigate the risks.

The top five risks identified and some of the key mitigations are as follows:

- Finance/Budget Savings – there is a challenging target of £37M to save over the financial years 2016/17 and 2017/18 with potentially further savings to be made in subsequent years.

  Mitigations include the commissioning of Newton Europe to support savings plans; to increase income via the Better Care Fund and/or social care precept; lobbying of Government about funding levels in association with partners such as LGA, ADASS and CNN.

- Market Sustainability/Quality – only 68% of registered services are judged as Good or Outstanding. Good quality services are becoming increasingly unaffordable. Recruitment and retention is becoming an issue for providers and compliance with employment legislation increasing staffing costs.

  Mitigations include fresh consideration of commissioning options around home care, reablement, learning disability and mental health. Significant fee uplifts have been agreed for residential and nursing home care for older people to reflect sector pressures along with an increase in rates to address the pressures resulting from employment legislation.

- Transforming Care – this national programme to end the use of inpatient beds for adults with learning disabilities poses particular challenges for Lancashire given the planned closure of Calderstones.

  Funding for individuals who move into the community during 2016/17 will come from the NHS from transitional funding. Both the Department of Health and NHS England are being lobbied to ensure that they understand the particular pressures facing Lancashire.

- Performance/Systems Development – whilst there is a general picture of improvement, concerns remain around the inability to report accurately on the number of people awaiting assessment, and the focus on retrospective analysis does not provide the information to enable staff to work proactively and manage their work.

  Improvement plans for Liquid Logic are underway along with a review of metrics. This work will be supported by Newton Europe, including the use of local performance dashboards.

- Waiting Times for Assessments and Reviews – These are significant in some areas including occupational therapy, safeguarding and social care reviews, leading to increased risk to individuals and increased cost to the Council.

  Additional capacity is being secured in key areas of social work with clear triaging/prioritisation schemes in customer access. Providers are undertaking safeguarding work in residential and supported living schemes and work with Newton Europe is underway to improve productivity.

In relation to **Special Educational Needs and Disability (SEND)**, Ofsted and the Care Quality Commission will begin to inspect local areas on the implementation of the SEND reforms from May 2016.

The Council therefore needs to have a clear view of areas of strength and for development and therefore a self-evaluation framework has been completed. The risks identified through the self-assessment are as follows:

- Whilst SEND data is largely accurate, the lack of an appropriate secure IT platform is a risk although this can be achieved through the implementation of the Liquid Logic early help module;
- The recruitment and retention of education psychologists and workloads for SENDOs remain a concern although Management Team have now approved the recruitment of additional SENDOs and an approach has been made to the Association of Educational Psychologists to resolve existing difficulties;
- Commissioned arrangements with Health are inconsistent across the six CCGs in relation to designated medical officers and the current arrangements are therefore being reviewed;
- The current position on the transfer of statements of special educational needs to Education Health and Care Plans is continuing and, whilst the volume of statements transferred out of a total of c.6,500 are positive, there may be issues around the quality of plans.

In addition to specific mitigations, alongside the introduction of the self-assessment framework arrangements have been put in place for peer support via a regional arrangement in the North West. Dip-sampling of case files is also in place with a neighbouring local authority.

The Council's Finance Service has recently been through an LGA Peer Review process, the outcomes of which are still to be finalised.

15. The Council’s Governance Framework

The Council's Governance Framework comprises many systems and processes. The following identifies key elements of the Governance Framework and the council's arrangements for fulfilling them:

Identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users

Work to develop the corporate strategy has been on-going, with a stakeholder consultation during August and September 2015, culminating in Full Council considering the core of the new Strategy on 17th December 2015.

The draft strategy sets out the proposed future direction for the Council and framework including:

- our vision, values, high level priorities and overall approach

- our evidence base
- thematic strategies, such as our financial strategy
- our risk, quality and performance framework
- service delivery plans
- annual budgets.

The core strategy document provides the starting point for that framework, setting out the core purpose, vision, values, approach and evidence base which we will be used to inform and guide what we do and as a reference point for the further prioritisation of our financial resources.

The updated corporate strategy was approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration

Importantly, the Council's core purpose has now been agreed; to work for the people of Lancashire to enable them to:

- live a healthy life;
- live in decent home in a good environment; and
- have employment that provides an income that allows full participation in society.

Reviewing the council's vision and its implications for the Council's governance arrangements

To measure the effectiveness and delivery of the Council's ambitions, the Council's Cabinet Committee on Performance Improvement (CCPI) regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, by the Chief Executive and directors.

Through the development of the corporate strategy framework and continued development of the approach to service delivery in communities, performance measures are being updated where appropriate, to ensure that the Council manages performance in the context of reduced resources and refreshed priorities.

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.

Translating the vision into objectives for the Council and its partnerships

In December 2015 Full Council agreed the core vision, values, strategic outcomes and priorities within the draft corporate strategy, set out in the following Table:

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Our core purpose

Is to work for the people of Lancashire to enable them to:

- live a healthy life
- live in a decent home in a good environment
- have employment that provides an income that allows full participation in society.

Our vision

Is that every child born today in Lancashire, and every citizen will grow up and live in a community and an environment that enables them to live healthier for longer, have a job when they leave education and achieve their full potential throughout life.

Our values

To be Fair, Trustworthy, Ambitious and to have Belief in People.

Our approach

Achieving this vision will be the lifelong journey, which we describe in terms of Starting Well, Living Well and Ageing Well.

A child born in Lancashire today has the potential to live for over 100 years. Whilst our strategy looks up to twenty years ahead, every year we will have citizens aged from 0 to over 100. We will work for all of them to do all we can within our resources to achieve our vision.

Our evidence base

We will provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.

</td></tr>
<tr><td>Strategic outcome</td><td>Strategic outcome</td><td>Strategic outcome</td></tr>
<tr><td>To live a healthy life
Increase the time that people in Lancashire can expect to live in good health
Narrow the gap in people's health and wellbeing between different parts of the county
Enable people to make healthy lifestyle choices</td><td>To live in a decent home in a good environment
An adequate supply of affordable quality housing to rent or buy that meets the needs of all our citizens
Good quality local neighbourhoods with adequate
parks, open spaces, social, cultural and sporting opportunities
Communities where families and individuals feel safe
A high quality natural environment</td><td>To have employment that provides an income that allows full participation in society
Rebalance Lancashire's economy to reduce its over-reliance on low paid employment.
Increase the employability of Lancashire's citizens
Focus on communities where there are high concentrations of unemployment and low paid employment</td></tr>
</table>

Alongside this, the Council agreed 28 overarching priorities, to provide a focus for service delivery, either by the Council directly or through our influence with communities and our partners.

The strategy, supporting evidence base and changes agreed by Council in December have been published on the Council's website, are being used to inform the development of our approach to service delivery and to ensure that we provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.

Measuring the quality of services for users, ensuring that they are delivered in accordance with the council's objectives and ensuring that they represent the best use of resources and value for money

- 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;
- Consulting on changes we are planning to make, for example in relation to the implementation of the Council's Property Strategy;
- Quality of Service Reports presented to CCPI

Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the council and partnership arrangements

Decision-making and conduct

The Council operates a leader and cabinet model of executive government with a Cabinet of seven members including the Leader and Deputy Leader of the Council. A cross party "political governance working group" continues to meet to oversee governance and constitutional issues, such as developments relating to the Combined Authority proposals.

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 was reviewed, and a new scheme introduced from 1 April 2015. The new scheme empowers heads of service in the new organisational structure to take all decisions within their area of responsibility, except for those reserved to Cabinet or cabinet members or committees.

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 embedded to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

Scrutiny

The Council created an additional scrutiny committee in 2015/16, taking the total number to five:

- The Scrutiny Committee, whose responsibilities include the Council's crime and disorder and flood risk management scrutiny responsibilities.
- 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.
- A Children's Services Scrutiny Committee was created in December 2015 to oversee services for children, in response to the Ofsted inspection outcomes.

Partnership arrangements

The Council recognises the substantial benefits of developing and delivering services in collaboration with other organisations, providing an integrated approach to service provision that is cost effective and maximises impact for people living in Lancashire. The Council plays a key role, either as a statutory lead, or significant partner, in facilitating wider engagement in decisions and developments to align budgets, capacity and expertise and agree shared priorities.

This approach is embedded in a range of formal partnership structures that drive and support ambitious priorities whilst recognising existing and future key challenges, building upon a strong track record in Lancashire that has been recognised by numerous inspectorates, for collaboration and partnership working.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.

The Code of Conduct for Elected 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.

Following that review complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee.

The Council has a Code of Conduct for employees and a system for recording officer gifts, hospitality and interests, which has recently been reviewed and updated. Councillors and staff are reminded of their requirements on a regular basis. The Council also has a protocol for councillor/officer relations.

Reviewing the effectiveness of the Council's decision making framework including delegation arrangements, decision making in partnerships and robustness of data quality

The Council has embedded a revised scheme of delegation, commenced in April 2015, and has created a new scrutiny committee to respond to issues identified within children's services following an Ofsted inspection. The Council is a member of a cross-authority working group looking at the development of a new constitution for a proposed Combined Authority. The Political Governance Working Group continues to meet as required.

In 2015/16 County Council officer support for Lancashire Health and Wellbeing Board, Lancashire Community Safety Strategy Group, Children's Trust Board and the Lancashire Partnership for Road Safety, was brought together under the Health Equity and Partnerships team. This has enabled the links between partnerships to be further strengthened and strategic priorities to be aligned. The Children's Trust Board continue to lead on the Start Well strand of the Health and Wellbeing Board Strategy.

Changes have been made to the membership of the Health and Wellbeing Board, to strengthen links with area Health and Wellbeing Partnerships. The Board has reviewed its actions with partners to support changes to the health and social care plans. The Lancashire Community Safety Group is reviewing the Lancashire Community Safety Agreement to set out how we will work together with partners to address community safety priorities for Lancashire in 2016/17. The Children's Trust Board is working through the streamlined partnership arrangements put into place in the 2013/14 partnership review, to join up work that brings together initiatives that support better outcomes for young people and families.

The above Partnerships will continue to review their structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.

The Council continues to work with partner agencies to make a real impact for local communities. This includes delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners.

The robustness of data quality

The Council understands that good quality data is important to ensure accurate reporting of performance to the public and is the basis for effective decision making. Maintaining data that is fit for purpose is an integral part of operational, performance management, and governance arrangements.

The Council follows good practice guidance issued by the Information Commissioner's Office and general data quality standards, ensuring that information is accurate, valid, reliable, timely, relevant, complete and secure. Data quality advice is included in the Council's Information Governance annual eLearning course and there are specific bite sized briefings available for all data users regarding data quality. A member of staff within every Council service is nominated as an information governance champion and they sign an annual commitment on behalf of their service to ensure the robustness of data quality within their service.

However, it is clear from the recent Ofsted Report in relation to Children's Services that data quality is often not fit for purpose, or there is a lack of confidence in it which brings into question its use for decision-making.

To address these issues Management Team have put in place "Project Accuracy" with the objective of improving the quality of data in LCS in order to increase the efficiency of the system and enable social workers to spend more time with children and families. Seven priority areas have been identified for Wave 1 of the project:

- Team structures
- Caseloads
- S47s and strategy discussions
- Referrals per week
- C&Fs due and overdue
- Visits due and overdue
- Reviews due and overdue

Project Accuracy was launched on 4th April with briefings in Lancaster, Fleetwood, Burnley and Preston to all children's social care practitioners and managers. The initial phase of ensuring that team hierarchies are all up to date and accurate is well underway.

This project includes a tightly managed programme of work involving the generation of weekly reports, short weekly improvement meetings held by the area teams, and a senior management led weekly steering group. Newton Europe have facilitated the project. By 20th May, 82% of team structures were correct which is a huge improvement on the initial 33%. This provides a key fundamental building block to enable all the priority reports to be assessed for accuracy and swift progress is anticipated in resolving issues relating to the other priority areas. Importantly, robust processes are now in place to sustain the accurate recording of team hierarchies.

The lessons learnt from the improvement of LCS will then also be applied to data quality in relation to adult social care and other services.

A separate report to the Committee provides further detail on proposed improvements to the Liquidlogic system including the estimated timescales for implementation.

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

A Risk and Opportunity Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on a scoring matrix.

A corporate approach to reporting on risk and opportunity has been agreed. Risk and Opportunity reports will be provided to Management Team on a quarterly basis, following which the reports would then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance.

At is meeting on the 25th January 2016, members of the Audit and Governance Committee received training on risk management and a programme of training is being delivered for Risk Champions within service areas.

A Risk Management intranet site has been developed and a handbook for staff and councillors has been produced setting out the adopted approach.

Risks and opportunities will also be incorporated into Quality of Service and Highlight reports.

At its meeting on the 25th January 2016, the Audit and Governance Committee, approved an Internal Audit Plan for 2016/17. The report noted that the processes supporting the Risk and Opportunity Register are still being developed to ensure that the register is robust and sustainable and to ensure that the register is an adequate reflection of the Council's most significant risks being addressed at a given point in time.

In due course this will serve as an active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and therefore not yet under effective control. The Internal Audit Plan itself includes the preparation and use of the Risk and Opportunity Register as a key component of an overall assurance opinion.

The report also noted that the Risk and Opportunity Register is relevant to the draft Audit Plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the Council's most significant risks and the progress being made in their implementation. Where risks have been mitigated, or are believed to have been so, they may not then be recorded in the Risk and Opportunity Register and must then be identified through other means.

Where management understands controls to be in place around significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are adequately designed and operating effectively

Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

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.

The Council has adopted a response appropriate to the fraud and corruption risk it faces in line with the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption.

The Council's existing counter fraud strategy which has been in place for a number of years has recently been reviewed and an amended strategy and policy were approved by the Employment Committee on 16 May 2016. A Pension Forfeiture Strategy has also been approved which enable the Council to recover money owing as a result of misconduct, or criminal, negligent or fraudulent acts or omissions, from pension benefits.

Ensuring effective management of change and transformation

As part of its Transformation Programme, the Council has strengthened its arrangements for managing change and transformation. This includes creating a new Programme Office to provide project and programme management capacity and capability for the organisation, and a new Business Change & Transformation Team to provide change management support to services in delivering business change. Recognising change activity, and providing resources to deliver that activity separately to business-as-usual activity, has improved the management of change.

The Programme Office is now co-ordinating the delivery of all the change activity required to deliver the Council's current budget savings, and preparing regular reports to the Council's Management Team, who are providing clear leadership and governance of the changes. This ensures that change activity is aligned to the corporate strategy and financial plan. Management Team also continue to act as the Programme Board for the Council's Transformation Programme.

Change activity is now organised as projects and programmes within clusters, or portfolios, of change, and governance arrangements are in place that involve key stakeholders and decision-makers effectively. This has also improved the way that risks and issues are identified and managed, with significant risks linking through to the corporate risk and opportunity register.

These arrangements should be further strengthened through the introduction of a corporate project and programme management ICT system during 2016/17, which will help support the further standardisation of the Council's approach to managing change and improve the quality of reporting on change activity.

Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010)

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). An Interim Director of Financial Resources was in post for much of 2015/16 with a permanent appointment being made in February 2016.

The 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 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.

Ensuring the Council's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

The Council's Internal Audit Service operates in accordance with professional standards. Management Team have identified that the current Internal Audit Service lacks sufficient capacity for an organisation of the Council's size and has therefore agreed a revised staffing structure which increases the Service's capacity which will deliver a sufficient breadth of audit work for 2016/17 for there to be an overall opinion.

Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Council's monitoring officer is the Director of Governance, Finance and Public Services. He has appointed a deputy monitoring officer (the Director of Legal and Democratic Services).

Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Council has appointed the Chief Executive as head of the paid service.

Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities

The Council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement. The Committee's role is to provide independent oversight of the adequacy of the Council's governance and internal control frameworks, and oversee the financial reporting process, and it will also have a key role in relation to new arrangements for the oversight of risk management.

The Audit and Governance Committee in approving an Internal Audit Plan for 2016/17 and beyond agreed to an assessment of the constitution and operation of the Committee against professional practice and current best practice. The assessment will therefore form part of the Head of Internal Audit's overall opinion for 2016/17 which will be reported to Committee in 2017.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

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.

Whistleblowing and for receiving and investigating complaints from the public

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.

Receiving and investigating complaints from the public

The Council has robust arrangements for processing all complaints. These arrangements were revised during 15/16 bringing together all the complaints functions under the management of one team. The Complaints Team now manages statutory procedures for adults' and children's social care complaints as well as the non-statutory corporate complaints process to facilitate a strategic overview of complaints within Legal and Democratic Services.

Complaints are now reported upon every quarter and the Council produces a public statutory annual report for complaints and customer feedback and learning from complaints, which is reported to CCPI. The team also produces quarterly complaint reports which are shared with Heads of Service who act as Designed Complaints officers for their area of service. This information is reported on and taken to the senior management team in the form of Quality of Service Reports.

During 2015/16, a total of 1542 complaints were made about Council services. There has been a significant increase in the number of corporate complaints which are primarily about highway related issues although the increase reflects, at least in part, to more robust reporting processes including improvements in the Council's website.

The number of statutory complaints in relation to both adult and children's services have also increased. Adults' complaints have related primarily to assessments, financial issues (and charging) and domiciliary/home care provision. Children's complaints have related mainly to assessments, safeguarding/child protection processes and financial issues.

The Annual Report in relation to complaints and customer feedback is currently being prepared and will be reported to CCPI, including improvements that have been made as a result of complaints.

Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. A comprehensive member development programme was undertaken during 2014/15. An Induction working Group has been established in February 2016 to consider the needs of county councillors in the run up to and following the next County Council elections in 2017.

A comprehensive range of learning and development opportunities have been provided including intranet based tools; numerous training courses; and a series of staff briefing sessions to assist and support staff through the Council's Transformation process.

All senior officers appointed to the new organisation structure are participating in a new Senior Leadership Development Programme designed to create a supportive and respectfully challenging thinking environment that enables leaders in setting a vision, engaging our employees and ensuring the council delivers high quality services for the people of Lancashire. Additional training needs will be identified through a corporate performance and development review process.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Council uses a number of main channels to communicate with the community and other stakeholders including:

- The website www.lancashire.gov.uk, which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter
- A variety of public information leaflets and other literature distributed to public places across the county

Enhancing the accountability for service delivery and effectiveness of other public service providers

Overview and Scrutiny has engaged with the NHS, Police and other public sector partners to hold them to account through formal meetings and through informal engagement arrangements. Work was undertaken in the year through Overview and Scrutiny to look at planning functions and joint working between the Council and its district partners, as well as undertaking significant work with utility providers and those organisations involved in flood risk management. The Council also currently hosts the statutory "Healthwatch" organisation.

The Council has strong relationships with district and parish councils, and works collaboratively with them. The work with other local authorities on Combined Authority proposals has emphasised the importance of accountability and effective governance.

Incorporating good governance arrangements in respect of partnerships and other joint working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the council's overall governance arrangements

The 2013/14 review of partnerships has ensured a model of strategic partnerships that have a far greater synergy across key corporate priorities and improved the clarity of purpose and accountabilities that exists across partnership structures. The formal working protocols that have been agreed between the Children's Trust, Health and Wellbeing Board and Lancashire Safeguarding Children Board demonstrate this commitment and endorsement of better governance and accountabilities between partnerships. A LGA Health and Wellbeing Peer Challenge will take place during 2015 as part of an ongoing Improvement Programme.

County Council scrutiny committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

Internal control

The External Auditor's VFM conclusion for 2014/15 identified the lack of an overall opinion on the system of internal control as one of the areas of concern that resulted in a qualified opinion. Similarly, as it is not intended that there will be an overall opinion for 2015/16, it must be expected that the VFM conclusion for 2015/16 will again be qualified.

However, going forward the External Auditor has noted that there is now an Audit Plan in place for 2016/17 which identifies key areas of audit coverage, and that if this plan is refined and delivered as expected, then it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.

Management Team have given an unequivocal assurance that sufficient audit work will be undertaken during 2016/17 to ensure that this is the case and have approved a new staffing structure for Internal Audit which increases the current capacity of the service. They have also agreed to bring in additional, external resources on a temporary basis to undertake work which forms part of the Audit Plan if this is necessary in the short term, pending appointments being made to the permanent staffing structure.

Key issues for 2016/17

Financial Viability

As noted in section 6 above, the MTFS presented to Cabinet in January 2016 noted the strong likelihood that the Council will, during the period up to 2020/21 be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered.

The review of the Council's operating and business model being undertaken in conjunction with PwC and the Political Governance Working Group is therefore key to address the funding gap. Any under-delivery of the savings currently built into the Council's budget will increase this gap still further.

Similar challenges also face other parts of the public sector within Lancashire which give rise to fundamental questions as to the nature, scale and sustainability of public services, in particular Health Service organisations, circumstances which form the backdrop to health and social care integration. What is clear is that in this context the Council cannot plan its future in isolation and must develop a public service model for Lancashire in conjunction with its partners.

It is particularly important that the Council positions itself well to feed into the Government review of its plans to end the rate support grant and allow 100% retention of business rates. To that end part of PwC's brief as approved by Cabinet is to prepare a report for submission to the Secretary of State for Communities and Local Government, the Treasury and the Department of Health on the Council's funding base in relation to its statutory obligations and the resources needed to sustain a minimum level of statutory public services in the County.

Children's Services – delivering the Improvement Plan

The delivery of the Council's Improvement Plan prepared in response to the Ofsted judgement in relation to Children's Services as "inadequate" will also continue to be a focus and a key priority for resources to ensure that the Improvement Plan is delivered and that children are not put at risk of harm.

ICT Strategy and systems development

The Council is at various stages in the implementation of 4 key systems that will be implemented during 2016/17. Once fully implemented these will complete the

Council's core systems transformation programme and will ensure that small, standalone systems are reduced significantly and that the Council can further develop its ambitions, i.e. for having integrated systems that allow one source of data to be used by different systems and for fully integrated and efficient end to end processes that reduce cost.

The key systems that will be implemented during 2016/17 are the Property Asset Management System and the Project Management System, both of which have now gone live. The Highways Asset Management System is scheduled to go live later in the year, after which the decommissioning strategy for over 20 legacy systems will be implemented. The Customer Access Service replacement platform is due to be fully implemented in July 2016, replacing the existing platform which, due to its age and other factors, has been a risk to the Council.

Roadmaps for all other systems are currently being developed together with resource, funding and implementation plans which will help ensure that the needs of services are identified, planned and co-ordinated so that they can be implemented in a safe way across the council. As part of this work, a roadmap for systems that supports the wider health integration agenda, as well as that with other partners, is also being developed. It should be noted that this work incorporates Project Accuracy and other workstreams that have been set up in response to recent inspections. Additional capacity to support our systems is also being built in to the corporate structure.

The Council's 'Digital By Default' strategy will be produced and finalised in the Autumn and will focus on key digital ambitions that will streamline process, improve the customer journey, reduce cost and duplication and provide access to services to citizens in a way that meets their needs. This strategy will also focus on how the Council can maximise the benefits and cost reduction following the implementation of its core systems. Some of this work has already commenced and has been tested successfully on a pilot basis with a number of social work teams. A more extensive roll out plan will be implemented during 2016/17.

Sustainability and Transformation Plan

The structural complexity of the pan-Lancashire health and social care economy – CCGs, acute trusts and upper tier local authorities – create inevitable tensions and difficulties in designing and agreeing an integrated system.

The importance of this work, supported by Healthier Lancashire, cannot however be over-stated, with a clear government requirement to agree and submit an STP which, if approved, will initially draw down significant transformation funding, setting the blueprint for integration.

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected: (All Divisions);

Approval of the County Council and County Pension Fund Letters of Representation 2015/16
(Appendices 'A' and 'B' refer)

Contact for further information:
Neil Kissock, Tel: 01772 536154, Director of Financial Resources,
Neil.Kissock@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 Section 151 Officer 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 2015/16 accounts should be approved on or before the 30th September 2016 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 and Governance Committee on or before the 30 September 2016, before the audit report is issued.

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

Paper	Date	Contact/Tel
International Standards on auditing (UK and Ireland) 580		Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Appendix 'A'

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

26 September 2016

Dear Sirs

Lancashire County Council
Group Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the group financial statements of Lancashire County Council and its subsidiary undertaking Lancashire County Developments Limited, for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and parent Council 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 2015/16 ("the Code"); which give a true and fair view in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi. We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

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

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

ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x. All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

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

xiii. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached in Appendix 1. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its group and parent Council financial position at the year-end

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

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

Information Provided

xvi. We have provided you with:

a) access to all information of which we are aware that is relevant to the preparation of the group and parent Council 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 within the group and parent Council from whom you determined it necessary to obtain audit evidence.

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

xviii. All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council 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 group and parent Council financial statements.

xxi. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the group and parent Council's financial statements.

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

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

xxv. We have provided you with all relevant information to confirm that the valuation of our assets relating to our waste plants has been considered fully.

Annual Governance Statement

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

Narrative Statement

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 26 September 2016.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position…………………………

Date…………………………….

Signed on behalf of the Council

Appendix 1 - Unadjusted misstatements

		Comprehensive Income and Expenditure Statement	Balance Sheet
1	**PPE – waste plant** The Executive Scrutiny committee received a report on 19 February 2016 which set out several recommendations about the future use of the plants and changes to the services delivered from these sites. The Council obtained an external valuation to identify whether the decisions taken to change the way the plants were used had an impact on the valuation of the assets held by the Council. This valuation was received on 2 September 2016. The impact on the net book value of the asset included in the Council's balance sheet at 31 March 2016 is a reduction in value of £22m.		£22m
2	**Group Accounts** The Group Accounts for the Council were prepared using the draft financial statements for the company. However, there have been some amendments to the company accounts which impact on the group consolidation. These are not material and therefore the Council has not amended the group accounts	2014/15 increase in net expenditure of £3.1m 2015/16 increase in net expenditure of £1.4m	2014/15 £0.5m 2015/16 £1.9m

Lancashire County Council

Appendix 'B'

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

26 September 2016

Dear Sirs

Lancashire County Pension Fund
Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of Lancashire County Pension Fund ('the Fund') for the year ended 31 March 2016 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 2016, 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 2015/16 ('the Code').

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi. 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 judgement 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.

vii. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

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

ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xi. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xii. The financial statements are free of material misstatements, including omissions.

xiii. 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.

xiv. 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

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

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

xvii. 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.

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

xix. We have disclosed to you all our knowledge of 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.

xx. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

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

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

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

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

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

Approval

The approval of this letter of representation was minuted by the Administering Authority's Audit & Governance Committee at its meeting on 26 September 2016.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of Lancashire County Council as administering body of the Lancashire County Pension Fund

Agenda Item 10

Audit & Governance Committee
Meeting to be held on 26 September 2016

Electoral Division affected: All

External Audit
Lancashire County Council - Audit Findings Report 2015/16

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.

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Council for the 2015/16 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

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

Implications

Lancashire County Council

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

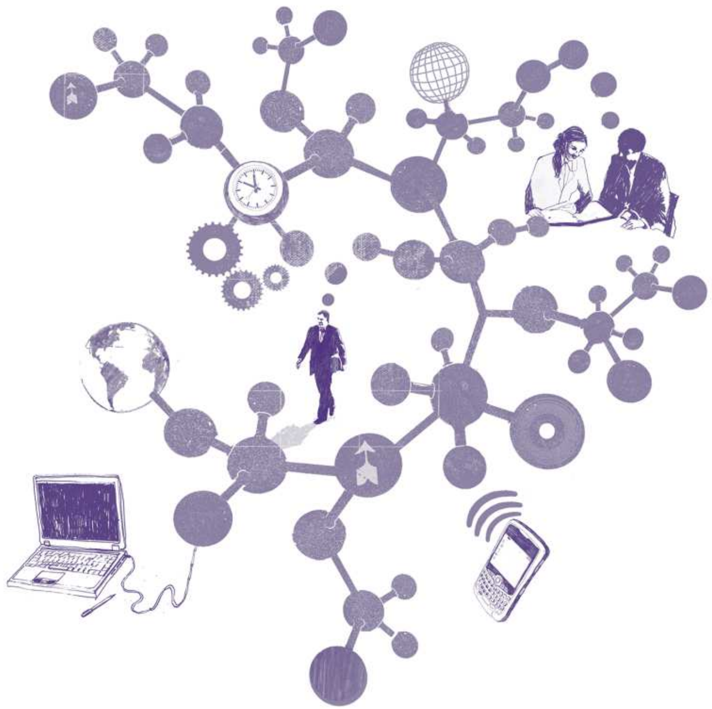
Paper	Date	Contact/Directorate/Tel
N/A		

Appendix A

The Audit Findings for Lancashire County Council

Year ended 31 March 2016

September 2016



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26 September 2016

Dear Members of the Audit and Governance Committee

Audit Findings for Lancashire County Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Lancashire County Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

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 and giving a value for money conclusion. 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.

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

Yours faithfully

Karen Murray

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 9 May 2016. Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of final items of testing, particularly around property, plant and equipment and grants income
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- completing our work on your Whole of Government Accounts return

We received draft financial statements at the commencement of our work.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of at the cost of services of £932.1m. This has not changed in the revised accounts. We have agreed a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The accounts presented for audit were of good quality. The Council had, as part of close down considered the format and contents of the accounts to declutter them.
- Group accounts were prepared for the first time, reflecting the value of the investment properties held by Lancashire County Developments limited.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

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. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- our update of your information technology controls identified some areas where there were weaknesses in the controls in place.
- your internal audit department has not delivered a full a audit plan to support an opinion on your system of internal control.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a "except for" qualified VFM conclusion.

The Council has received an inadequate Ofsted inspection of its children's services. The work of internal audit has been insufficient to provide an opinion on the overall system of internal control at the Council.

Further detail of our work on Value for Money are set out in section three of this report.

Certificate of completion

We are unable to issue our certificate of completion of the audit. We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters arising from 2012/13.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Financial Resources.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Financial Resources and the finance team.

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 2016

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £32m (being 1.5% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1.61m. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we expected that the disclosures in the accounts would be correct separate materiality levels were appropriate. These remain the same as reported in our audit plan

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosures of transactions with related parties	Due to the public interest in these disclosures.

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 (UK&I) 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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have: • undertaken a review of entity level controls • tested of journal entries • reviewed the accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	Valuation of Property Plant and Equipment - in respect of the waste plants owned by the Council.	We have: • discussed the timeline of the plans with officers. • reviewed the information shared with the Council's external valuers setting out the impact of these plans on the service and therefore the Council's valuations for the sites • assessed the information used by the valuer to value the assets and the qualifications of the valuer in making the valuations required. • reviewed the valuation report and discussed with management how this would be accounted for in the financial statements	Recognising the specialist nature of the Council's waste plants, officers agreed to seek an external valuation to consider the impact of the changes to the service levels of the plant on the valuation included in your statement of accounts. This was received on the 2 September 2016. The valuation report reflects a downward valuation of £22m against the net book value of the plant recognised in the balance sheet as at 1 April 2015. We have queried with management the appropriateness of the date of the valuation as the valuation obtained is at 1 April 2015. Management went back to the valuer to confirm the impact of the current operating scenario in respect of the waste plant at the closing balance sheet date of 31 March 2016. This confirmed that the net book value of the plant, would reduce by £22m, and the gross book value by £26m. This has not been amended on the grounds of materiality. It is therefore included as an unadjusted misstatement in your accounts.
4.	Valuation of pension fund net liability	We have: • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • gained an understanding of the basis on which the valuation is carried out. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any material issues in respect of the valuation of your net pension fund liability.

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	**Social care income and expenditure**	We have: • Identified the controls in place in the system • Undertaken walkthrough testing of the controls to confirm they operate as we understand • Sample tested transactions processed through the system during the year • Reviewed the processes for identifying year end accruals of income and expenditure • Sample tested year end balances for accruals of income and expenditure.	Our audit work has not identified any material issues in respect of your social care income and expenditure.

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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have: • documented our understanding of processes and key controls over the payroll transaction cycle • undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding • reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces. • sample tested payroll transactions. • undertaken a trend analysis of monthly payroll costs.	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have: • documented our understanding of processes and key controls over the operating expenditure transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were operating in line with our understanding • substantively tested a sample of expenditure transactions • reviewed managements processes to raise accruals and to ensure the accruals recognised are materially complete. • substantively tested a sample of creditor balances and accruals recognised in the year end balance sheet. • tested cash payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts.	Our audit work has not identified any significant issues in relation to the risk identified

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Lancashire County Developments Limited (LCDL)	No	Targeted	This is the first time these accounts have been consolidated into the financial statements for the Council. We will review the process by which this has been undertaken and ensure the Council has made all required disclosures.	We are the auditor for the Company. We have made arrangements to undertake sufficient work to give our opinion on the Group Accounts alongside our work on the main audit.	Your group accounts reflect the draft statements prepared. Following the external audit, due to the transition from UK Generally Accepted Audit Practice (UK GAAP) to FRS 102, there have been some amendments made to the LCDL accounts around the recognition of changes to the treatment of investment properties. There is also a different treatment of deferred tax to show the potential tax charge if the properties were to be sold. Overall the amendments are not material to the group position. They are included as unadjusted misstatements in the statement of accounts.

Accounting policies, estimates and 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	The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of 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. are 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.	Our testing of income found that the Council recognises income in line with its accounting policy. The policy is disclosed in line with the requirements of the CIPFA code.	
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions	• We have reviewed the estimates and judgements made in the accounts. • At the Council meeting of 16 February 2016 , the Council reviewed and amended its policy on Minimum Revenue Provision. As a result of the new policy, the amount charged to the General Fund in 2015/16 is £8.8m lower than if it had been calculated on the previous basis.	

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

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Financial Resources, as151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have considered the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	●
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	●

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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

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and 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 procedures
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed, with the exceptoin of the additional disclosure made in respect of the interim Director of Financial Resources.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Council, including specific representations in respect of the Group. • This will also include representations to confirm the unadjusted misstatements included in the accounts.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your bank and to confirm your significant investments. This permission was granted and the requests were sent. They were received confirming the values included in your accounts.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.

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Other communication requirements continued

	Issue	Commentary
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is underway but not yet completed. We will submit our assurance statement ahead of the 12 October deadline.

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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	As reported in the Council's Annual Governance Statement , Internal audit has not completed a full programme of work in 2015/16. As a result, the Head of Internal Audit has not been able to give an overall opinion on the Council's system of internal control. The work of the team has focused on the core financial systems. Of this plan, work on the cash and bank, accounts receivable and debt management and treasury management was completed after the end of the financial year. As at the 7/9/2016 the report on cash and bank was still in draft. Looking ahead, an audit plan setting out the areas that will form the 2016/17 internal audit work programme was approved by the Audit and Governance Committee.	Ensure the approved plan for 2016/17 is delivered with variations reported to the Audit and Governance committee.
2.	●	The Fixed Asset Register and listing of revaluations completed did not agree to the draft financial statements. Further investigation identified that an earlier and inaccurate revaluation of the waste plants had been processed through fixed asset register and accounts. It was then reversed out in the accounts but not in the asset register.	All accounting records should agree directly to the statement of accounts.
3.	●	Two County Council members have not completed their related party disclosure declarations.	All declarations should be completed annually.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	Review of users and their privileges shows a number of individuals have access to business processes which raise a risk within Oracle in respect of segregation of duties.	• The Council is reviewing the level of privileges available to users with a view to ensuring these are appropriate and to reduce these as appropriate. • As part of our audit work for 2015/16 we reviewed all instances where individuals could have raised or amended purchase orders and raised or amended invoices. • We did not identify any instances of users who had raised purchase orders and either raised or amended the invoice. • However, we identified 10 users who had amended a purchase order and also raised or amended an invoice. However the quantity of purchase orders involved is immaterial.
2.	X	Default responsibilities had been issued to some users. As a result, some users have been allowed too much access to the system.	• The total number of users has been reduced. However, there are still some users who have a higher level of access than they need.
3.	X	Access rights and responsibilities are not periodically reviewed. This means that some access rights could be incorrectly given to members of the team.	• The Council is reviewing the level of access as part of its restructure process.
4.	✓	Our testing of purchase order accruals in 2014/15 identified an item accrued for but which did not relate to Council expenditure because it had been cancelled in the new financial year. We extended our sample testing and found a further three accruals which did not relate to expenditure.	• The Council has undertaken a process to review accruals to ensure all items accrued for relate to committed expenditure.

Assessment
✓ Action completed
X Not yet addressed

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Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the statement of accounts .

	Detail	Original Figure	Revised Figure
1	Cash flow note 32. On the working paper which is used to prepare the cash flow working paper the interest received and interest paid figures had been incorrectly entered. This affects the note only.		
	Interest paid	(36.1)	(28.7)
	Interest received	27.6	35.1

Unadjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Statement £	Balance Sheet £	Reason for not adjusting
1	**PPE – waste plant** The Executive Scrutiny committee received a report on 19 February 2016 which set out several recommendations about the future use of the plants and changes to the services delivered from these sites. The Council obtained an external valuation to identify whether the decisions taken to change the way the plants were used had an impact on the valuation of the assets held by the Council. This valuation was received on 2 September 2016. The impact on the net book value of the asset included in the Council's balance sheet at 31 March 2016 is a reduction in value of £22m.		£22m	Materiality
2	**Group Accounts** The Group Accounts for the Council were prepared using the draft financial statements for the company. However, there have been some amendments to the company accounts which impact on the group consolidation. These are not material and therefore the Council has not amended the group accounts	2014/15 – increase in net expenditure of £3.1m 2015/16 increase in net expenditure of £1.4m	2014/15 £0.5m 2015/16 £1.9m	Materiality

Impact of uncorrected misstatements in the prior year

	Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Reason for not adjusting
1	Included within the long term debtors balance for 2014/15 was£3.3m of debtors which should be classified as short term.		£3.3	This has been amended in the 2015/16 accounts.
2	The WGA submission identified a grant paid to the Council by the Department of Education which had been classified in note 13 to accounts as other government grants.	£2.3		Classification in note 13 to the 2014/15 accounts only. No ongoing issue for 2015/16.
	Overall impact	**£2.3**	**£3.3**	

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	£900,317 income £909,843 expenditure	Note 5 Amounts reported for Resource allocation decisions	The income and expenditure related to schools was originally included as an amount not reported to management in Note 5 because these amounts are not reported in the revenue outturn report to Cabinet. We have confirmed with management that income and expenditure relating to schools is reported to the Early Years, Schools Block and High Needs Block Working Groups, Schools Forum and Cabinet Member for Children, Young People and Schools. Because of this the note been amended to include them in the segmental analysis as they are reported to management.
2	Disclosure	£140	Officers remuneration	The payments made in relation to the interim holder of the Director of Financial Resources post were not originally included in the note. The Council have added additional disclosures.
3	Disclosure	£140	Related Party Transactions	Additional disclosure included for the payments made to the company paid in relation to the Interim Director of Financial Resources as above to comply with disclosure requirements for such transactions.
4	Disclosure	£6.5m	Capital Adjustment account	An adjustment of £6.5m has been made to increase the Capital Grants and contributions credited to the Comprehensive Income and Expenditure Statement and to reduce the application of capital grants to capital financing from the Capital Grants Unapplied Account. This means the note is now consistent with the rest of the accounts.

Section 3: Value for Money

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated May 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The work of internal audit has not been sufficient to give an overall opinion on the system of internal control at the Council.
- Ofsted, as the external regulator of your children's services, have inspected your provision and found that children's services in Lancashire are inadequate across two of the three domains

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section

Follow up from findings in 2014/15

Other weaknesses in the Council's governance framework identified in 2014/15 are being addressed:

The action taken to improve the operation of the Council's procurement service has been reported to the Audit and Governance Committee at its 25 January 2016 meeting. Revised procurement rules have now been approved by the Council.

The Council's arrangements for identifying, assessing and reporting risks has continued to develop. The risk register is now updated regularly and reported to management team, the Audit and Governance Committee and the Cabinet Committee on Performance improvement. The Council is continuing to embed its risk management processes across departments.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of your internal control arrangements, and the outcome of your Ofsted inspection of children's services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Our findings are set out in more detail in the following pages.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows:

RECOMMENDATIONS

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in 2015 which rated these as 'inadequate'. The Council is currently subject to follow up review.	We have continued to liaise with officers and review updates as they become available.	The Council's Children's Services were subject to an Ofsted inspection in 2015. The report, published on 27 November 2015 assessed the aspects of the service as follows: • Children who need help and protection - inadequate • Children looked after and achieving permanence - requires improvement • Adoption performance - requires improvement, • Experiences and progress of care leavers – inadequate, • Leadership, Management and governance - inadequate. The report identified wide ranging areas for improvement across the service with concerns raised around the failure of the Council to work with other key agencies in strategy discussions, risk assessments being undertaken without reference to, or knowledge of, significant history, complex work assigned to insufficiently qualified or experienced practitioners, and a lack of effective management oversight. The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account. The Council has responded quickly to the report and subsequent Improvement Notice issued by Ofsted. An Improvement Board was set up with an Independent Chair. The chair has the responsibility to develop an Improvement Plan which was subsequently agreed with Ofsted. An interim Director of Children's Services, shared with Blackburn with Darwen Council, is now in place. The Improvement Board meets on a monthly to consider the progress against the improvement plan, with an "improvement board 12 week plan" being considered at each meeting. This 12 week plan provides focus to three key areas identified for improvement – workforce, managing change and managing demand. Multi-agency focus groups have also been established to identify key issues and barriers to better working practice. The feedback to the improvement board is that communication and information sharing is an area for improvement. Progress is being made in a number of areas. In particular, the Council has worked to address the challenges in recruitment of staff (with agency staff currently being used to reduce workloads), accuracy of performance information, and the implementation of a new operating model. However, at the time of this report, the current version of the progress plan notes feedback from both Ofsted and the Department for Education indicates the pace of progress needs to be faster. At the start of September Ofsted visited the Council again for a follow up, although the feedback from this visit has not yet been received.

Significant risk	Work to address	Findings and conclusions
Internal control The Council's Head of Internal Audit was unable to provide an overall opinion on the Council's system of internal control in 2014/15 because of the limited nature of the internal audit plan. In 2015/16, the Council's internal audit plan focuses work on key financial systems. It is therefore unlikely that the Head of Internal Audit will be able to provide an overall opinion again for this year. There is an outline plan in place for 2016/17 which identifies key areas of audit coverage. If this plan is refined and delivered as expected, it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.	We update our assessment of the Council's arrangements in the light of the year end report from the Head of Internal Audit and the Annual Governance Statement.	At the Audit and Governance Committee on 9 May 2016 the Head of Internal Audit reported that the audit plan for 2015/16 would concentrate on the following financial systems: • general financial ledger • cash and banking • accounts payable system • accounts receivable and debt management system • payroll • treasury management and • VAT The work planned by internal audit for the year was insufficient to support an overall opinion on the internal control framework of the Council. The planned work on the general financial ledger, accounts payable, payroll and VAT was completed and reported to the May committee meeting. The remaining work was scheduled for after the end of the financial year because members of the audit team were seconded into the finance service to provide capacity on key projects during 2015 and the early part of 2016. As a result, the work on cash and banking, accounts receivable, and treasury management was completed following the end of the financial year. As at 7 September 2016 the cash and banking report was still at draft stage. The draft Annual Governance Statement presented to members at the Audit and Governance committee held on 30 June 2016 recognises the internal audit service has not been able to deliver a plan which would support an overall opinion for 2015/16 and acknowledges that the work delivered by internal audit has not been sufficient in scope for a Council the size and complexity of Lancashire County Council. Looking ahead, the Audit and Governance Committee has approved a plan for 2016/17 which includes a fuller programme of work. This has been designed to support an overall head of internal audit opinion for 2016/17.

Key findings

Significant risk	Work to address	Findings and conclusions
Financial position, planning and service transformation projects The Council's financial plan has been refreshed throughout the year in recognition of the significant financial challenge facing the Council in delivering good quality services for residents and taxpayers over the medium term. The plan requires significant savings to be made over the next few years. Consultation has now begun on some of the changes being made to the scope and scale of services to be provided.	We will review the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.	The Council faces a significant financial challenge in the short to medium term. A significant amount of work is needed to understand the level of service that can be provided within the budget available, and then to make a reality of this delivery. In November 2015, the Council set out the scale of the financial challenges facing it in the update to the medium term financial strategy. When Cabinet received the updated medium term financial strategy it out that significant savings were needed as a funding gap of £262m over the five years to 2020/21 has been identified. At this stage, an overspend of £19.666m was also forecast for 2015/16. In the update taken to members in January 2016, as part of the budget setting council meeting, the in year overspend was forecast at £9.581m against the revenue outturn for 2015/16 but a further on-going pressure on budgets of £35.766m was identified. The Council was now reporting a funding gap of £200.5m for the period 2016/17 - 2020/21 after the impact of the financial settlement, new financial pressures and the £64.8m of savings proposals agreed by Cabinet in November. In September this funding gap has reduced to £147.944m, reflectedin the change in council tax funding assumptions. At the end of 2015/16, the Council had successfully delivered within it's planned revenue budget. The final outturn position reported to members was £726.074m compared with a revenue budget of £726.675m set in February 2015. The final position, which is an overall underspend of £0.6m on services reflects a mixed picture across the Council's services. For example, there are overspends of £16.977m in adult services (largely relating to commissioned social care), £1.379m in children's services (where a significant overspend on Children's social care- £9.570m has been offset by other underspends), and £2.939m in commissioning, and £4.107m in development and corporate services. However, there was an underspend of £22.070m in Chief Executives, of which the most significant elements were higher than budgeted interest received and a lower Minimum Revenue Provision (MRP) charge. The reduction in MRP is partly due to lower than anticipated borrowing but also reflects the change in MRP policy agreed at Council on 11 February 2016. At the end of the financial year, the Council had £36m in the County Fund (unchanged from 2014/15) and £364.5m in earmarked revenue reserves (£376.1m in 2014/15). Despite the underspend in 2015/16, the Council knows that urgent action must be taken to reduce medium term funding gap through its transformation programme. This programme will drive radical change to the way services are provided. As part of this, the Council's base budget review is designed to identify the services the Council will provide. A key element of this is Council's property strategy and the Council has now consulted on detailed plans about how it will use its asset base to deliver services in future years. The proposal identified 130 premises preferred for retention as neighbourhood centres, with a further 106 premises identified for closure. The Council is working with external consultants to assess the future operating model for the Council and to test the financial resilience of future service plans. Additionally, external support is also being used to support plans for transformation of the delivery of social care. The Council's risk register clearly documents the risks to the on-going financial position, the longer term financial viability and the risks around transformation.

Key findings

Significant risk	Work to address	Findings and conclusions
Waste plant In February 2016 the executive scrutiny committee considered a report on the proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited (GRLOL). This recommended that elements of the plant were closed with immediate effect or by the end of the financial year 2015/16. On further discussion with officers, we understand the planned timetable for operational mothballing these assets stretches beyond the timescale agreed by members. We are also concerned that, as part of the decision making process, the impact on the valuation of the assets was not considered.	We have reviewed the decision making process the Council followed to understand that members considered all relevant information to make their decision.	Over recent years, the Council has been looking at ways to reduce the costs of waste disposal provided at two facilities in Lancashire. As part of the wider consideration of budget options in November 2015, a policy was agreed to reduce the processing activities and costs at the two plants as these were no longer considered to economic. Where this occurred, the plant and equipment was to be mothballed and maintained. As part of this decision, the service would cease composting of co-mingled food and garden waste. Alongside this was a commitment to downsize the waste company operating the facilities on behalf of the Council. Following this decision, the service options were considered in more detail. The recommendations made to the Cabinet Member for Environment, Planning and Cultural Services included that: • waste transfer operations were established for residual waste, • In Vessel Composting processes ceased with immediate effect • redundant processing equipment be protected and preserved; and • a new operating structure with the Council be agreed by GRLOL. This decision was taken on the basis of the lowest cost, lowest risk option, which at the time was to divert the residual waste to landfill. However, further discussion with contract holders for the waste output identified some options to use existing relationships to provide a lower specification output. As a result, some elements of the original service provision continue although on a reduced scale. Following our audit plan, the Audit and Governance committee requested and received a report on the decision taken and the financial impact. The plans for the downsizing of the company are continuing. This is expected to lead to a greatly reduced workforce at the company. The Council is committed to exploring the options for the future use of the two facilities and the equipment currently being preserved. A soft market testing exercise has been commenced but is not yet concluded so the longer term viability of the sites is unclear. The Council has discussed with its external valuer whether the changes in the service provision currently agreed impact on the carrying value of the assets. We received a draft of this on the 2 September 2016.

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Key findings

Significant risk	Work to address	Findings and conclusions
Better care fund The Council has entered into a Section 75 agreement with local Clinical Commissioning Groups (CCGs). This has created pooled budgets for the delivery of certain schemes.	We have reviewed the arrangements for ensuring the governance of the Better Care Fund.	There are appropriate governance structures in place for the delivery of the Better Care Fund across Lancashire. The Lancashire Health and Wellbeing Board (HWB) takes overall accountability for the implementation of the Better Care Fund, and is supported by the BCF Steering Group, which reports directly to the HWB and manages the delivery of the BCF schemes. The Steering Group's aims are to review progress against the plan, scrutinise performance and finances and report by exception to the HWB. There is also a Programme Managers group, which is responsible at a local level for the delivery of the Better Care Fund. Within its terms of reference the group is also responsible for the submission of quarterly performance reports for use by the Health and Wellbeing Board. Meetings are held frequently and there is representation from NHS England, district councils and the third sector. The groups appear to be an effective forum for working through specific issues together. There has however been a lack of financial monitoring and performance reports in relation to the Better Care Fund within both the Steering Group and the Programme Managers Group. This has been recognised by both groups and is expected to be addressed early in 2016/17. Quarterly performance/spend returns are produced for NHS England but these are at a very high level and do not assess whether desired outcomes are being achieved. There is a risk register which is brought to the Programme Managers' Group for review, but members of this group have recognised that more consideration of risks needs to be given by them. Over the medium term, the five year Sustainability and Transformation plans being developed for the wider health economy will need to be supported by strongly defined and clear governance arrangements. Work is on-going to agree the appropriate arrangements to support this. Clarity over the detailed reporting and monitoring arrangements at the outset will be a key requirement of these new arrangements.

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Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

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

	Issue	Commentary
1.	**Public interest report**	• We have not identified any matters that would require a public interest report to be issued in respect of 2015/16.
2.	**Written recommendations**	• We have not made any written recommendations that the Group is required to respond to publicly.
3.	**Application to the court for a declaration that an item of account is contrary to law**	• We have not used this duty
4.	**Issue of an advisory notice**	• We have not used this duty
5.	**Application for judicial review**	• We have not used this duty

Section 5: Fees, non-audit services and independence

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

Fees

	Proposed fee £	Final fee £
Council audit	112,995	112,995
Audit of subsidiary company LCDL Ltd	31,130	31,130
Total audit fees (excluding VAT)	**144,125**	**144,125**

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The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teacher's Pensions return, reasonable assurance engagement	4,200
• Initial teacher training reasonable assurance engagement	2,000
• Local Transport Plan Major projects reasonable assurance engagement	2,500
Non-audit services	
Risk management workshop	3,684
Tax services to subsidiary company	20,200

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.

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

Section 6: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 NAO (https://www.nao.org.uk/code-audit-practice/about-code/). 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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

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Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	A full internal audit plan should be delivered in 2016/17.	High	Management Team recognise the importance of the Audit Plan for 2016/17 being delivered with a sufficient breadth of work to enable the Head of Internal Audit to provide an overall opinion on the Council's governance framework. The Annual Governance Statement for 2016/17 includes an unequivocal assurance by Management Team that sufficient audit work will be undertaken during 2016/17 to ensure that this is the case and have approved a new staffing structure for Internal Audit for this purpose as well as authorising the use of additional, external resources on a temporary basis if this is necessary to deliver the Audit Plan and Opinion.	March 2017
2	All accounting records should agree directly to the statement of accounts	Low		
3	All declarations for related party disclosures should be completed annually	Low	Related party declarations are annually pursued, with response rates for 2015/16 having considerably improved from the previous year	March 2017
4	Continue the review of the level of privileges available to users with a view to ensuring these are appropriate and to reduce these as appropriate.	High	We will review the list of responsibilities in line with the systems and control document to ensure these have not changed.	October 2016
5	Review access to financial systems regularly to ensure that levels of access are appropriate	Medium	We will review the access to financial systems regularly and amend if required	October 2016

Appendix B: Audit opinion

We anticipate we will provide the Group with an unqualified opinion on the statement of accounts and an "except for" qualified VFM conclusion.

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

We have audited the financial statements of Lancashire County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements 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 2015/16.

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

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance 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 2015/16, which 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance ; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, and the Annual Governance Statement 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:

present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and

have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

we issue a report in the public interest under section 24 of the Act; or

we make a written recommendation to the Authority under section 24 of the Act; or

we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

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

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matters described in the basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matters:

In November 2015, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection. The overall judgement was that children's services were rated as inadequate.

The report concluded that there were wide ranging areas for improvement across the service with concerns raised around the failure of the Council to work with other key agencies in strategy discussions, risk assessments being undertaken without reference to, or knowledge of, significant history, complex work assigned to insufficiently qualified or experienced practitioners, and a lack of effective management oversight. The inspection also identified that performance management information was very poor, providing insufficient information to provide management and members with the right information to hold the service to account.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

At the Audit and Governance Committee on 9 May 2016 the Head of Internal Audit reported that the audit plan for 2015/16 would concentrate on key financial systems. The work completed has been insufficient for the Council's Chief Internal Auditor has been unable to give an overall opinion on the operation of the Council's system of internal control for the year.

This matter is evidence of weaknesses in proper arrangements for managing
risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.

Delay in certification of completion of the audit

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

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB
27 September 2016

grant-thornton.co.uk

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected:
(All Divisions);

Approval of the County Council's Statement of Accounts 2015/16
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, Tel: 01772 536154, Director of Financial Resources,
Neil.Kissock@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 Accounts and Audit Regulations 2015 require that the accounts should be considered and approved by members prior to publication by 30 September following the year to which they relate.

This report summarises the process of preparation and the main points of the Statement of Accounts for 2015/16, 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 2015/16 and the Chair is requested to sign the copy of the Statement tabled at the meeting.

Background and Advice

The County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee.

The Statement of Accounts has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom.

The draft Statement of Accounts was certified by the Director of Financial Resources on 30 June 2016. Amendments agreed with the external auditor are reflected within the final Statement of Accounts.

Lancashire County Council

Key Components of the 2015/16 Statement of Accounts

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework. This dual accounting approach requires some items to be accounted for in ways that do not reflect how the Council manages its budget.

The main components of the Statement of Accounts are outlined below. The style and content of the Statement has been refreshed in order to make the accounts easier to understand.

Narrative report

This replaces the explanatory foreword in the 2014/15 accounts and includes additional requirements under the Accounts and Audit Regulations 2015.

Annual Governance Statement

The Annual Governance Statement sets out the Council's governance arrangements.

Independent Auditor's Report

The External Auditor will report whether in their opinion the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Full details of the auditor's findings are contained within the 2015/16 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 some changes from the draft that are set out in the auditor's findings report.

Core Financial Statements

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement reports all of the Council’s income and expenditure for the year. The top half of the statement provides an analysis by service area – this is a standard analysis provided by CIPFA so that local authority accounts and spending can be compared. The bottom half of the statement deals with corporate transactions and funding.

The surplus or deficit on the provision of services shows the true economic cost of providing the Council’s services. The costs include transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year. These accounting costs are different to the statutory amounts required to be charged to the County Fund for council tax setting purposes. The taxation position is shown in the Movement in Reserves Statement following a series of statutory adjustments.

The net cost of services for 2015/16 was £932.1 million compared to £871.6 million in 2014/15, an increase in costs of £60.5 million.

The main variations are an increase in costs of £96.5 million for children's and education services with £92 million attributable to revaluation losses on secondary schools. This is partially offset by a reduction of £85.2 million compared to last year's costs on environmental and regulatory services following the revaluation of the waste plant in 2014/15 and an increase in planning services costs of £24.1 million due to expenditure on the Growth Deal and City Deal.

Movement in Reserves Statement

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 statement draws together data from other parts of the accounts as follows:

- The opening balance sheet figures,
- The results for the year as presented in the Comprehensive Income and Expenditure Statement, which are prepared in line with current accounting practices,
- The adjustments required to convert the amounts prepared on an accounting basis to the statutory amounts required to be charged to the County Fund for council tax setting purposes,
- Any discretionary transfers to or from earmarked reserves to arrive at the closing balance sheet figures.

The Council's reserves have increased in total by £252.1 million as reported in the Comprehensive Income and Expenditure Statement.

The unusable reserves have increased by £264.7 million mainly as a result of the re-measurement of the pension fund liability. The usable reserves have decreased by £12.6 million to £489.1 million which is due to the utilisation of earmarked reserves and also an increase in capital grants.

Balance Sheet

The Balance Sheet shows the Council's assets, liabilities, cash balances and reserves at the year-end date.

The net assets of the Council for 2015/16 have increased by £252.1 million from £886.1 million in 2014/15 to £1.1382 billion.

The main variations in assets relate to the increase of long term investments from £262.2 million to £445 million and the reduction of short term investments from £267.8 million to £119.7 million following the Council's decision to trade the short term corporate bonds and invest the proceeds in longer term corporate bonds to take advantage of the market conditions at that time.

Cash Flow Statement

This statement shows the changes in cash and cash equivalents of the Council during the year. It analyses cash flows into those generated by operating activities, investing activities and financing activities.

Notes to the Financial Statements

The order of the disclosure notes has been amended in order to assist the user's understanding of the accounts, with the initial notes providing information to support the Comprehensive Income and Expenditure Statement and an explanation of how that differs from the departmental income and expenditure shown in the outturn report. These are followed by notes supporting the Movement in Reserves Statement, Balance Sheet and Cash Flow Statement. Additional disclosures required by the Code follow at the end of the section.

Accounting policies

This section provides a summary of the main accounting policies used in producing the accounts.

Group Accounts

The section on related parties outlines the Council’s investments in other companies and group accounts have been produced which reflect the Council’s interest in Lancashire County Developments Limited.

Pension Fund Accounts

Presents the accounts of the pension fund which are considered separately

2016/17 Statement of Accounts

The *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* includes the adoption of the asset valuation requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* (The Transport Code). The Transport Code was first published in 2010 with the objective of using an asset management based approach to the provision of financial information in relation to transport infrastructure assets.

The Council’s transport infrastructure assets are currently measured on a Historical Cost basis and depreciated in accordance with its current accounting policies. From 1 April 2016, these assets will be referred to as the 'Highways Network Asset' (HNA) and will be disclosed separately as a single asset on the face of the Balance Sheet, with its valuation built up from data maintained by highways engineers. It will be measured at Depreciated Replacement Cost (DRC) by calculating the cost of replacing the asset with its modern equivalent, then applying deductions for all forms of physical deterioration based on relevant data relating to age and condition of the assets in use. This approach will harmonise the valuation methods used by local and central government and is considered by CIPFA to better reflect the economic value of the substantial assets held and maintained by local authorities.

This change, from the existing historic cost basis, will be applied prospectively i.e. with effect from 1 April 2016 with no requirement for the 2015/16 position to be restated.

The impact on the Council's Balance sheet will be significant, with the value of non-current assets likely to increase by several million pounds. It should be noted, however, that a compensatory increase to the Revaluation Reserve will nullify the impact so that the overall change to the net worth of the Council's Balance Sheet is zero. There will also be a commensurate increase in the amount of depreciation charged to service revenue accounts to account for the higher value asset base. As regulations prevent depreciation from being charged to the County Fund, there is no associated funding requirement and there will be no impact on the Council's budget.

2017/18 Statement of Accounts

From 2017/18, the timescales in relation to the signing, approval and publication of the statement of accounts, as specified in the Accounts and Audit Regulations 2015, will change. The relevant dates specified below all relate to the financial year immediately following the end of the financial year to which the statement of accounts relates:

- The responsible financial officer must sign and date the statement of accounts, confirming that they present a true and fair view of the financial position of the Council at the end of the financial year to which it relates and the Council's income and expenditure for that financial year, **by 31 May**.
- The period for the exercise of public rights (of inspection of the accounts) must include the **first 10 working days of June**.
- Following the conclusion of the period for the exercise of public rights and the audit of the accounts, the Council's Audit and Governance Committee must consider the Statement of Accounts and approve them by a resolution of that committee **before 31 July**. The responsible financial officer must re-confirm on behalf of the Council that they are satisfied that the Statement of Accounts presents a true and fair view before the Audit and Governance Committee approval.
- After approving the Statement of Accounts the Council must publish (which must include publication on the Authority's website) the Statement of Accounts together with any audit certificate or opinion, the annual governance statement, and the narrative statement **by 31 July**.

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 2015/16 Accounts commenced on 1 July 2016 and ended on 11 August 2016.

Implications:

This item has the following implications, as indicated:

Financial

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

Risk management

The County Council's accounts for 2015/16 must be approved by 30 September 2016 in order to meet its statutory deadlines.

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

Paper	Date	Contact/Tel
Accounts and Audit Regulations	2015	Khadija Saeed, Head of Corporate Finance, 01772 536195

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

Statement of Accounts 2015/16

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Written Statements to the Accounts

Panopticon - *Singing, Ringing Tree* Burnley

FOREWORD FROM THE DIRECTOR OF FINANCIAL RESOURCES

Like many parts of the public sector, councils are under acute financial pressure and further austerity measures are expected for the foreseeable future.

Alongside reductions in the level of financial resources, we are experiencing increased demand for many services, especially those the Council has a statutory obligation to provide. We will continue to deliver against a challenging programme of budget reductions and reshape services in support of our core purpose and principles. However, we know that the Council's financial resources going forward will be insufficient to enable us to continue to deliver effective services without considering the potential role of other public services, private and voluntary sectors, and our communities, in meeting local needs.

Despite an unprecedented savings programme, the Council will still be an organisation that spends over £1.5 billion per annum on services and infrastructure. We must continue to focus on spending this money wisely to maximise the benefit to the people of Lancashire. We must also seek to further the Council's role in providing strategic leadership and influence across the county.

There is no single vision as to what public services will look like in 2021, but we cannot solve the challenges we face alone and must work with the Government and partners towards new solutions for public services. In this respect we see this as a time of possibility for the Council, its partners and communities. Devolution and de-centralisation have the potential to unlock the fundamental reconfiguration of services such as health and care systems.

There is also a new opportunity to develop one voice for Lancashire and a shared understanding with partner organisations.

We need to ensure we continue to meet the immediate needs of our communities while shaping the Council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. Whilst setting out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire.

The Council has had to continually make savings for the past 5 years, both to offset Government cuts in our funding and to account for significant cost pressures brought about by high demand for many of our services.

Thanks to the efforts of colleagues in every part of the organisation good progress has been made, but there is a lot more to do. There will be further cuts to central funding and demand on key services will continue to rise, meanwhile we've still got to deliver some of the savings opportunities identified in our financial plans and now identify the next wave of savings too.

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents of Lancashire, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the Council and the outturn for 2015/16

- Have confidence that public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure

The style and format of the accounts, complies with CIPFA standards, however, the content has been reviewed and refreshed to make the accounts easier to understand.

Acknowledgements

The production of the Statement of Accounts would not have been possible without the hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, from the Finance team and other services, who have assisted in the preparation of this document. I would also like to thank them for all their support during the financial year.

Neil Kissock
Director of Financial Resources

AN INTRODUCTION TO LANCASHIRE

Lancashire County Council is the 4th largest county council in England. It provides services to residents of the 12 district areas of Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire and Wyre and covers an area of 2,903km^{2}.

The county of Lancashire lies in the north west of England. The county borders Cumbria to the north, Greater Manchester and Merseyside to the south and North and West Yorkshire to the east; with a coastline on the Irish Sea to the west.

Lancashire has one of the largest local economies in the North of England, a large and multi-faceted area with a diverse geography, the county boasts a rich industrial tradition, set within a network of densely populated urban centres which are themselves surrounded by outstanding countryside and coastal fringes.

Lancashire's leading national and regional position in relation to aerospace, advanced engineering and manufacturing, together with its strengths in energy and higher education, make it a pivotal part of the long term sustainability of the North's economy, as does its internationally recognised visitor offer.

Reducing inequality in health and life expectancy caused by the social circumstances in which people live is a key priority for the Council's administration. With responsibilities spanning public health, social care, the economy and the environment, the County Council is in a position to make a difference.

Deprivation

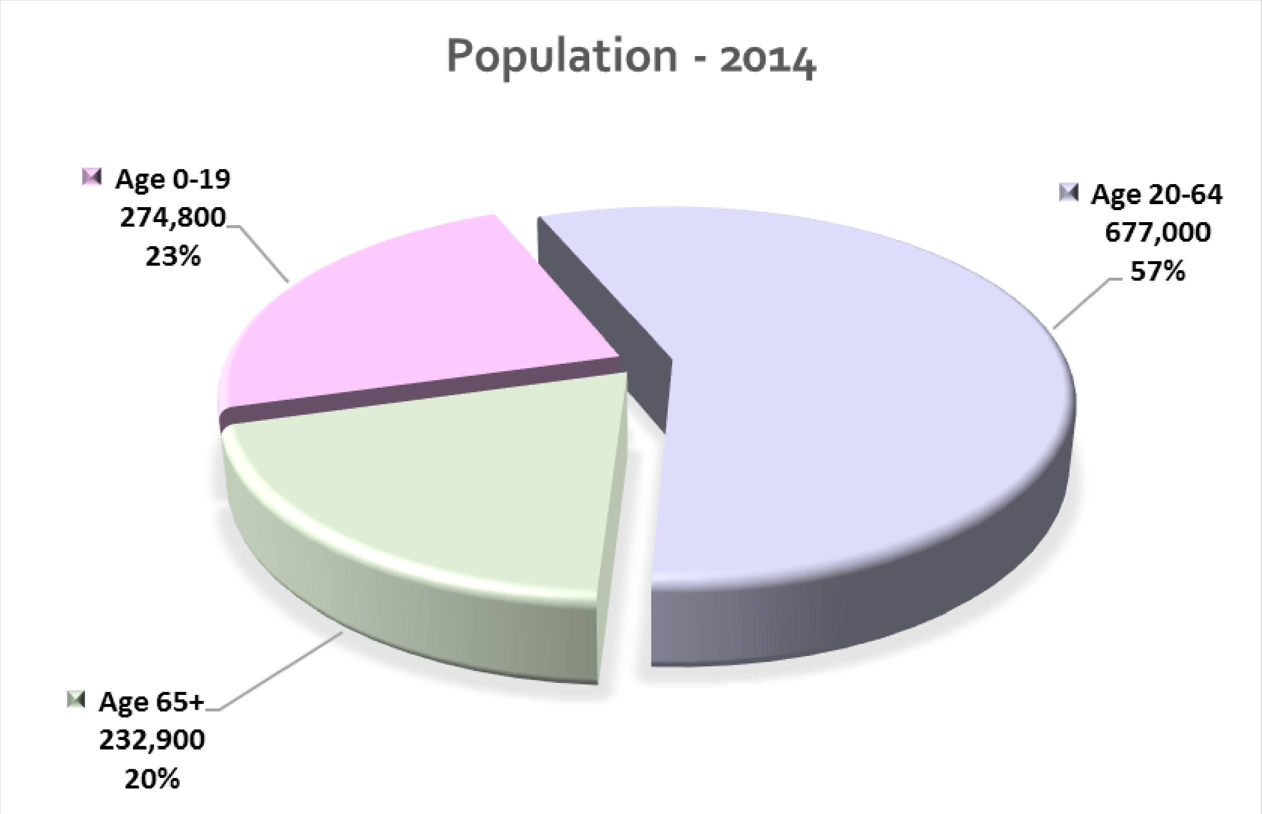
The Lancashire area is ranked 87, out of 152 upper tier local authorities for deprivation which puts the county in the middle ground (3rd quintile, 57%), where 1 is the most deprived. Lancashire County Council serves a population of marked social and economic contrasts. Between 2010 and 2015, the indices of deprivation results indicate a continuing trend of growing disparities between the most and least deprived areas of the county. A male child born today in one of our most deprived communities would be expected to live, on average, until they were 74. A male child born today in one of our most affluent communities could expect to live for almost 7 years longer, and to be free of disability for almost 9 years longer than their counterpart.

The Council aims to ensure that its services are designed to address the significant variations in need that underpin these huge contrasts.

Population

The profile of the population is an important determinant of the demand for services provided by the Council, such as, for example the demand for adults and children's social care.

The Office for National Statistics mid-year population estimate for Lancashire in 2014 was 1,184,700. The make-up of which is shown in the following chart:



KEY FACTS ABOUT LANCASHIRE COUNTY COUNCIL

Political structure in the 2015/16 financial year

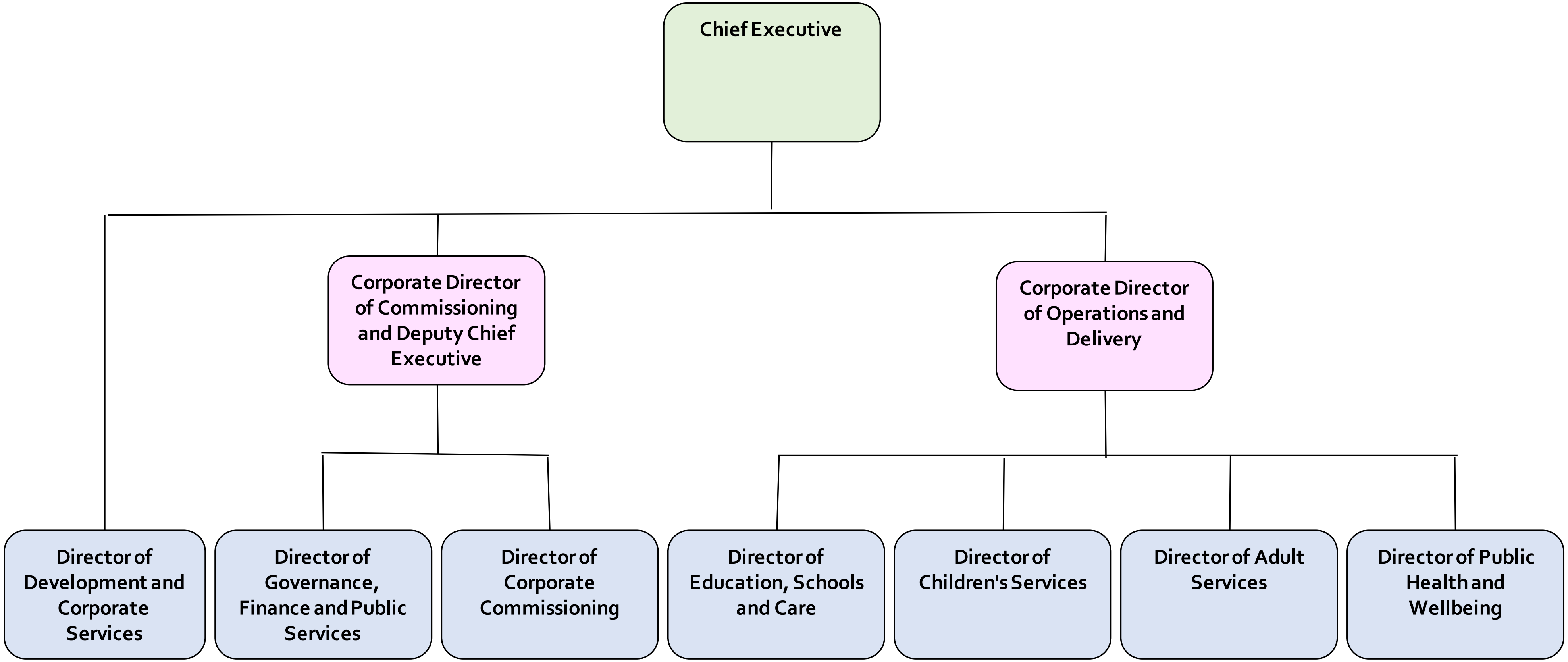
The County Council consists of 84 elected Councillors. The Council's composition is:

Party	No.
Labour	39
Conservative	35
Liberal Democrat	6
Independent	3
Green Party	1
Total	**84**

Labour currently form a minority administration, with the support of the Liberal Democrats. The County Council's political management structure includes the full council, the cabinet, committees and working groups.

Management structure

As part of a Council wide transformation a new management structure was put in place from April 2015. The structure is reflective of new ways of working at the Council, to improve service outcomes and reduce costs.



THE COUNCIL'S CORPORATE STRATEGY

Work to develop the corporate strategy has been on-going, with a stakeholder consultation during August and September 2015, culminating in Full Council considering the core of the new Strategy on 17 December 2015.

Importantly, the Council's core purpose has now been agreed; to work for the people of Lancashire to enable them to:

To live a healthy life

Increasing the time that people in Lancashire can expect to live in good health, narrowing the gap in people's health and wellbeing between different parts of the county and enabling people to make healthy lifestyle choices.

To live in a decent home in a good environment

An adequate supply of affordable quality housing to rent or buy that meets the needs of all our citizens; good quality local neighbourhoods with adequate parks, open spaces, social, cultural and sporting opportunities; communities where families and individuals feel safe and a high quality natural environment.

To have employment that provides an income that allows full participation in society

Rebalance Lancashire's economy to reduce its over reliance on low paid employment, increase the employability of Lancashire's citizens and focus on communities where there are high concentrations of unemployment and low paid employment.

The vision is that every child born in Lancashire, and every citizen will grow up and live in a community and an environment that enables them to live healthier for longer, have a job when they leave education and achieve their full potential throughout life.

A COMBINED AUTHORITY

A combined authority is a formal legal arrangement, which supports and enables collaboration and co-ordination between 2 or more local government areas on transport, regeneration and economic growth as well as skills, housing and employment. Each of the councils who are members of a combined authority remain separate authorities; the combined authority is a mechanism to work more effectively and formally in partnership. Five Combined Authorities across England have been established, all of which cover the 5 key cities across the Northern Powerhouse (Liverpool, Manchester, Leeds, Sheffield and Hull). A number of devolution proposals and deals are starting to emerge across the country. The Government have been clear that they will devolve powers and flexibilities to areas with robust governance structures in place.

The ambitions developed for Lancashire are:

- Prosperous Lancashire – a Lancashire that is recognised as a destination of choice, to invest in, do business in, live or visit;
- Connected Lancashire – digital and transport connectivity to promote inclusive growth;

- Skilled Lancashire – a skilled workforce to meet the demands of employers and future business growth;
- Better Homes for Lancashire – better living standards for residents with good quality homes and a wide housing offer;
- Public services working together for Lancashire – integrated public services at the heart of local communities giving everyone the opportunity for a healthier life.

A combined authority offers a strong governance model to attract freedoms and flexibilities from the Government and will enable a cohesive approach across Lancashire to a range of issues including developing better and broader skills provision, including entry level skills; more co-ordinated infrastructure planning with improved use of resources; more co-ordinated approach to housing provision and a more co-ordinated approach to business growth.

At meetings held in March/April 2016 all 14 councils agreed to become constituent Members of a Lancashire Combined Authority and to submit proposals to do so to the Secretary of State, with the combined authority commencing in shadow form with effect from 11 July 2016.

HEALTH & SOCIAL CARE INTEGRATION

Every part of the NHS is required to have a locally led Sustainability and Transformation Plan (STP) in place by 2017 which should be implemented by 2020. This needs to be seen in the context of the financial challenges for the health and social care system in Lancashire.

The plan is therefore required to cover better integration with Council services and reflect Health and Wellbeing strategies. Cabinet has agreed Operating Principles, which have been shared with partners, to enable the Council to participate effectively in the shaping of the STP process. The principles agreed cover the following areas:

- Governance
- Citizen-focused Integration
- Local Health Economies
- Joint Strategic Needs Assessment (JSNA)
- Pooled Budgets
- Single Commissioning arrangements

FINANCIAL POSITION OF THE COUNCIL

Revenue outturn

The County Fund revenue accounts represent the cost of meeting the annual expenses of carrying out the Council's duties and responsibilities to the community, most of which are of a statutory nature.

In February 2015 the County Council approved a revenue budget of £726.675 million. The final outturn position for the year was £726.074 million, reflecting an in year underspend of £0.601 million. The 2015/16 outturn position reflects the new organisational structure that was implemented from 1 April 2015. The 2014/15 outturn position contained some significant ongoing financial pressures where base budget provisions were inadequate to meet the cost of service provision. These underlying pressures form part of the financial outturn position for 2015/16, although the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast anticipated earlier in the year.

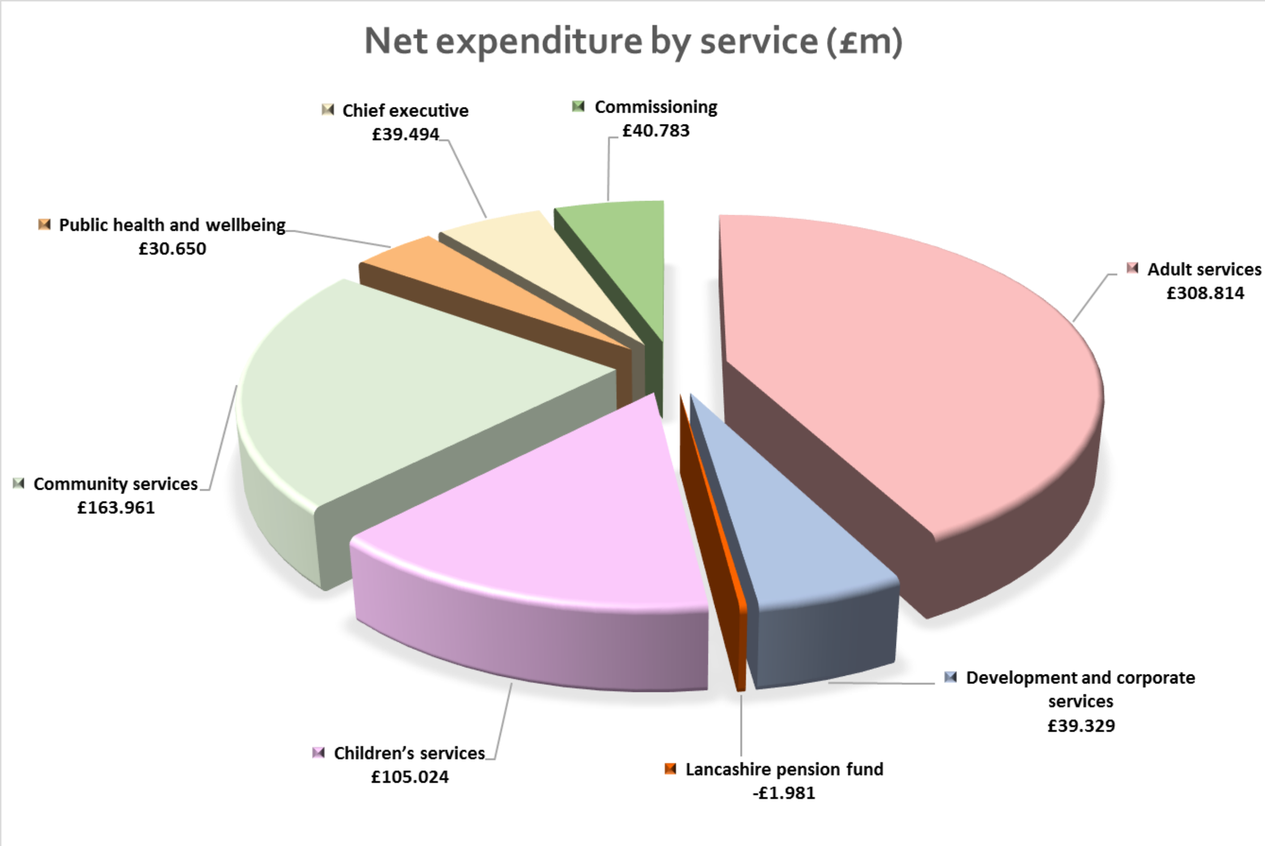
The Council continues to face significant budget pressures due to demands for Adult Social Care, in particular Learning Disability Services and recognises significant pressures within the Adult Social Care market. The outturn has also been impacted during the year by a £4 million reduction in Public Health grant funding. In addition, Children's Social Care agency placement costs are also affected by financial pressures due to increased demand. The Council has worked to source and commission suitable placement and support services, as well as focusing on recruiting and retaining foster carers.

With flooding affecting many parts of Lancashire during the year, the County Council met the additional cost, with its role in the response to the floods being wide-ranging, from setting up emergency rest centres for residents and checking on the wellbeing of vulnerable people who receive social care support, to clearing the road network of debris and ensuring the safety of the many bridges that took the brunt of the flood water.

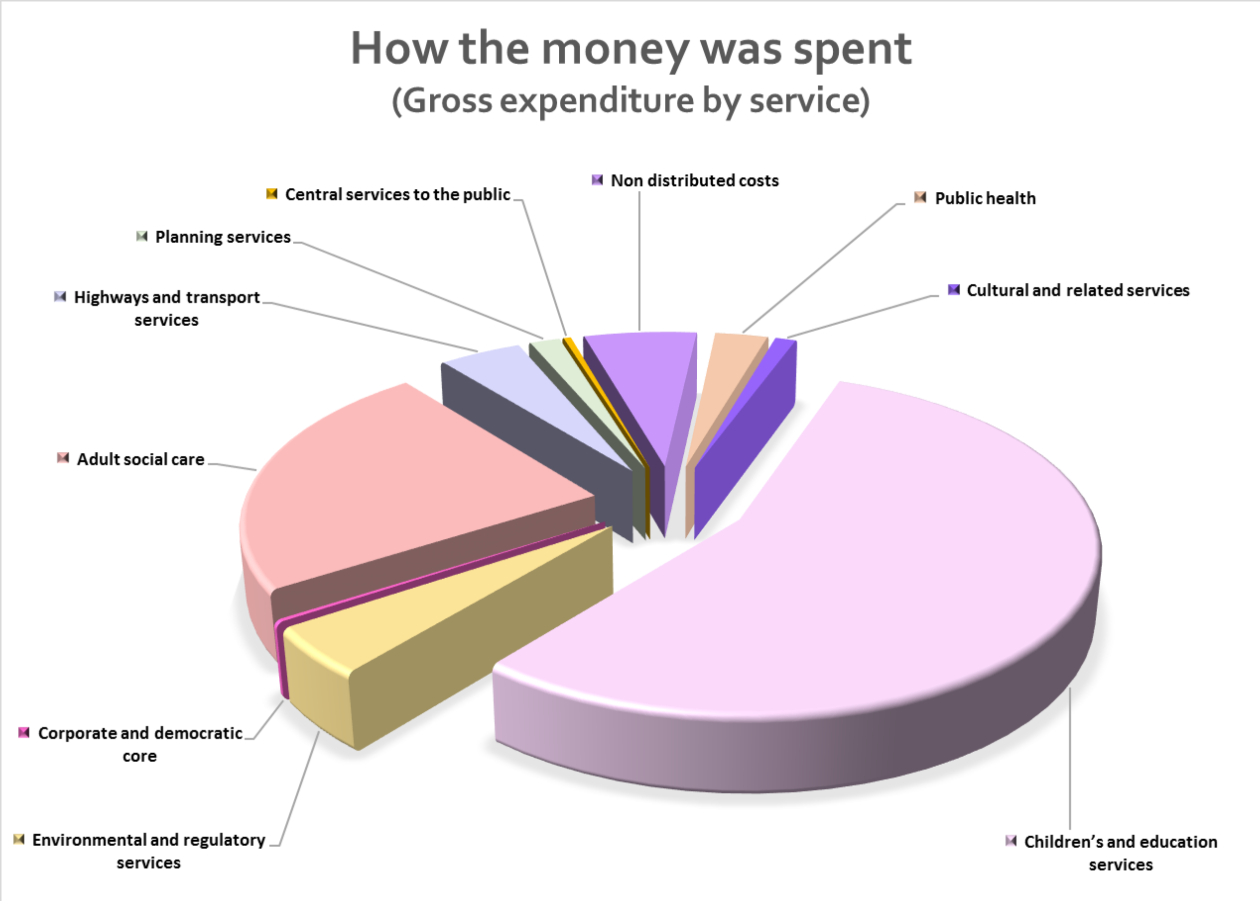
The final outturn position for the year against the budget is set out in the following table:

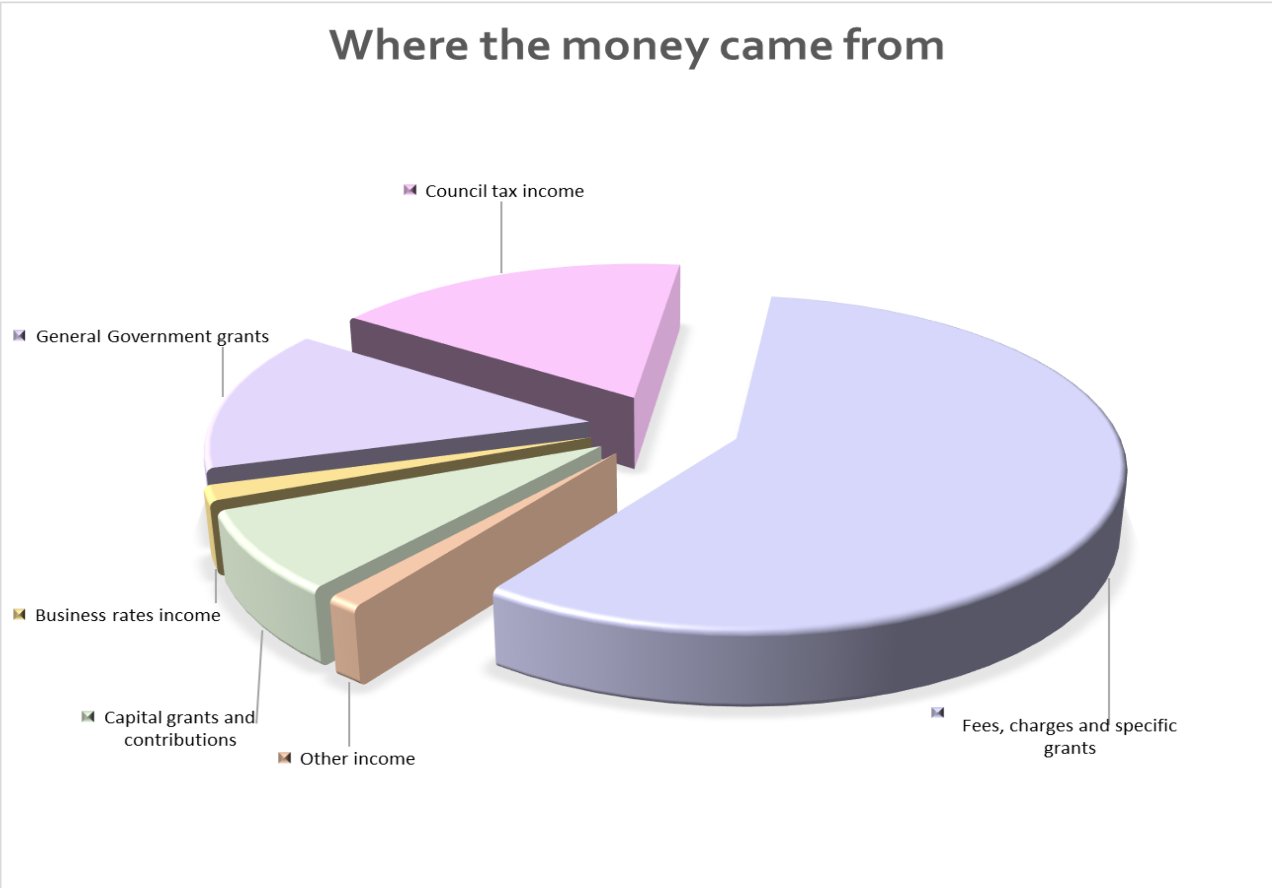
	Estimate £m	**Actual** £m	**Variation** £m
Net Expenditure			
Adult services	291.837	308.814	16.977
Children's services	103.645	105.024	1.379
Community services	168.535	163.961	(4.574)
Public health and wellbeing	29.870	30.650	0.780
Lancashire pension fund	(1.842)	(1.981)	(0.139)
Commissioning	37.844	40.783	2.939
Development and corporate services	35.222	39.329	4.107
Chief executive	61.564	39.494	(22.070)
Total	**726.675**	**726.074**	**(0.601)**

The net expenditure by service is shown in the chart below.



The following charts are derived from the Comprehensive Income and Expenditure Statement. They show how the money was spent based on the Service Expenditure Analysis as prescribed in the CIPFA Service Reporting Code of Practice (SerCOP) and how the expenditure was funded.


How the money was spent
(Gross expenditure by service)
Central services to the public
Non distributed costs
Public health
Planning services
Highways and transport services
Cultural and related services
Adult social care
Corporate and democratic core
Environmental and regulatory services
Children's and education services


Where the money came from
Council tax income
General Government grants
Business rates income
Capital grants and contributions
Other income
Fees, charges and specific grants

Capital investment programme

Resources available to the Council to support capital investment come from a number of sources:

- Central government support
- Capital receipts
- The Council's revenue resources
- Prudential borrowing

The significant areas in the capital programme for 2015/16 included works relating to the maintenance of school buildings, highway and bridge maintenance and transport improvement e.g. the Heysham to M6 link road.

Outlook for the future

In the Autumn Statement the Chancellor of the Exchequer stated that austerity measures will continue up to 2019/20. The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. All reserves have been extensively reviewed during 2015/16 to ascertain whether the need for them remains and whether their scale continues to be appropriate. This has led to many reserves being closed or significantly reduced and their balances transferred to the new 'Transitional Reserve' to support the Council in meeting future funding reductions.

The budget approved at Full Council was based upon £129m of savings being delivered in 2016/17 and 2017/18 and the use of c£117m of reserves to support the revenue budgets in these years. Despite this, there remains a funding gap of c£200m by 2020/21 reflecting reducing resources and increasing demand for services, particularly social care as a result of demographic changes including an increasingly ageing population and also the increased cost of commissioning and delivering those services, a financial pressure further impacted by the introduction of the National Living Wage from 1 April 2016 at £7.20 per hour and which will rise to at least £9 per hour in 2020. The additional financial pressures on Adult Social Care budgets are only partially mitigated by the ability to raise the 2% Adult Social Care Precept.

Budget reports to Cabinet during the year identified several strands seeking to address the future financial challenge facing the County Council. This includes a continuous review of efficiency, with a Zero Based Budget Review being undertaken in 2016/17 of every service within the Council's current operating model to identify the potential for removing any non-essential expenditure. These reviews have reference to benchmark unit costs with the intention of moving towards the lowest quartile of the most appropriate comparator group.

The outcome of these reviews is unlikely to deliver a sustainable financial position in the medium term and therefore the November budget report identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed to assist the Council in scoping and undertaking the review of its operating model. It is anticipated that this review will be undertaken during 2016/17 with the key aspect being to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21. This review is likely to involve looking at opportunities across all public services in Lancashire as the County Council is not alone in this financial challenge, with health and adult social care services across Lancashire forecast to have a budget shortfall of over £800 million by 2020/21.

Whilst the scale of the financial challenge is a hugely significant one, the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast earlier in the year.

Outturn pressures and 2016/17 delivery will be monitored with appropriate contingencies and proposals being tabled to ensure effective service delivery within the financial envelope.

Despite the difficult environment the Council has continued to demonstrate:

- Strong financial management, through the delivery of a detailed budget risk assessment, including deliverability of previously agreed savings, and a small overall underspend which demonstrates the ability to address forecast service overspends in-year.
- Innovation through the strong performance of traded services.
- Commitment to improving services with additional investment in Children's Services following the Ofsted Inspection.
- Flexibility through redeploying resources and working collaboratively across functions to deliver significant pieces of work such as the base budget review which inform the financial strategy

All of these are characteristics of organisations with well managed finances. At the same time the County Council has maintained a strong balance sheet and has set resources aside to mitigate identified risks.

It is vital that strong financial management is maintained across the County Council in 2016/17 and beyond in order to ensure that the County Council can maintain an effective approach to the financial challenge ahead.

The Statement of Accounts summarises the Council's transactions for the financial year 2015/16 and its financial position at the year end of 31 March 2016. It comprises core and supplementary statements, together with disclosure notes. It has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based on International Financial Reporting Standards (IFRS).

A glossary of key terms can be found at the end of this publication.

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members, employees and other interested parties clear information about the Council's finances. It provides information on the following:

- The cost of the Council's services for the year
- Where the money came from
- What the Council's assets and liabilities were at the year end

CORE FINANCIAL STATEMENTS

The accounts consist of the following core financial statements supported by explanatory notes. An explanation of the purpose of each of the statements is given below.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area – this is a standard analysis provided by CIPFA so that local authority accounts and spending can be compared. The bottom half of the statement deals with corporate transactions and funding.

The costs also include transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year.

Movement in Reserves Statement

The Movement in Reserves Statement is a summary of the changes to the Council's reserves during the year. Reserves are divided into "usable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes for example those that hold unrealised gains and losses e.g. the Revaluation Reserve.

The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, as detailed in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the County Fund balance for council tax setting purposes.

A series of statutory adjustments are made as detailed in Note 15 (Adjustments between accounting bases and funding regulations), resulting in the net increase or decrease before transfers to earmarked reserves.

Balance Sheet

The Balance Sheet shows the Council's assets, liabilities, cash balances and reserves at the year end date.

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.

Cash Flow Statement

The Cash Flow Statement shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

Notes to the Financial Statements

These notes explain in more detail the individual items shown in the financial statements.

Supplementary Accounts

The supplementary accounts are:

Group Accounts

The Group Accounts show the full extent of the Council's economic activities by reflecting the Council's involvement with its group companies and organisations. These are followed by notes explaining these statements.

Pension Fund Accounts

The Pension Fund Accounts provide a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the County Council. A Pension Fund Annual Report will be published for members of the fund, which will include these accounts.

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

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Section 151 Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2016.

N Kissock
Director of Financial Resources
26 September 2016

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit and Governance Committee on 26 September 2016.

T Brown
Chair of Audit and Governance Committee
26 September 2016

The published version will include the Audit Certification on these pages.

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1. 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, 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.

In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

2. 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.

3. Governance issues in 2014/15

In the light of the exceptional circumstances that had been reported over the previous two years, the Internal Audit Service had been unable to complete a risk-based programme of work sufficient to support an overall opinion on the Council's overall governance framework.

The Annual Report concluded that the level of assurance previously provided had gradually deteriorated and therefore only limited or no assurance had been provided over the majority of control systems audited during 2013/14. At Management Team's request internal audit work during 2014/15 was therefore directed towards reassessing key areas of control weaknesses and follow up actions agreed by management to improve controls across a number of systems and services identified in previous years' reviews. As a result of that work it was concluded that substantial assurance could be provided over the areas of high and medium risk. Substantial assurance was also provided over the Council's key financial systems and it was reported that there had been a robust improvement over areas such as information governance.

The External Auditor's Value for Money (VFM) conclusion contained in the Audit Findings Report for 2014/15 also identified a number of areas of concern which had resulted in a qualified opinion as follows:

- The Head of Internal Audit's inability to provide an overall opinion on the system of internal control for 2014/15;
- Procurement risks following the return of the Procurement Service from One Connect Limited, in particular the need to waive procurement rules to extend a number of existing contracts;
- The financial pressures facing the Council, in particular the risks around the delivery of savings necessary to meet a spending gap from 2016/17 to 2020/21.

At their meeting held on 25 January the Committee received a report providing an update on the performance of the Procurement Service following its transfer back from One Connect Limited. The report set the progress made in implementing the procurement Service Improvement Plan and the Service's current performance against the key performance indicators aligned to the Procurement Strategy and was commended by the Committee. In relation to both the financial pressures facing the Council and the absence of an overall Audit Opinion for 2015/16, both issues remain concerns and are commented on later in this report.

4. The Head of Internal Audit's report 2015/16

In June 2015 the Audit and Governance Committee noted the Internal Audit Annual Report for the year ended 31 March 2015 which stated that during 2015/16 the Internal Audit Service would work to support management and in particular a number of members of the team will be seconded into the Finance service to provide extra, necessary capacity on key projects, therefore it would not undertake work that would support an overall opinion in 2015/16 but would, so far as resources allowed, provide consultancy support to services.

Subsequently, in January 2016, the Committee approved the Internal Audit Service Strategic Internal audit Plan 2015/16, 2016/17 and beyond, the report noting that the Service would not be in a position to complete a risk-based programme of work to support an overall opinion on the Council's framework of governance, risk management and control for 2015/16 but would focus its assurance work solely on the Council's centrally managed key financial systems.

The key financial systems are as follows:

- The general financial ledger;
- Cash and banking;
- Accounts payable system;
- Accounts receivable and debt management system;
- Payroll;
- Treasury management; and
- VAT

All this work is now complete with all areas assessed as providing substantial assurance other than in respect of accounts receivable and debt management where further actions agreed are being implemented during 2016/17 including the appointment of debt recovery staff in Legal Services.

5. Emerging governance issues in 2015/16

A number of risk areas emerged or came to prominence during 2015/16 including:

- The challenges associated with fully implementing the Councils medium term financial strategy and the longer term financial viability of the Council;

- Continuing to deliver organisational transformation. Phase 2 of the original transformation process has been stopped and an alternative base budget review process adopted;
- The delivery of a joint service between the Lancashire Pensions Fund and the London Pension Fund Authority.
- The Ofsted inspection judgement of "inadequate" in relation to Children's Services;
- The delivery of new waste management arrangements to achieve significant budget savings by introducing changes in operations and processes at the two recovery parks;
- Health and social care integration and the requirement to produce Sustainability and Transformation Plans by June 2016, to be fully implemented by 2018;
- Developing new model for public service delivery through the establishment of a combined authority for Lancashire and securing a devolution deal with central government and securing economic growth, of which public sector reform is one strand.
- The implementation of the Council's Property Strategy agreed by Cabinet in September 2016

All of these risk areas have been the subject of detailed reports to Cabinet and/or other committees/Full Council.

The following sections comment in more detail on the issues identified above:

6. The Financial Viability of the Council

The Council's Risk and Opportunity Register identifies the risk to the ongoing longer-term financial viability of the County Council as one of its highest level risks. The Medium Term Financial Strategy (MTFS) presented to Cabinet on 21 January 2016 noted that there is a strong likelihood that the Council will, during the course of this financial strategy period (up to 2020/21) be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered. The assessment of statutory services followed a detailed base budget review undertaken earlier in the year.

The budget approved at Full Council was based upon £129m of savings being delivered in 2016/17 and 2017/18 and the use of c£117m of reserves to support the revenue budgets in these years. Despite this, there remains a funding gap of c£200m by 2020/21 reflecting reducing resources and increasing demand for services, particularly social care as a result of demographic changes including an increasingly ageing population and also the increased cost of commissioning and delivering those services, a financial pressure further impacted by the introduction of the National Living Wage from 1 April 2016 at 7.20 per hour and which will rise to at least £9 per hour in 2020. The additional financial pressures on Adult Social Care budgets are only partially mitigated by the ability to raise the 2% Adult Social Care Precept.

Budget reports to Cabinet during the year identified several strands to seeking to address the future financial challenge facing the County Council. This includes a continuous review of efficiency, with a Zero Based Budget Review being undertaken in 2016/17 of every service within the Council's current operating model to identify the potential for removing any non-essential expenditure. These reviews have reference to benchmark unit costs with the intention of moving towards the lowest quartile of the most appropriate comparator group.

The outcome of these reviews is unlikely to deliver a sustainable financial position in the medium term and therefore the November budget report identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed to assist the

Council in scoping and undertaking the review of its operating model. It is anticipated that this review will be undertaken during 2016/17 with the key aspect being to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21. This review is likely to involve looking at opportunities across all public services in Lancashire as the County Council is not alone in this financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a budget shortfall of over £800m by 2020/21.

Price Waterhouse Cooper have been appointed to provide this support to the Council and their review is ongoing. PwC's ongoing review of the Council's operating model involves looking at opportunities across all public services in Lancashire, engaging other public sector partners where appropriate, in the context that the Council is not alone in its financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a significant budget shortfall by 2020/21.

The remit of the Political Governance Working Group has been extended to include this review and to make recommendations to Full Council.

Whilst the scale of the financial challenge is a hugely significant one, the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast earlier in the year. The Director of Financial Resources provides regular reports on budget and performance to Management Team and Cabinet and fundamental to this will be the delivery of approved savings plans which are subject to ongoing detailed scrutiny and monitoring.

7. Organisational Transformation

With effect from 1 April 2015 the transformation of the Council's senior management structure at grade 11 and above (Phase 1) is complete. Phase 2 of the transformation (all other grades of staff) was put on hold shortly after the completion of Phase 1 due to the increasing certainty of an even more severe financial position for the Council than had been previously forecast.

A revised transformation approach was established which incorporates a fundamental review of all Council services to determine which services will be provided in the future. Posts at all grades (including posts established as part of Phase 1) are being reviewed, and revised structures, on a service by service basis, are being developed, consulted on and implemented. This process commenced in 2015/16 and will continue in 2016/17, with a view to establishing a new operating model for the Council by April 2018.

The review of services referenced above commenced in the summer of 2015 with a base budget review of all County Council services. The review established which services the Council has to provide as a statutory minimum. A "legal challenge" test was applied to all services. The outcome of the review demonstrated at that point that by the end of the financial year 2017/18 the Council would not have sufficient funding to provide a minimum level of statutory service provision.

The next stage of the transformation approach is a zero based budget review exercise, which commenced in January 2016. This review will determine, for the services that the Council is still providing, the lowest achievable cost model, for a minimum level of service provision. The exercise will incorporate a benchmarking exercise and consideration of alternative service delivery models. The exercise will also determine minimum staffing level requirements and inform staffing structures, on a service by service basis. This will incorporate new management arrangements for each service. This approach will ultimately result in the Council being significantly smaller and providing services in a very different way. As noted in the preceding section, the Council has recognised that it needs the support of external consultants to assist and advise on the reconfiguration of its major services and the establishment of its new operating model and has engaged PwC to assist with this work.

Newton Europe were also procured during 2015/16 to support the reconfiguration of adults' services and to undertake a diagnostic for children's services. This work will play a vital part in supporting the delivery of budget savings agreed by Full Council in relation to adult social care.

8. Establishment of Local Pensions Partnership Limited (LPPL)

At its meeting held on 24 March 2016, the Full Council approved recommendations (subject to a number of conditions precedent) from the Pension Fund Committee in relation to the creation of a partnership between the Lancashire Pension Fund (LPF) and the London Pension Fund Authority.

PricewaterhouseCoopers had advised on the viability of the financial model to be used by LPPL and confirmed the benefits likely to accrue to LPF in agreeing to enter into the joint venture. Uncertainties however remain in relation to the Government's wish to establish "Wealth Funds" which will require the pooling of existing pension funds with a value of not less than £25 billion.

At the time of writing the LPPL fund falls well short of this and the Government have indicated that they are not prepared in this case to make an exception for a smaller fund, therefore the final position for LPPL is unclear.

However, currently LPPL and the Council are in the process of reviewing the basis of the current joint venture arrangements in the context of the potential for another pension fund becoming a shareholder.

Negotiations between the Council and LPPL continue in relation to LPPL taking over the Council's Treasury Management activity and it is hoped that this will be implemented from 30 September 2016.

9. Ofsted Inspection of Children's Services

Ofsted carried out an unannounced inspection of Children's Services which commenced on 14 September 2015 which lasted for four weeks.

The inspection focused on the experiences and progress of children in need of help and protection, children looked after and care leavers. It also included looking at the effectiveness of the Council's services and arrangements to help these children, including adoption and fostering. Ofsted also carried out a review of the effectiveness of the Lancashire Safeguarding Children Board (LCSB) at the same time.

Ofsted published its report on Friday 27 November 2015 rating the overall effectiveness of the Children's Services as "inadequate". The judgement for the LSCB was "good".

A number of actions have been put in place and developed since the outcome of the Ofsted inspection so that we can quickly improve services for children and young people and ensure that they are safe and protected. These include:

Director of Children's Services - Agreement has been reached between Lancashire County Council and Blackburn with Darwen Borough Council for BwD's Director of Children's Services to fulfil that role for both authorities, the arrangement being for an initial 6 month period which has now been extended. This arrangement began in February 2016 and ensures additional leadership capacity and extensive expertise around children's social care and the improvement agenda.

***Child in Need Reviews* -** A concern raised by Ofsted was whether there was sufficient social work oversight over Child in Need cases and therefore a clear understanding of the levels of risk to children. In response, 2345 Child in Need cases have been being reviewed and, where necessary, appropriate levels of intervention are being put in place to ensure children are safe. Work is also underway to ensure that in future, there is an effective social care model that provides sufficient oversight to manage risk in child in need cases. Plans to revise the approach and structure of the Early Help and Wellbeing Service, with the implementation of a Neighbourhood Centre model agreed by cabinet, will also strengthen and support this new model for Children in Need.

***Improvement Seminar* -** Ofsted facilitated an improvement seminar on the 13 January which was attended by senior colleagues from the County Council, representatives from partner organisations and also social care managers and frontline social workers.

The purpose of the seminar was to provide a comprehensive understanding of the inspection judgements and this is being used to help shape and inform the improvement plan. Whilst the focus of the seminar was the areas of improvement that need to be made a key message from the inspectors was that' it is not all broken'. The new Children Services Scrutiny Committee (see below) will have a role in ensuring that these other areas of children's services do not "drift" or deteriorate particularly given that inspections of Youth Offending and Special Educational Needs and Disabilities services are expected in the near future.

***Lancashire Children's Services Improvement Board* -** The Improvement Board has been established, which is usual practice following an 'inadequate' inspection judgement. The Board will be responsible for closely monitoring the development and delivery of an improvement plan which will be critical to achieving a much improved outcome when Ofsted carries out a further inspection in due course.

The independent chair of the Improvement Board has been appointed, being a specialist children's services improvement advisor for the Department for Education (DfE). He was previously the Director of Children's Services at Cheshire East Council and has more recently been working with Leicester City Council through their improvement journey as chair of their Improvement Board. As Chair he is responsible for reporting improvement progress to the Secretary of State.

***Improvement Notice* –** The Independent Chair has undertaken a diagnostic aimed at establishing a detailed understanding of the capacity and capability of the Council's ability to improve children's services. The diagnostic was informed through interviews with managers and partners, focus groups with staff and analysis of performance information and existing policy, plans and strategy.

The diagnostic was reported in March directly to the Minister of State for Children and Families to inform the approach taken by the DfE and has resulted in the lowest level of intervention in the form of an improvement notice to the Council specifying the areas of concern, the level of improvement required and how progress will be assessed and reported.

***Improvement Plan* -** An Improvement Plan has been developed, agreed by the Improvement Board and was submitted to the DfE on 4 March 2015. This Plan outlines in detail the activity and action that will be developed to make the improvements to children's services that are needed at the scale and pace that is required. The Improvement Plan responds to all the concerns that have been raised by Ofsted in their inspection report. The Improvement Board is responsible for the development of this Plan and for overseeing its implementation and impact.

***Ofsted Improvement Offer* -** Ofsted have agreed that their follow up work will entail a quarterly, two day monitoring inspection for two inspectors commencing in September 2016, the outcomes of which will be fed back to the Council.

***Children's Services Pathway Review* -** A team from Newton have completed work in developing an understanding of the effectiveness of the process, systems, structure and approach within children's services. The initial findings of the review indicate that there are opportunities to improve the effectiveness of social care practice and increase the amount of time that Social Workers spend in direct contact with families.

***Children's Services Scrutiny Committee* –** A new Children's Services Scrutiny Committee has been established which will operate in addition to existing committees and its remit will cover all issues relating to children and young people's services. Education matters will still be reserved for the Education Scrutiny Committee. Representatives, including five lay members, one from each of the local Children's Partnership Boards, have now been agreed and the Committee has had a briefing session so that members can better understand the key issues across children's services. The Committee has now agreed its work plan for the first six months, focussing on youth offending and Special Educational Needs and Disability (SEND) in view of forthcoming inspections and it has also looked at the fostering and adoption services.

***Increasing Capacity* –** Additional management capacity has been redirected from existing resources into the districts to allow increased oversight of social work practice. There are two additional senior managers in North, East and Central Lancashire working with social care district managers.

Recruitment to posts in social services have ensured that structures are now at establishment levels and plans are being developed to further increase capacity both at practitioners and management levels. A recruitment and retention strategy has also been agreed by Management Team and a range of innovative measures have been introduced to attract high calibre candidates.

External support has also been engaged for help in reviewing the child and family assessments of 720 child in need cases, an area of work specifically identified by Ofsted. Going forward a framework arrangement has been put in place to provide further external support.

There is weekly reporting and monitoring of children's social care vacancies and recruitment. A refresh of the recruitment and retention strategy is also being developed to enable a renewed and sustainable approach to ensuring appropriate staffing of children's social care both in terms of numbers but also in terms of experience and skills. This is in the context of a national shortage of trained social work staff which is reflected at a regional level.

***Communication and engagement* –** Staff awareness and engagement in developing and delivering improvement activity will be key in ensuring progress is effective and sustainable. Regular communication and briefings are already in place and communications strategy and action plan have been developed to support the improvement process and activity.

***Care Leavers* –** There is a need to improve the support to care leavers so that they are able to make the right choices and can access that support that they are entitled to. Guidance has been issued to all workers to raise awareness and understanding of the Leaving Care Regulations. Care Leavers have also received an information pack which details and explains their full entitlements. In addition, proposals are being developed to that will provide additional capacity so that care leavers can access the support they need. A mentoring Service for care leavers has also been launched. In their October monitoring visit Ofsted commended the work that had been undertaken and the improved service.

***Performance Management* -** Weekly reporting arrangements have been established and continue to focus on children's services staffing vacancies, the audits of all Child in Need, the timelessness and multi-agency engagement in section 47 strategy discussions and social worker caseload levels. Work is also underway to streamline the performance reporting approach and ensure that key measures have clear and robust targets set against them. This will include the development of a performance dashboard that will be used by the Improvement Board to monitor and challenge the progress being made in delivering help and protection to children and young people.

External expertise is also currently being agreed through the region and Ofsted to support the development of improvement performance reporting.

***LiquidLogic Children's System (LCS)* -** A key area of concern raised by Ofsted was the ability to access timely and accurate information and data from LCS. Newton have been commissioned to lead a project to enhance the accuracy of the information held on LCS and provide confidence in this as the key system for providing performance information. This work is being progressed with accountability to a newly established 0-25 Board chaired by the Chief Executive with support and challenge from the Chair of the Improvement Board.

The improvement work will also be supported and informed by a completed health check where colleagues from LiquidLogic worked with practitioners and have produced a report that outlines amendments to the system that will streamline processes. Support is also being drawn from neighbouring authorities, learning from how they have implemented and use the LiquidLogic system.

A separate report has been provided to the Committee concerning improvements to the Liquidlogic system.

Development post-June 2016

Following the inadequate judgement provided by Ofsted there has been a strong commitment to ensure that all children in Lancashire are safe and protected. Significant resources have been invested and large scale change activity is being implemented, all of which is captured within the Lancashire Children's Services Improvement Plan.

This Plan was agreed by the Improvement Board and approved by the Department for Education in March 2016 and good progress is being made to deliver the Plan. In addition, a 12 week plan has been agreed by the Improvement Board with the intention that this provides an additional focus on some short term priorities and the pace at which these can be addressed.

The 12 week plan will have been implemented by 31 August 2016 and below is a summary of the key areas covered:

Workforce

- Creation of more specialised team structures
- Reducing caseloads
- Recruitment of additional capacity
- Improved IT equipment

Managing Change

- Accurate and complete performance information
- Implementation of new audit model
- Implementation of a single operating model

Managing Demand

- Implement new risk sensible assessment model
- Establish effective interface between children social care and early help
- Multi Agency Safeguarding Hub redesign
- Refresh the Continuum of Need

September and October will provide some key points of external scrutiny to assess whether these plans are improving services and making the intended difference to children and families. Ofsted conducted a two day monitoring inspection in September and their feedback was that the Council is making expected progress which concurs with the judgement of the Improvement Board Chair. The next Ofsted monitoring visit will be in October which will be proceeded by a peer review undertaken by colleagues from other authorities in the region.

To see the Improvement Plan, the 12 week plan or a summary of discussion and decisions from each Improvement Board click on Children's Services Improvement.

The Council's Employment Committee have also recently agreed to advertise for a Director of Children's Services on the basis of revised responsibilities to ensure strong connectivity between children's social care, special educational needs and disability, adoption, fostering, residential care and youth offending, all of which will form part of the new DCS role which is currently out to advertisement.

10. Waste Management - GRLOL

In July 2014 the Cabinet authorised the termination of its waste PFI Contract. Under the termination arrangements the existing waste operating company, Global Renewables Lancashire Operations Limited (GRLOL), transferred to the ownership of the County Council in order to facilitate the necessary and continued provision of waste services.

The Company transfer took place on 31 July 2014 and since this date a new Board of Directors, consisting of elected Members, was appointed and revised Articles of Association for the Company adopted.

The County Council's budget decisions relating to GRLOL taken in November 2015 and subsequent requirements relating to residual waste processing significantly change the service which the Council requires the Company to provide.

On 11 April 2016 the GRLOL Board considered a report setting out proposals for a new company structure based on the revised service requirements and these proposals were subsequently approved by the Employment Committee on 18 April.

In addition to the new permanent structure, a temporary structure necessary in the short term to protect and preserve the Company's physical assets has also been agreed to support the Company's transition.

The new structure agreed reduces the Company's staffing from 352 posts at a cost of £11,651,500 at the outset of 2015/16 to 62 posts with a forecast, full-year labour cost of £2,007,700.

11.Health and Social Care Integration

Since April 2015 the Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). This involves a pooled budget of c£90m, hosted by the County Council, with the purpose of commissioning services more effectively for citizens and patients through better integrated health and social care systems to reduce demand on acute hospital and care home services particularly.

Building on this, every part of the NHS is required to have a locally led Sustainability and Transformation Plan (STP) in place by 2017 which should be implemented by 2020. This needs to be seen in the context of the substantial financial challenges for the health and social care system in Lancashire.

The plan is therefore required to cover better integration with Council services and reflect Health and Wellbeing strategies. The approach is backed by a dedicated Sustainability and Transformation Fund worth £2.1 billion nationally in 2016/17 and rising to £3.4 billion in 2020/21. The level of funding received will be dependent on the quality of the STP with the nature of local authority engagement seen as an indicator of quality.

The development of the STP, together with the ongoing considerations of options for integration and joint working (including potential for more extended pooled budget arrangements), will involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for service users.

Cabinet has now agreed Operating Principles, which have been shared with partners, to enable the Council to participate effectively in the shaping of the STP process. The principles agreed cover the following areas:

- Governance – supporting a single pan-Lancashire Health and Wellbeing Board with the development of local Health and Wellbeing Partnerships covering the five local health economy footprints;
- Citizen-focused Integration – to provide joined-up and seamless services to citizens as the primary focus of health and social care integration;
- Local Health Economies – to support integration on the basis of the five local health economy footprints subject to a commitment to avoid duplication and to plan services on a pan-Lancashire footprint where this is the best fit model;
- Joint Strategic Needs Assessment (JSNA) – to support the development of the JSNA at a pan-Lancashire level, to support activities of the Health and Wellbeing Board, and at a community level to support the commissioning of local services;
- Pooled Budgets – to ensure that the financial resources available for the provision of services are most effectively utilised;
- Single Commissioning arrangements – for those services covered by the pooled budget to drive the most cost-effective outcomes.

A draft Sustainability and Transformation Plan for Lancashire and South Cumbria 2016/21 was submitted to NHS England in June. Discussions have since taken place with NHS England and other representatives from the health and social care system focusing on the plans for delivering on targets to close the financial gaps in 2016/17 and 2017/18, with positive feedback from NHS England.

Significant emphasis was placed on the need to achieve financial sustainability in the current year and to then establish for transformation in years 3-5 of the STP, spreading the work to bridge the gap, avoid cost and take cost out over the whole lifetime of the STP. STP footprints have now been asked to submit further detailed financial analysis on the plans for 2016-18, and show how those gaps will be bridged, by 16 September 2016 with a final STP being submitted by October following consideration by the Council's Health and Wellbeing Board as well as the Boards for Blackpool and Blackburn with Darwen Councils.

12. A Combined Authority for Lancashire

Local Authorities in Lancashire have continued to work together to develop proposals for a Combined Authority (CA). Fourteen authorities in Lancashire, including Lancashire County Council, made a decision at their full council meetings in November/December 2015, based on a full governance review and outline proposals on future governance, to progress with discussions on arrangements for a potential CA.

Significant work has gone into developing the governance structure, and a cross-authority working group was formed in February 2016 to develop a new constitution for the CA. Agreement has already been gained from all participating authorities on Overview and Scrutiny arrangements, and the outline arrangements, including structure and voting rights. This includes provisions for unanimous voting on key elements, such as finance.

At meetings held in March/April 2016 all fourteen councils agreed to become constituent Members of a Lancashire CA and to submit proposals to do so to the Secretary of State, with the CA commencing in shadow form with effect from 11 July 2016. The first meeting of the shadow Combined Authority was held on that date and an interim Chair and Vice-Chair appointed.

Future proposals for a devolution deal with Government will be considered by all Constituent Members of the CA in due course. In addition, the shadow Combined Authority is focussing on the development of a Lancashire Plan which will highlight those things that local government in Lancashire can do better by joining up and without the need for further powers and budgets to be devolved by Government.

13. Implementation of the Council's Property Strategy

A key element in the delivery of continuing Council services is the property portfolio from which services can be directly accessed by citizens or from which the Council's employees can deliver outreach services into the community.

The Council's property portfolio (excluding schools) comprises in the order of 500 operational sites. As part of the approved Property Strategy a total of 222 premises have been identified as part of the review, excluding those which are clearly unsuitable for front facing service delivery.

The proposals have been developed around the Neighbourhood Centre model approved in November 2015 and are designed to ensure that all Lancashire's residents can continue to be provided with high quality services from a reduced number of properties.

The proposals are designed to provide a flexible response to future patterns of service delivery and take account of:

- Data analysis based on a weighting and scoring methodology previously agreed by Cabinet;
- Dialogue with elected members and partners;
- Consideration of how the proposals align with service delivery strategies and the delivery of approved budget options

In May 2016 Cabinet approved the proposals for the purposes of a 12 week public consultation. The outcomes of that consultation were reported to Cabinet on 8 September when revised proposals were agreed also taking account, amongst other things, of a Planning and Needs Assessment for the Library Service and a revised Library Strategy.

Cabinet also agreed to instruct officers to consider the viability of expressions of interest received in relation to the transfer of council premises and to bring back a further report to the October Cabinet meeting. Cabinet also agreed to explore the development of alternative options for the future delivery of library services, including the extended use of volunteers and the development of a model which would allow the Library Service to be run independently of the Council, potentially through a community interest company or industrial or provident society.

14. Other Sources of Assurance

Understanding the nature and scale of the risks facing adult social care in Lancashire is important for the Council and all its public sector partners and citizens. To help frame a systematic and comprehensive understanding of these risks a framework has been developed under the auspices of the Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS) which Directors of Adult Social Care have been encouraged to use.

This risk assessment tool has been completed for Lancashire in November 2015 using the data available at the time. The top five risks (as well as the full completed risk awareness tool) were reported to CCPI at its meeting held on 8 June 2016. The report to CCPI highlighted the top five risks and sought endorsement of the high level plans proposed to mitigate the risks.

The top five risks identified and some of the key mitigations are as follows:

- Finance/Budget Savings – there is a challenging target of £37M to save over the financial years 2016/17 and 2017/18 with potentially further savings to be made in subsequent years.

Mitigations include the commissioning of Newton Europe to support savings plans; to increase income via the Better Care Fund and/or social care precept; lobbying of Government about funding levels in association with partners such as LGA, ADASS and CNN.

- Market Sustainability/Quality – only 68% of registered services are judged as Good or Outstanding. Good quality services are becoming increasingly unaffordable. Recruitment and retention is becoming an issue for providers and compliance with employment legislation increasing staffing costs.

Mitigations include fresh consideration of commissioning options around home care, reablement, learning disability and mental health. Significant fee uplifts have been agreed for residential and nursing home care for older people to reflect sector pressures along with an increase in rates to address the pressures resulting from employment legislation

- Transforming Care – this national programme to end the use of inpatient beds for adults with learning disabilities poses particular challenges for Lancashire given the planned closure of Calderstones.

Funding for individuals who move into the community during 2016/17 will come from the NHS from transitional funding. Both the Department of Health and NHS England are being lobbied to ensure that they understand the particular pressures facing Lancashire.

- Performance/Systems Development – whilst there is a general picture of improvement, concerns remain around the inability to report accurately on the number of people awaiting assessment, and the focus on retrospective analysis does not provide the information to enable staff to work proactively and manage their work.

Improvement plans for Liquid Logic are underway along with a review of metrics. This work will be supported by Newton Europe, including the use of local performance dashboards.

- Waiting Times for Assessments and Reviews – These are significant in some areas including occupational therapy, safeguarding and social care reviews, leading to increased risk to individuals and increased cost to the Council.

Additional capacity is being secured in key areas of social work with clear triaging/prioritisation schemes in customer access. Providers are undertaking safeguarding work in residential and supported living schemes and work with Newton Europe is underway to improve productivity.

In relation to Special Educational Needs and Disability (SEND), Ofsted and the Care Quality Commission will begin to inspect local areas on the implementation of the SEND reforms from May 2016.

The Council therefore needs to have a clear view of areas of strength and for development and therefore a self-evaluation framework has been completed. The risks identified through the self-assessment are as follows:

- Whilst SEND data is largely accurate, the lack of an appropriate secure IT platform is a risk although this can be achieved through the implementation of the Liquid Logic early help module;

- The recruitment and retention of education psychologists and workloads for SENDOs remain a concern although Management Team have now approved the recruitment of additional SENDOs and an approach has been made to the Association of Educational Psychologists to resolve existing difficulties;

- Commissioned arrangements with Health are inconsistent across the six CCGs in relation to designated medical officers and the current arrangements are therefore being reviewed;

- The current position on the transfer of statements of special educational needs to Education Health and Care Plans is continuing and, whilst the volume of statements transferred out of a total of c.6,500 are positive, there may be issues around the quality of plans.

In addition to specific mitigations, alongside the introduction of the self-assessment framework arrangements have been put in place for peer support via a regional arrangement in the North West. Dip-sampling of case files is also in place with a neighbouring local authority.

The Council's Finance Service has recently been through an LGA Peer Review process, the outcomes of which are still to be finalised.

15. The Council's Governance Framework

The Council's Governance Framework comprises many systems and processes. The following identifies key elements of the Governance Framework and the council's arrangements for fulfilling them:

Identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users

Work to develop the corporate strategy has been on-going, with a stakeholder consultation during August and September 2015, culminating in Full Council considering the core of the new Strategy on 17 December 2015.

The draft strategy sets out the proposed future direction for the Council and framework including:

- our vision, values, high level priorities and overall approach
- our evidence base

- thematic strategies, such as our financial strategy
- our risk, quality and performance framework
- service delivery plans
- annual budgets.

The core strategy document provides the starting point for that framework, setting out the core purpose, vision, values, approach and evidence base which we will be used to inform and guide what we do and as a reference point for the further prioritisation of our financial resources.

The updated corporate strategy was approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration

Importantly, the Council's core purpose has now been agreed; to work for the people of Lancashire to enable them to:

- live a healthy life;
- live in decent home in a good environment; and
- have employment that provides an income that allows full participation in society.

Reviewing the council's vision and its implications for the Council's governance arrangements

To measure the effectiveness and delivery of the Council's ambitions, the Council's Cabinet Committee on Performance Improvement (CCPI) regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, by the Chief Executive and directors.

Through the development of the corporate strategy framework and continued development of the approach to service delivery in communities, performance measures are being updated where appropriate, to ensure that the Council manages performance in the context of reduced resources and refreshed priorities.

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.

Translating the vision into objectives for the Council and its partnerships

In December 2015 Full Council agreed the core vision, values, strategic outcomes and priorities within the draft corporate strategy, set out in the following table:

Our core purpose

Is to work for the people of Lancashire to enable them to:

- live a healthy life
- live in a decent home in a good environment
- have employment that provides an income that allows full participation in society.

Our vision

Is that every child born today in Lancashire, and every citizen will grow up and live in a community and an environment that enables them to live healthier for longer, have a job when they leave education and achieve their full potential throughout life.

Our values

To be Fair, Trustworthy, Ambitious and to have Belief in People.

Our approach

Achieving this vision will be the lifelong journey, which we describe in terms of Starting Well, Living Well and Ageing Well.

A child born in Lancashire today has the potential to live for over 100 years. Whilst our strategy looks up to twenty years ahead, every year we will have citizens aged from 0 to over 100. We will work for all of them to do all we can within our resources to achieve our vision.

Our evidence base

We will provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.

Strategic outcome	Strategic outcome	Strategic outcome
To live a healthy life Increase the time that people in Lancashire can expect to live in good health Narrow the gap in people's health and wellbeing between different parts of the county Enable people to make healthy lifestyle choices	*To live in a decent home in a good environment* An adequate supply of affordable quality housing to rent or buy that meets the needs of all our citizens Good quality local neighbourhoods with adequate parks, open spaces, social, cultural and sporting opportunities Communities where families and individuals feel safe A high quality natural environment	*To have employment that provides an income that allows full participation in society* Rebalance Lancashire's economy to reduce its over-reliance on low paid employment. Increase the employability of Lancashire's citizens Focus on communities where there are high concentrations of unemployment and low paid employment

Alongside this, the Council agreed 28 overarching priorities, to provide a focus for service delivery, either by the Council directly or through our influence with communities and our partners.

The strategy, supporting evidence base and changes agreed by Council in December have been published on the Council's website, are being used to inform the development of our approach to service delivery and to ensure that we provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.

Measuring the quality of services for users, ensuring that they are delivered in accordance with the council's objectives and ensuring that they represent the best use of resources and value for money

- 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;
- Consulting on changes we are planning to make, for example in relation to the implementation of the Council's Property Strategy;
- Quality of Service Reports presented to CCPI

Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the council and partnership arrangements

Decision-making and conduct

The Council operates a leader and cabinet model of executive government with a Cabinet of seven members including the Leader and Deputy Leader of the Council. A cross party "political governance working group" continues to meet to oversee governance and constitutional issues, such as developments relating to the Combined Authority proposals.

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 was reviewed, and a new scheme introduced from 1 April 2015. The new scheme empowers heads of service in the new organisational structure to take all decisions within their area of responsibility, except for those reserved to Cabinet or cabinet members or committees.

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 embedded to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

Scrutiny

The Council created an additional scrutiny committee in 2015/16, taking the total number to five:

- The Scrutiny Committee, whose responsibilities include the Council's crime and disorder and flood risk management scrutiny responsibilities.

- 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.
- A Children's Services Scrutiny Committee was created in December 2015 to oversee services for children, in response to the Ofsted inspection outcomes.

Partnership arrangements

The Council recognises the substantial benefits of developing and delivering services in collaboration with other organisations, providing an integrated approach to service provision that is cost effective and maximises impact for people living in Lancashire. The Council plays a key role, either as a statutory lead, or significant partner, in facilitating wider engagement in decisions and developments to align budgets, capacity and expertise and agree shared priorities.

This approach is embedded in a range of formal partnership structures that drive and support ambitious priorities whilst recognising existing and future key challenges, building upon a strong track record in Lancashire that has been recognised by numerous inspectorates, for collaboration and partnership working.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.

The Code of Conduct for Elected 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.

Following that review complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee.

The Council has a Code of Conduct for employees and a system for recording officer gifts, hospitality and interests, which has recently been reviewed and updated. Councillors and staff are reminded of their requirements on a regular basis. The Council also has a protocol for councillor/officer relations.

Reviewing the effectiveness of the Council's decision making framework including delegation arrangements, decision making in partnerships and robustness of data quality.

The Council has embedded a revised scheme of delegation, commenced in April 2015, and has created a new scrutiny committee to respond to issues identified within children's services following an Ofsted inspection. The Council is a member of a cross-authority working group looking at the development of a new constitution for a proposed Combined Authority. The Political Governance Working Group continues to meet as required.

In 2015/16 County Council officer support for Lancashire Health and Wellbeing Board, Lancashire Community Safety Strategy Group, Children's Trust Board and the Lancashire Partnership for Road Safety, was brought together under the Health Equity and Partnerships team. This has enabled the links between partnerships to be further strengthened and strategic priorities to be aligned. The Children's Trust Board continue to lead on the Start Well strand of the Health and Wellbeing Board Strategy.

Changes have been made to the membership of the Health and Wellbeing Board, to strengthen links with area Health and Wellbeing Partnerships. The Board has reviewed its actions with partners to support changes to the health and social care plans. The Lancashire Community Safety Group is reviewing the Lancashire Community Safety Agreement to set out how we will work together with partners to address community safety priorities for Lancashire in 2016/17. The Children's Trust Board is working through the streamlined partnership arrangements put into place in the 2013/14 partnership review, to join up work that brings together initiatives that support better outcomes for young people and families.

The above Partnerships will continue to review their structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.

The Council continues to work with partner agencies to make a real impact for local communities. This includes delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners.

The robustness of data quality

The Council understands that good quality data is important to ensure accurate reporting of performance to the public and is the basis for effective decision making. Maintaining data that is fit for purpose is an integral part of operational, performance management, and governance arrangements.

The Council follows good practice guidance issued by the Information Commissioner's Office and general data quality standards, ensuring that information is accurate, valid, reliable, timely, relevant, complete and secure. Data quality advice is included in the Council's Information Governance annual eLearning course and there are specific bite sized briefings available for all data users regarding data quality. A member of staff within every Council service is nominated as an information governance champion and they sign an annual commitment on behalf of their service to ensure the robustness of data quality within their service.

However, it is clear from the recent Ofsted Report in relation to Children's Services that data quality is often not fit for purpose, or there is a lack of confidence in it which brings into question its use for decision-making.

To address these issues Management Team have put in place "Project Accuracy" with the objective of improving the quality of data in LCS in order to increase the efficiency of the system and enable social workers to spend more time with children and families. Seven priority areas have been identified for Wave 1 of the project:

- Team structures
- Caseloads
- S47s and strategy discussions
- Referrals per week

- C&Fs due and overdue
- Visits due and overdue
- Reviews due and overdue

Project Accuracy was launched on 4 April with briefings in Lancaster, Fleetwood, Burnley and Preston to all children's social care practitioners and managers. The initial phase of ensuring that team hierarchies are all up to date and accurate is well underway.

This project includes a tightly managed programme of work involving the generation of weekly reports, short weekly improvement meetings held by the area teams, and a senior management led weekly steering group. Newton Europe have facilitated the project. By 20th May, 82% of team structures were correct which is a huge improvement on the initial 33%. This provides a key fundamental building block to enable all the priority reports to be assessed for accuracy and swift progress is anticipated in resolving issues relating to the other priority areas. Importantly, robust processes are now in place to sustain the accurate recording of team hierarchies.

The lessons learnt from the improvement of LCS will then also be applied to data quality in relation to adult social care and other services.

A separate report to the Committee provides further detail on proposed improvements to the Liquidlogic system including the estimated timescales for implementation.

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

A Risk and Opportunity Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on a scoring matrix.

A corporate approach to reporting on risk and opportunity has been agreed. Risk and Opportunity reports will be provided to Management Team on a quarterly basis, following which the reports would then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance.

At is meeting on the 25 January 2016, members of the Audit and Governance Committee received training on risk management and a programme of training is being delivered for Risk Champions within service areas.

A Risk Management intranet site has been developed and a handbook for staff and councillors has been produced setting out the adopted approach.

Risks and opportunities will also be incorporated into Quality of Service and Highlight reports.

At its meeting on the 25 January 2016, the Audit and Governance Committee, approved an Internal Audit Plan for 2016/17. The report noted that the processes supporting the Risk and Opportunity Register are still being developed to ensure that the register is robust and sustainable and to ensure that the register is an adequate reflection of the Council's most significant risks being addressed at a given point in time.

In due course this will serve as an active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and therefore not yet under effective control. The Internal Audit Plan itself includes the preparation and use of the Risk and Opportunity Register as a key component of an overall assurance opinion.

The report also noted that the Risk and Opportunity Register is relevant to the draft Audit Plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the Council's most significant risks and the progress being made in their implementation. Where risks have been mitigated, or are believed to have been so, they may not then be recorded in the Risk and Opportunity Register and must then be identified through other means.

Where management understands controls to be in place around significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are adequately designed and operating effectively.

Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

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.

The Council has adopted a response appropriate to the fraud and corruption risk it faces in line with the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption.

The Council's existing counter fraud strategy which has been in place for a number of years has recently been reviewed and an amended strategy and policy were approved by the Employment Committee on 16 May 2016. A Pension Forfeiture Strategy has also been approved which enable the Council to recover money owing as a result of misconduct, or criminal, negligent or fraudulent acts or omissions, from pension benefits.

Ensuring effective management of change and transformation

As part of its Transformation Programme, the Council has strengthened its arrangements for managing change and transformation. This includes creating a new Programme Office to provide project and programme management capacity and capability for the organisation, and a new Business Change & Transformation Team to provide change management support to services in delivering business change. Recognising change activity, and providing resources to deliver that activity separately to business-as-usual activity, has improved the management of change.

The Programme Office is now co-ordinating the delivery of all the change activity required to deliver the Council's current budget savings, and preparing regular reports to the Council's Management Team, who are providing clear leadership and governance of the changes. This ensures that change activity is aligned to the corporate strategy and financial plan. Management Team also continue to act as the Programme Board for the Council's Transformation Programme.
Change activity is now organised as projects and programmes within clusters, or portfolios, of change, and governance arrangements are in place that involve key stakeholders and decision-makers effectively. This has also improved the way that risks and issues are identified and managed, with significant risks linking through to the corporate risk and opportunity register.

These arrangements should be further strengthened through the introduction of a corporate project and programme management ICT system during 2016/17, which will help support the further standardisation of the Council's approach to managing change and improve the quality of reporting on change activity.

Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010)

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). An Interim Director of Financial Resources was in post for much of 2015/16 with a permanent appointment being made in February 2016.

The 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 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.

Ensuring the Council's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

The Council's Internal Audit Service operates in accordance with professional standards. Management Team have identified that the current Internal Audit Service lacks sufficient capacity for an organisation of the Council's size and has therefore agreed a revised staffing structure which increases the Service's capacity which will deliver a sufficient breadth of audit work for 2016/17 for there to be an overall opinion.

Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Council's monitoring officer is the Director of Governance, Finance and Public Services. He has appointed a deputy monitoring officer (the Director of Legal and Democratic Services).

Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Council has appointed the Chief Executive as head of the paid service.

Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities

The Council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement. The Committee's role is to provide independent oversight of the adequacy of the Council's governance and internal control frameworks, and oversee the financial reporting process, and it will also have a key role in relation to new arrangements for the oversight of risk management.

The Audit and Governance Committee in approving an Internal Audit Plan for 2016/17 and beyond agreed to an assessment of the constitution and operation of the Committee against professional practice and current best practice. The assessment will therefore form part of the Head of Internal Audit's overall opinion for 2016/17 which will be reported to Committee in 2017.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

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.

Whistleblowing and for receiving and investigating complaints from the public

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.

Receiving and investigating complaints from the public

The Council has robust arrangements for processing all complaints. These arrangements were revised during 2015/16 bringing together all the complaints functions under the management of one team. The Complaints Team now manages statutory procedures for adults' and children's social care complaints as well as the non-statutory corporate complaints process to facilitate a strategic overview of complaints within Legal and Democratic Services.

Complaints are now reported upon every quarter and the Council produces a public statutory annual report for complaints and customer feedback and learning from complaints, which is reported to CCPI. The team also produces quarterly complaint reports which are shared with Heads of Service who act as Designed Complaints officers for their area of service. This information is reported on and taken to the senior management team in the form of Quality of Service Reports.

During 2015/16, a total of 1542 complaints were made about Council services. There has been a significant increase in the number of corporate complaints which are primarily about highway related issues although the increase reflects, at least in part, to more robust reporting processes including improvements in the Council's website.

The number of statutory complaints in relation to both adult and children's services have also increased. Adults' complaints have related primarily to assessments, financial issues (and charging) and domiciliary/home care provision. Children's complaints have related mainly to assessments, safeguarding/child protection processes and financial issues.

The Annual Report in relation to complaints and customer feedback is currently being prepared and will be reported to CCPI, including improvements that have been made as a result of complaints.

Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. A comprehensive member development programme was undertaken during 2014/15. An Induction working Group has been established in February 2016 to consider the needs of county councillors in the run up to and following the next County Council elections in 2017.

A comprehensive range of learning and development opportunities have been provided during including intranet based tools; numerous training courses; and a series of staff briefing sessions to assist and support staff through the Council's Transformation process.

All senior officers appointed to the new organisation structure are participating in a new Senior Leadership Development Programme designed to create a supportive and respectfully challenging thinking environment that enables leaders in setting a vision, engaging our employees and ensuring the council delivers high quality services for the people of Lancashire. Additional training needs will be identified through a corporate performance and development review process.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Council uses a number of main channels to communicate with the community and other stakeholders including:

- The website www.lancashire.gov.uk, which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter
- A variety of public information leaflets and other literature distributed to public places across the county

Enhancing the accountability for service delivery and effectiveness of other public service providers

Overview and Scrutiny has engaged with the NHS, Police and other public sector partners to hold them to account through formal meetings and through informal engagement arrangements. Work was undertaken in the year through Overview and Scrutiny to look at planning functions and joint working between the Council and its district partners, as well as undertaking significant work with utility providers and those organisations involved in flood risk management. The Council also currently hosts the statutory "Healthwatch" organisation.

The Council has strong relationships with district and parish councils, and works collaboratively with them. The work with other local authorities on Combined Authority proposals has emphasised the importance of accountability and effective governance.

Incorporating good governance arrangements in respect of partnerships and other joint working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the council's overall governance arrangements

The 2013/14 review of partnerships has ensured a model of strategic partnerships that have a far greater synergy across key corporate priorities and improved the clarity of purpose and accountabilities that exists across partnership structures. The formal working protocols that have been agreed between the Children's Trust, Health and Wellbeing Board and Lancashire Safeguarding Children Board demonstrate this commitment and endorsement of better governance and accountabilities between partnerships. A LGA Health and Wellbeing Peer Challenge will take place during 2015 as part of an ongoing Improvement Programme.

County Council scrutiny committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

Internal control

The External Auditor's VFM conclusion for 2014/15 identified the lack of an overall opinion on the system of internal control as one of the areas of concern that resulted in a qualified opinion. Similarly, as it is not intended that there will be an overall opinion for 2015/16, it must be expected that the VFM conclusion for 2015/16 will again be qualified.

However, going forward the External Auditor has noted that there is now an Audit Plan in place for 2016/17 which identifies key areas of audit coverage, and that if this plan is refined and delivered as expected, then it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.

Management Team have given an unequivocal assurance that sufficient audit work will be undertaken during 2016/17 to ensure that this is the case and have approved a new staffing structure for Internal Audit which increases the current capacity of the service. They have also agreed to bring in additional, external resources on a temporary basis to undertake work which forms part of the Audit Plan if this is necessary in the short term, pending appointments being made to the permanent staffing structure.

Key issues for 2016/17

Financial viability

As noted in section 6 above, the MTFS presented to Cabinet in January 2016 noted the strong likelihood that the Council will, during the period up to 2020/21 be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered.

The review of the Council's operating and business model being undertaken in conjunction with PwC and the Political Governance Working Group is therefore key to address the funding gap. Any under-delivery of the savings currently built into the Council's budget will increase this gap still further.

Similar challenges also face other parts of the public sector within Lancashire which give rise to fundamental questions as to the nature, scale and sustainability of public services, in particular Health Service organisations, circumstances which form the backdrop to health and social care integration. What is clear is that in this context the Council cannot plan its future in isolation and must develop a public service model for Lancashire in conjunction with its partners.

It is particularly important that the Council positions itself well to feed into the Government review of its plans to end the rate support grant and allow 100% retention of business rates. To that end part of PwC's brief as approved by Cabinet is to prepare a report for submission to the Secretary of State for Communities and Local Government, the Treasury and the Department of Health on the Council's funding base in relation to its statutory obligations and the resources needed to sustain a minimum level of statutory public services in the County.

Children's Services – delivering the Improvement Plan

The delivery of the Council's Improvement Plan prepared in response to the Ofsted judgement in relation to Children's Services as "inadequate" will also continue to be a focus and a key priority for resources to ensure that the Improvement Plan is delivered and that children are not put at risk of harm.

ICT Strategy and systems development

The Council is at various stages in the implementation of 4 key systems that will be implemented during 2016/17. Once fully implemented these will complete the Council's core systems transformation programme and will ensure that small, standalone systems are reduced significantly and that the Council can further develop its ambitions, i.e. for having integrated systems that allow one source of data to be used by different systems and for fully integrated and efficient end to end processes that reduce cost.

The key systems that will be implemented during 2016/17 are the Property Asset Management System and the Project Management System, both of which have now gone live. The Highways Asset Management System is scheduled to go live later in the year, after which the decommissioning strategy for over 20 legacy systems will be implemented. The Customer Access Service replacement platform is due to be fully implemented in July 2016, replacing the existing platform which, due to its age and other factors, has been a risk to the Council.

Roadmaps for all other systems are currently being developed together with resource, funding and implementation plans which will help ensure that the needs of services are identified, planned and co-ordinated so that they can be implemented in a safe way across the council. As part of this work, a roadmap for systems that supports the wider health integration agenda, as well as that with other partners, is also being developed. It should be noted that this work incorporates Project Accuracy and other workstreams that have been set up in response to recent inspections. Additional capacity to support our systems is also being built in to the corporate structure.

The Council's 'Digital By Default' strategy will be produced and finalised in the Autumn and will focus on key digital ambitions that will streamline process, improve the customer journey, reduce cost and duplication and provide access to services to citizens in a way that meets their needs. This strategy will also focus on how the Council can maximise the benefits and cost reduction following the implementation of its core systems. Some of this work has already commenced and has been tested successfully on a pilot basis with a number of social work teams. A more extensive roll out plan will be implemented during 2016/17.

Sustainability and Transformation Plan

The structural complexity of the pan-Lancashire health and social care economy – CCGs, acute trusts and upper tier local authorities – create inevitable tensions and difficulties in designing and agreeing an integrated system.

The importance of this work, supported by Healthier Lancashire, cannot however be over-stated, with a clear government requirement to agree and submit an STP which, if approved, will initially draw down significant transformation funding, setting the blueprint for integration.

Core Financial Statements

Panopticon - *Halo* Haslingden, Rossendale

2014/15				2015/16		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
7.9	(5.7)	2.2	Central services to the public	8.7	(3.8)	4.9
1,136.1	(955.6)	180.5	Children's and education services	1,226.7	(949.7)	277.0
27.0	(3.7)	23.3	Cultural and related services	24.5	(3.6)	20.9
211.3	(36.4)	174.9	Environmental and regulatory services	102.6	(12.9)	89.7
114.1	(27.5)	86.6	Highways and transport services	97.3	(26.3)	71.0
0.2	0	0.2	Other housing services	0	0	0
444.1	(114.9)	329.2	Adult social care	516.9	(173.0)	343.9
26.5	(18.5)	8.0	Planning services	35.6	(3.5)	32.1
52.9	(56.2)	(3.3)	Public health	62.4	(65.4)	(3.0)
12.9	(22.9)	(10.0)	Corporate and democratic core	5.4	0	5.4
117.2	(37.2)	80.0	Non distributed costs	133.7	(43.5)	90.2
2,150.2	**(1,278.6)**	**871.6**	**Cost of services**	**2,213.8**	**(1,281.7)**	**932.1**
7.1	(13.4)	(6.3)	Other operating income and expenditure (Note 6)	5.8	(18.4)	(12.6)
106.0	(82.4)	23.6	Financing and investment income and expenditure (Note 7)	73.4	(30.1)	43.3
0	(937.5)	(937.5)	Taxation and non-specific grant income (Note 8)	0	(922.9)	(922.9)
2,263.3	**(2,311.9)**	**(48.6)**	**(Surplus)/deficit on provision of services**	**2,293.0**	**(2,253.1)**	**39.9**
		(20.5)	(Surplus)/deficit on revaluation of non-current assets (Note 30)			(63.3)
		301.9	Remeasurement of the net defined benefit pension liability/(asset) (Note 31)			(228.7)
		5.1	Other adjustments			(2.2)
		(20.8)	(Surplus)/deficit on revaluation of available for sale assets (Note 30)			2.2
		265.7	**Other comprehensive income and expenditure**			**(292.0)**
		217.1	**Total comprehensive income and expenditure**			**(252.1)**

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2015/16

	County Fund £m	Earmarked Revenue Reserves £m	Earmarked Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves (Note 30) £m	Total Reserves £m
Balance at 1 April 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**
Movement in 2015/16								
(Surplus)/deficit on the provision of services	39.9	0	0	0	0	**39.9**	0	**39.9**
Other comprehensive income and expenditure	0	0	0	0	(2.2)	**(2.2)**	(289.8)	**(292.0)**
Total comprehensive income and expenditure	**39.9**	**0**	**0**	**0**	**(2.2)**	**37.7**	**(289.8)**	**(252.1)**
Adjustment between accounting basis and funding basis under regulation (Note 15)	(15.9)	0	0	15.3	(24.5)	**(25.1)**	25.1	**0**
Net (increase)/decrease before transfers to earmarked reserves	**24.0**	**0**	**0**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**
Transfers (to)/from earmarked reserves (Note 16)	(24.0)	11.6	12.4	0	0	**0**	0	**0**
(Increase)/decrease in year	**0**	**11.6**	**12.4**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**
Balance at 31 March 2016	**(36.0)**	**(364.5)**	**(0.1)**	**(17.7)**	**(70.8)**	**(489.1)**	**(649.1)**	**(1,138.2)**

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2014/15

	County Fund £m	Earmarked Revenue Reserves £m	Earmarked Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves (Note 30) £m	Total Reserves £m
Balance at 1 April 2014	**(36.0)**	**(296.6)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**
Movement in 2014/15								
(Surplus)/deficit on the provision of services	(48.6)	0	0	0	0	**(48.6)**	0	**(48.6)**
Other comprehensive income and expenditure	0	0	0	0	5.1	**5.1**	260.6	**265.7**
Total comprehensive income and expenditure	**(48.6)**	**0**	**0**	**0**	**5.1**	**(43.5)**	**260.6**	**217.1**
Adjustment between accounting basis and funding basis under regulation (Note 15)	(30.2)	0	0	(1.7)	(1.4)	**(33.3)**	33.3	**0**
Net (increase)/decrease before transfers to earmarked reserves	**(78.8)**	**0**	**0**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**
Transfers (to)/from earmarked reserves (Note 16)	78.8	(79.5)	0.7	0	0	**0**	0	**0**
(Increase)/decrease in year	**0**	**(79.5)**	**0.7**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**
Balance at 31 March 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**

31 March 2015 £m		Note	31 March 2016 £m
2,638.2	Property, plant and equipment	19	2,681.7
28.7	Heritage assets	21	28.7
2.8	Investment properties		4.4
21.7	Intangible assets		24.6
262.2	Long term investments	27	445.0
74.2	Long term debtors	22	68.9
3,027.8	**Long term assets**		**3,253.3**
267.8	Short term investments	27	119.7
3.0	Inventories		2.7
135.8	Short term debtors	23	109.2
12.3	Payments in advance		12.8
130.3	Cash and cash equivalents	24	44.7
5.2	Assets held for sale		11.3
554.4	**Current assets**		**300.4**
(574.2)	Short term borrowing	27	(399.2)
(204.5)	Short term creditors	25	(173.3)
(7.3)	Receipts in advance		(10.6)
(18.0)	Short term provisions	26	(12.2)
(4.6)	Other current liabilities	27	(4.6)
(808.6)	**Current liabilities**		**(599.9)**
(13.8)	Long term provisions	26	(19.0)
(467.6)	Long term borrowing	27	(583.4)
(1,406.1)	Other long term liabilities	27, 31	(1,213.2)
(1,887.5)	**Long term liabilities**		**(1,815.6)**
886.1	**Net assets**		**1,138.2**
(501.7)	Usable reserves	16	(489.1)
(384.4)	Unusable reserves	30	(649.1)
(886.1)	**Total reserves**		**(1,138.2)**

2014/15 £m		Note	2015/16 £m
(48.6)	Net (surplus)/deficit on the provision of services		39.9
(183.5)	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	(222.1)
237.2	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	204.5
5.1	**Net cash flows from operating activities**		**22.3**
(58.9)	Investing activities	33	2.1
14.9	Financing activities	34	61.2
(38.9)	**Net (increase)/decrease in cash or cash equivalents**		**85.6**
(91.4)	Cash and cash equivalents at the beginning of the reporting period		(130.3)
(130.3)	**Cash and cash equivalents at the end of the reporting period**	24	**(44.7)**

Explanatory Notes to the Financial Statements

Panopticon - *Atom* Wycoller Village, Pendle.

1 ACCOUNTING STANDARDS ISSUED, BUT NOT YET ADOPTED

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2016 but not yet adopted by the Code.

- *Highways Network Asset (HNA)*

The CIPFA Code of Practice on Transport Infrastructure Assets takes effect from 1 April 2016. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of property, plant and equipment measured at depreciated replacement cost. This will consist of 7 components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a change in valuation due to the change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than the original cost of works, which would have been built up over a significant time period.

The code does not impose a requirement to restate 2015/16 accounts, but an opening value for the depreciated replacement cost of the HNA will be required for 1 April 2016.

In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)

2 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Funding

There continues to be a high degree of uncertainty 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 the need to close facilities, and reduce levels of service provision.

Private Finance Initiative

The County Council is deemed to control the services provided under the private finance initiative (PFI) agreement for 14 schools 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 £121.4 million as at 31 March 2016 (£239.8 million as at 31 March 2015).

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.

Asset valuations

The 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 and follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of local market conditions and available data to assess whether there have been changes which would require a review of all asset values held at 31 March 2016. After consideration no requirement had arisen in 2015/16.

School assets

In assessing the most appropriate accounting treatment for balances and transactions in relation to schools, the Council has considered the circumstances of each of the categories of school, such as ownership, control and access to economic benefits and service potential. Further details are included in Note 20.

The property, plant and equipment balance includes properties valued at £1,382 million which are not owned by the Council. These are principally voluntary aided (VA), voluntary controlled (VC) and foundation schools which form approximately 50% of schools in Lancashire. Historically it has been the Council's policy to include foundation, community, VA and VC schools assets on the Balance Sheet in line with accounting guidance and the CIPFA code of practice. In Lancashire there are a significant number of school buildings for which trustees have legal ownership rights but the Council benefits from using these properties in terms of delivery of service and the Council also meets the costs of service provision. The Council has considered *Appendix E 'Accounting for schools in local authorities in England and Wales' to the 2015/16 Code update* and has concluded that the changes do not impact on the existing accounting treatment for schools. They are consequently retained on the Balance Sheet of the Council to fairly reflect the value of assets used in providing the service.

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either under ultimate control of, or in partnership with, other organisations. An assessment of all of the Council's interests has been carried out to determine whether a group relationship between the Council and other entities.

The Council's relationships with other entities can be found within the Related Parties note. (Note 35).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. The other companies have been excluded from the group accounts as they are not considered to be material.

The omission of these companies from the Group Accounts will not affect the ability of a user of the accounts to determine the financial position and performance of the County Council, or its exposure to risk.

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

3 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequences if actual results differ from assumptions
Property, plant and equipment – valuation	The Code prescribes the detailed bases for measuring the different classes of property, plant and equipment. Valuations are undertaken by qualified valuers within LCC's Estates section. The valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors professional standards using recognised measurement techniques The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation. The Council commissions a rolling programme of valuations, with a maximum revaluation period for any individual asset of 5 years to meet the Code requirements. As part of the process at least 20% of assets are valued in any year. Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices.	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. Economic condition could lead to an increase or decrease in the value of property, plant and equipment. However, the overall valuation is considered to ensure that the assets are not materially misstated at 31 March 2016.
Fair value estimations	The fair values of investment properties, surplus assets and assets held for sale are principally based on the available market evidence for the sale and purchase of similar assets. Under IFRS 13 fair value hierarchy these have been shown as a level 2 input namely using quoted prices for similar assets or liabilities in active markets at the balance sheet date. If this information is not	Most estimates are based on current market information therefore material changes are not expected. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets.

	available estimates are undertaken in accordance with RICS professional guidelines.	
Property, plant and equipment/intangible assets – depreciation/amortisation	Depreciation/amortisation is the systematic allocation of the cost/fair value of an asset, less its residual value, over its useful life. The calculation of amounts for the year are generated by the Council's asset register software system. For property assets, the valuation, residual value and useful life are all estimates. Valuation has been considered in the note above. Residual values are assessed as part of the valuation process. Useful lives are estimated based on professional guidance and are reviewed on revaluation of the asset. For non-property assets, only the residual value and useful life are estimates because the assets are held at cost.	For property assets, since useful lives are estimated by an expert based on professional guidance, the scope to use judgement and change assumptions is limited. Also, given that property assets have relatively long asset lives, the estimates are less sensitive to changes in assumptions. For non-property assets, the estimated short term nature of the useful lives means the risk of misstatement is unlikely to be material. If there is a potential for a material misstatement advice is sought on the latest value and remaining life of the assets.
Impairment of debtors	In this context, the concept of "impairment" involves the assessment of the likelihood of a debt being recovered. Where it is considered likely that a debt will not be paid then the carrying amount will be adjusted to the probable recoverable amount of zero. The Council carries out a regular assessment of aged debt information from the sundry debtors system.	Although the provision for likely bad debts (£41.8 million) is material in relation to total debtors (£109.2 million), the year on year assessments based on aged debt analysis have not highlighted the need for any significant in year movements and the assumptions appear reasonable in the light of subsequent events. As such, the degree of estimation uncertainty is not considered to be high.
Provisions	There are 10 provisions included within the Council's Balance Sheet, of which one is a	The main cause of estimation uncertainty relates to the timing and outcome of claims made against

	general insurance provision in respect of potential damage or injury claims being made against the Council. A further provision relates to a loan guarantee made by the Council. Since the introduction of the Business Rates Retention Scheme from 1 April 2013, billing authorities are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. The total provision is calculated by the billing authority on behalf of the major preceptor (Lancashire County Council), central government and itself. The amount appearing in the Council's Balance Sheet has been adjusted to include only its share (9%) of the provision.	the Council. In order to mitigate this level of uncertainty: • detailed monitoring of outstanding / potential highways third party claims is carried out throughout the year. • the Council's future estimated liability under the MMI Scheme of arrangement is based on expert information provided by the scheme administrator. • the potential refunds to business ratepayers has been calculated using the Valuation Office (VOA) ratings list of appeals and the analysis of successful appeals to date. The total value of provisions is not considered to be material (£31.2 million at 31 March 2016 and £31.8 million at 31 March 2015), therefore the degree of estimation uncertainty is considered to be low.
Pensions liability	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. (Note 31).	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 £300 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £153 million and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £66 million.

4 EVENTS AFTER THE REPORTING PERIOD

EU referendum

On 23 June 2016, the United Kingdom voted to leave the European Union in a referendum. The long term impact of this decision on the economy and the County Council are at this stage uncertain.

One immediate reaction to the referendum has been a fall in long-term interest rates which will increase the fair value of the Authority's long-term financial liabilities. However, the Authority also holds interest bearing long-term assets and the fair value of these will also have increased. The County Council's Treasury Management Strategy has been developed on the assumption of historically low interest rates and the referendum result has not changed this forecast.

The fall in interest rates has also increased the value of the Authority's defined benefit pension liability, although this has been partly offset by an increase in the value of pension fund assets. Any long term impact will be included in the next valuation.

In addition, nationally there has been an estimated 4% fall in the value of commercial property since the referendum. This will have a downward pressure on some of the Authority's land and buildings. However, the precise impact will depend on the individual property including the date of the last valuation and local market conditions which to date don't seem to have been greatly affected by the referendum result.

Property strategy

In light of the government's continuing programme of austerity, the Council is currently considering proposals for the future configuration of its property portfolio.

The Council's property portfolio (excluding schools) comprises in the order of 500 operational sites. As part of the approved property strategy a total of 222 premises have been identified to form part of the review.

5 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The reportable segments within the Comprehensive Income and Expenditure Statement are those specified by the CIPFA Service Reporting Code of Practice (SeRCOP). However, throughout the year the Council's internal management reporting is based on budgets analysed across the departments shown in the outturn report on page 8. The Departmental Income and Expenditure table overleaf provides further analysis and the following tables show the reconciliation between the Departmental Analysis and the Comprehensive Income and Expenditure Statement, which includes the following differences in accounting treatment:

- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year
- No accrual is made for the cost of holiday entitlements (or flexi-leave or time off in lieu) earned by employees but not taken before year end which employees can carry forward to the next financial year

Departmental Income and Expenditure 2015/16

	Children's Services £m	Adult Services £m	Public Health and Wellbeing £m	Community Services £m	Lancashire Pension Fund £m	Development and Corporate Services £m	Commissioning £m	Chief Executives £m	Total £m
Fees, charges and other service income	(11.5)	(97.2)	(9.4)	(40.4)	(6.2)	(55.6)	(20.1)	(40.9)	**(281.3)**
Government grants and contributions	(7.5)	(38.5)	(69.5)	(5.2)	0	(11.8)	(19.2)	(0.4)	**(152.1)**
Total income	**(19.0)**	**(135.7)**	**(78.9)**	**(45.6)**	**(6.2)**	**(67.4)**	**(39.3)**	**(41.3)**	**(433.4)**
Employee expenses	81.3	69.6	31.5	53.8	3.2	51.5	37.4	38.1	**366.4**
Other service expenses	42.7	374.9	78.1	155.8	1.0	55.2	42.7	42.7	**793.1**
Total expenditure	**124.0**	**444.5**	**109.6**	**209.6**	**4.2**	**106.7**	**80.1**	**80.8**	**1,159.5**
Net expenditure	**105.0**	**308.8**	**30.7**	**164.0**	**(2.0)**	**39.3**	**40.8**	**39.5**	**726.1**

The Council adopted a new internal structure with effect from 1 April 2015, therefore, the prior year information shown overleaf is not directly comparable.

The Schools' revenue budget is reported separately to the Schools Forum and is not included in the table above. The 2015/16 schools outturn position is shown below:

	Total expenditure £m	Total income £m	Net expenditure £m
Schools	909.8	(900.3)	**9.5**

Departmental Income and Expenditure 2014/15

	Adult Social, Health and Wellbeing £m	Children and Young People £m	Environment £m	Other Departments £m	Total £m
Fees, charges and other service income	(89.3)	(62.0)	(61.0)	(161.5)	**(373.8)**
Government grants and contributions	(53.2)	(910.2)	(10.0)	(131.2)	**(1,104.6)**
Total income	**(142.5)**	**(972.2)**	**(71.0)**	**(292.7)**	**(1,478.4)**
Employee expenses	83.9	700.0	45.0	174.3	**1,003.2**
Other service expenses	386.1	439.5	194.8	236.4	**1,256.8**
Total expenditure	**470.0**	**1,139.5**	**239.8**	**410.7**	**2,260.0**
Net expenditure	**327.5**	**167.3**	**168.8**	**118.0**	**781.6**

Reconciliation of Departmental Income and Expenditure to cost of services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Departmental Income and Expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

31 March 2015 £m		31 March 2016 £m
781.6	**Net expenditure in the departmental analysis**	**726.1**
187.1	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	218.5
(97.1)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(12.5)
871.6	**Cost of services in the Comprehensive Income and Expenditure Statement**	**932.1**

Reconciliation to subjective analysis 2015/16

This reconciliation shows how the figures in the analysis of Departmental Income and Expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(253.3)	(118.4)	89.3	**(282.4)**	(20.5)	**(302.9)**
Interest and investment income	(28.0)	28.0	0	**0**	(28.0)	**(28.0)**
Income from council tax precept	0	0	0	**0**	(394.4)	**(394.4)**
Income from business rates precept	0	0	0	**0**	(33.4)	**(33.4)**
Government grants and contributions	(152.1)	(847.2)	0	**(999.3)**	(495.1)	**(1,494.4)**
Total income	**(433.4)**	**(937.6)**	**89.3**	**(1,281.7)**	**(971.4)**	**(2,253.1)**
Employee expenses	366.4	624.6	0	**991.0**	0	**991.0**
Other service expenses	722.8	532.6	(101.8)	**1,153.6**	0	**1,153.6**
Depreciation, amortisation and impairment	50.1	0	0	**50.1**	0	**50.1**
Interest payments	19.1	0	0	**19.1**	35.4	**54.5**
Levies	1.1	(1.1)	0	**0**	1.1	**1.1**
Net pension interest costs	0	0	0	**0**	38.0	**38.0**
Gain or loss on disposal of non-current assets	0	0	0	**0**	4.7	**4.7**
Total expenditure	**1,159.5**	**1,156.1**	**(101.8)**	**2,213.8**	**79.2**	**2,293.0**
(Surplus)/deficit on the provision of services	**726.1**	**218.5**	**(12.5)**	**932.1**	**(892.2)**	**39.9**

Reconciliation to subjective analysis 2014/15

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(291.3)	0	0	**(291.3)**	(13.5)	**(304.8)**
Interest and investment income	(82.4)	0	82.4	**0**	(82.4)	**(82.4)**
Income from council tax precept	0	0	0	**0**	(380.2)	**(380.2)**
Income from business rates precept	0	0	0	**0**	(32.9)	**(32.9)**
Government grants and contributions	(1,104.6)	0	117.3	**(987.3)**	(524.3)	**(1,511.6)**
Total income	**(1,478.3)**	**0**	**199.7**	**(1,278.6)**	**(1,033.3)**	**(2,311.9)**
Employee expenses	1,003.2	(12.9)	0	**990.3**	0	**990.3**
Other service expenses	1,187.3	0	(227.4)	**959.9**	0	**959.9**
Depreciation, amortisation and impairment	0	200.0	0	**200.0**	0	**200.0**
Interest payments	68.4	0	(68.4)	**0**	68.4	**68.4**
Levies	1.0	0	(1.0)	**0**	1.0	**1.0**
Net pension interest costs	0	0	0	**0**	37.6	**37.6**
Gain or loss on disposal of non-current assets	0	0	0	**0**	6.1	**6.1**
Total expenditure	**2,259.9**	**187.1**	**(296.8)**	**2,150.2**	**113.1**	**2,263.3**
(Surplus)/deficit on the provision of services	**781.6**	**187.1**	**(97.1)**	**871.6**	**(920.2)**	**(48.6)**

6 OTHER OPERATING INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
1.0	Levies for flood defences and inshore fisheries and conservation authorities	1.1
(7.0)	Net (gains)/losses on the disposal of non-current assets	(7.2)
(0.3)	Other operating income/expenditure	(6.5)
(6.3)	**Total**	**(12.6)**

7 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
17.9	Interest payable and other similar charges	19.1
26.2	Interest payable on PFI unitary payments	16.3
[1] 24.3	Premium on early repayment of debt [1]	0
37.6	Net interest of the net defined benefit liability	38.0
[2] (82.2)	Interest receivable and similar income [2]	(27.9)
(1.9)	Changes in the fair value of investment properties	(2.2)
21.9	**Total**	**43.3**

[1] Relates to the refinancing of Waste Treatment Facilities

[2] The sale of bonds in 2014/15 has been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

8 TAXATION AND NON-SPECIFIC GRANT INCOME

The Council credited the following to the Comprehensive Income and Expenditure Statement.

2014/15 £m		2015/16 £m
(372.2)	Non-ringfenced Government grants	(317.9)
(152.2)	Capital grants and contributions	(177.2)
(524.4)	**Total non-specific grant income**	**(495.1)**
(380.2)	Council tax income	(394.4)
(32.9)	Non-domestic rates income	(33.4)
(937.5)	**Total**	**(922.9)**

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

Non-ringfenced Government grants

2014/15 £m		2015/16 £m
(212.6)	Revenue support grant	(158.9)
(136.3)	Top-up grant (business rates retention scheme)	(138.9)
(20.1)	Education services grant	(16.2)
(3.2)	Other	(3.9)
(372.2)	**Total**	**(317.9)**

Capital grants and contributions

2014/15 £m		2015/16 £m
(91.9)	Department for transport	(82.7)
(26.0)	Department of education	(22.4)
(0.8)	Other government grants	(4.3)
(6.6)	Department for communities and local government	(39.4)
(4.0)	Department of health	(9.0)
(7.0)	European union grants	(0.3)
(15.9)	Other grants	(19.1)
(152.2)	**Total**	**(177.2)**

9 GRANT INCOME AND CONTRIBUTIONS CREDITED TO COST OF SERVICES

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

2014/15 £m		2015/16 £m
(762.9)	Dedicated schools grant	(762.8)
(46.4)	Pupil premium grant	(46.2)
(68.0)	Other Government grants	(74.7)
(21.8)	PFI grant	(21.9)
(59.8)	Public health grant	(64.6)
(1.2)	Other grants	(3.8)
(27.2)	Other contributions	(25.3)
(987.3)	**Total**	**(999.3)**

10 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011.

The Schools Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2015/16 before academy recoupment			(849.3)
Academy figure recouped for 2015/16			86.5
Total DSG after academy recoupment for 2015/16			**(762.8)**
Brought forward from 2014/15			(27.9)
Agreed initial budgeted distribution for 2015/16	**(46.2)**	**(744.5)**	**(790.7)**
In-year adjustments	**0**	**6.4**	6.4
Final budget distribution for 2015/16	**(46.2)**	**(738.1)**	**(784.3)**
Actual central expenditure relating to DSG	26.1	0	26.1
Actual ISB deployed to schools	0	738.1	738.1
Carry forward to 2016/17	**(20.1)**	**0**	**(20.1)**

11 OFFICERS' REMUNERATION

The Council is required to disclose remuneration for all employees earning over £50,000 with additional disclosures for senior officers. The number of other employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out in the following tables.

2015/16

Postholder	Note	Salary, Fees and Allowances £	Benefits in Kind (Lease car payments / excess mileage) £	Total Remuneration excluding Pension Contributions £	Pension Contribution £	Total Remuneration including Pension Contribution £
Chief Executive - J Turton		170,000	5,300	175,300	21,420	196,720
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)		124,044	7,927	131,971	15,630	147,601
Corporate Director Operations and Delivery		126,624	4,163	130,787	15,955	146,742
Director Public Health and Wellbeing		110,000	5,300	115,300	15,730	131,030
Director of Development & Corporate Services		105,000	8,605	113,605	13,230	126,835
Director Governance, Finance and Public Services		107,500	5,059	112,559	13,545	126,104
Director of Children's Services		105,032	6,956	111,988	13,230	125,218
Director of Adult Services		105,046	3,435	108,481	13,256	121,737
Director Lancashire Pension Fund	1	85,717	0	85,717	10,800	96,517
Head of Service - Communications		70,007	0	70,007	8,821	78,828
Director of Financial Resources	2	20,507	1,249	21,756	2,584	24,340

[1] The Director Lancashire Pension Fund held the position for the full 12 month period. This position was disestablished on 31 March 2016.
[2] The Director of Financial Resources acted as interim director to cover sickness absence for the period of October and November 2015 and was appointed to the post permanently on the 29 February 2016. This position was previously held by an external consultant who was appointed from March 2015 to March 2016. Payments totalling £140,270.30 excluding VAT were made to the company DDL Consultancy Limited in 2015/16.

2014/15

Postholder	Note	Salary, Fees and Allowances £	Benefits in Kind (Lease car payments / excess mileage) £	Compensation for Loss of Office £	Total Remuneration excluding Pension Contributions £	Pension Contribution £	Total Remuneration including Pension Contribution £
Chief Executive - J Turton		170,000	5,848	0	175,848	21,420	197,268
Interim Executive Director for Children & Young People		125,378	3,881	0	129,259	15,798	145,057
County Treasurer	1	115,000	5,563	81,162	201,725	14,490	216,215
Executive Director for Adult Services, Health & Wellbeing		121,467	7,121	0	128,588	15,305	143,893
Interim Executive Director for Environment		121,369	6,708	0	128,077	15,260	143,337
Assistant Chief Executive		93,646	8,023	0	101,669	11,799	113,468
Director of Economic Development		93,646	6,980	0	100,626	11,799	112,425
Director for Public Health		107,083	7,508	0	114,591	14,991	129,582
Head of Communications		72,078	0	0	72,078	9,082	81,160
County Secretary & Solicitor	2	70,000	2,196	0	72,196	8,820	81,016
County Secretary & Solicitor	3	47,275	1,427	107,042	155,744	5,427	161,171

[1] The County Treasurer's employment with the Council ceased on 27 March 2015.
[2] The Deputy County Secretary & Solicitor took up the post of County Secretary & Solicitor on 1 August 2014. The total remuneration shown relates only to the post of County Secretary & Solicitor.
[3] The County Secretary & Solicitor ceased employment with the Council on 31 July 2014.
The interim Director of Financial Resources was appointed in March 2015 on a consultancy basis. Payments totalling £14,286.88 excluding VAT were made to the company DDL Consultancy Limited in 2014/15.

Number of Employees 2015/16

Remuneration Banding [1]	LCC Non Teaching Staff [2]	Seconded Staff	Schools [3]	LCC Network Staff	Total	Redundancies
50,000 to 54,999	62	6	305	0	373	16
55,000 to 59,999	39	5	237	0	281	18
60,000 to 64,999	59	3	140	0	202	17
65,000 to 69,999	42	3	49	0	94	15
70,000 to 74,999	13	0	26	0	39	11
75,000 to 79,999	14	0	21	0	35	13
80,000 to 84,999	7	0	10	0	17	5
85,000 to 89,999	6	0	10	1	17	5
90,000 to 94,999	6	0	7	0	13	2
95,000 to 99,999	9	1	6	0	16	10
100,000 to 104,999	12	0	4	0	16	9
105,000 to 109,999	2	0	1	0	3	2
110,000 to 114,999	4	0	0	0	4	2
115,000 to 119,999	1	0	0	0	1	0
120,000 to 124,999	3	0	0	0	3	2
125,000 to 129,999	1	0	0	0	1	1
160,000 to 164,999	1	0	0	0	1	1
Total	**281**	**18**	**816**	**1**	**1,116**	**129**

[1] Remuneration bands have been removed in cases where the entry for every column was zero.
[2] This table only includes amounts paid to staff in non senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.
[3] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

Number of Employees 2014/15

Remuneration Banding [1]	LCC Non Teaching Staff [2]	Seconded Staff	Schools [3]	LCC Network Staff	Total	Redundancies
50,000 to 54,999	79	8	294	0	381	13
55,000 to 59,999	50	7	238	0	295	12
60,000 to 64,999	51	4	122	0	177	16
65,000 to 69,999	30	1	49	0	80	7
70,000 to 74,999	13	1	25	0	39	12
75,000 to 79,999	11	0	18	1	30	11
80,000 to 84,999	11	0	11	0	22	10
85,000 to 89,999	6	0	11	0	17	5
90,000 to 94,999	3	0	7	0	10	1
95,000 to 99,999	9	1	8	0	18	3
100,000 to 104,999	4	0	2	0	6	3
105,000 to 109,999	2	0	1	0	3	2
115,000 to 119,999	3	0	0	0	3	1
120,000 to 124,999	1	0	0	0	1	1
125,000 to 129,999	4	0	0	0	4	4
130,000 to 134,999	1	0	0	0	1	1
145,000 to 149,999	0	1	0	0	1	0
150,000 to 154,999	0	0	0	1	1	1
180,000 to 184,999	1	0	0	0	1	1
Total	**279**	**23**	**786**	**2**	**1,090**	**104**

[1] Remuneration bands have been removed in cases where the entry for every column was zero.
[2] This table only includes amounts paid to staff in non senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.
[3] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

Exit packages

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 not 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).

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**
0-20,000	20	42	576	406	596	448	5,223	3,545
20,001-40,000	2	3	190	91	192	94	5,287	2,578
40,001-60,000	0	1	55	22	55	23	2,611	1,129
60,001-80,000	0	0	48	6	48	6	3,266	407
80,001-100,000	0	0	41	4	41	4	3,654	355
100,001-150,000	0	0	55	5	55	5	6,684	567
150,001-200,000	0	0	15	1	15	1	2,496	191
200,001-250,000	0	0	4	0	4	0	845	0
250,001-300,000	0	0	1	0	1	0	258	0
400,001-450,000	0	0	1	0	1	0	406	0
Total	**22**	**46**	**986**	**535**	**1,008**	**581**	**30,730**	**8,772**

12 MEMBERS' ALLOWANCES

2014/15 £m		2015/16 £m
1.2	Allowances payable to Members	1.2
0.1	Expenses payable to Members	0.1
1.3	**Total**	**1.3**

13 FEES PAYABLE TO AUDITORS

The Council incurred the following fees relating to external audit.

2014/15 £000		2015/16 £000
151	Fees incurred with regard to external audit services provided by Grant Thornton	113
3	Fees incurred for the certification of grant claims and returns by Grant Thornton	0
4	Fees incurred for other audit work undertaken by Grant Thornton	8
0	Fees payable in respect of other services provided by Grant Thornton during the year	4
158	**Total**	**125**

14 POOLED BUDGETS

The Council is the host partner of the pooled funds in respect of learning disability services and the Better Care Fund. The arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

Pooled budget for learning disabilities

The Council has a pooled budget arrangement with the Lancashire Clinical Commissioning Groups for the provision of support for people with learning disabilities.

Any surplus or deficit generated is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

2014/15 £m		2015/16 £m
	Funding provided to the pooled budget	
(105.3)	Lancashire County Council	(113.8)
(1.4)	NHS North Lancashire CCG	(1.4)
(1.4)	NHS Fylde and Wyre CCG	(1.4)
(0.2)	NHS Blackpool CCG	(0.2)
(0.1)	NHS Greater Preston CCG	(0.1)
(2.1)	NHS Chorley and South Ribble CCG	(2.1)
(1.1)	NHS Greater Preston – central pool	(1.1)
(1.1)	NHS West Lancashire CCG	(1.1)
(1.9)	NHS East Lancashire CCG	(1.9)
(8.9)	Other	(0.4)
(123.5)	**Total**	**(123.5)**
	Expenditure met from the pooled budget	

125.4	Lancashire County Council	124.4
1.5	NHS North Lancashire CCG	1.5
1.5	NHS Fylde and Wyre CCG	1.5
0.2	NHS Blackpool CCG	0.2
0.1	NHS Greater Preston CCG	0.1
2.3	NHS Chorley and South Ribble CCG	2.4
1.2	NHS Greater Preston – central pool	1.3
1.2	NHS West Lancashire CCG	1.2
2.1	NHS East Lancashire CCG	2.0
135.5	**Total**	**134.6**
12.0	**Net (surplus)/deficit arising on the pooled budget during the year**	**11.1**
11.1	**Council share of the net (surplus)/deficit**	**10.2**

Better Care Fund

Highlighted as a key element of public service reform, the Better Care Fund (BCF) has a primary aim to *'drive closer integration and improve outcomes for patients and service users and carers'*. The fund is a partnership arrangement whereby Clinical Commissioning Groups and the Council contribute an agreed level of resource into a single pooled budget that is then used to commission or deliver health and social care services.

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

	2015/16 £m
Funding provided to the pooled budget	
Lancashire County Council	(9.4)
NHS East Lancashire CCG	(26.4)
NHS Greater Preston CCG	(13.2)
NHS Chorley and South Ribble CCG	(11.3)
NHS Fylde and Wyre CCG	(11.0)
NHS Lancashire North CCG	(10.5)
NHS West Lancashire CCG	(7.4)
Total	**(89.2)**
Expenditure met from the pooled budget	
Lancashire County Council (Revenue)	25.3
Lancashire County Council (Capital)	3.1
NHS East Lancashire CCG	18.2

NHS Greater Preston CCG	8.9
NHS Chorley and South Ribble CCG	7.9
NHS Fylde and Wyre CCG	7.3
NHS Lancashire North CCG	7.1
NHS West Lancashire CCG	5.0
Disabled Facilities Grant	6.4
Total	**89.2**
Net surplus/(deficit) arising on the pooled budget during the year	**0**

15 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2015/16

	Usable Reserves				Unusable Reserves
	County Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total £m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the Pensions Reserve)	(40.4)	0	0	(40.4)	40.4
Financial instruments (transferred to the Financial Instruments Adjustments Account)	3.2	0	0	3.2	(3.2)
Council tax and NDR (transfers to or from the Collection Fund)	(2.9)	0	0	(2.9)	2.9
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the Capital Adjustment Account):	(53.8)	0	18.2	(35.6)	35.6
Total adjustments to revenue resources	**(93.9)**	**0**	**18.2**	**(75.7)**	**75.7**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	11.2	(11.2)	0	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	24.1	0	0	24.1	(24.1)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	26.5	0	26.5	(26.5)
Total adjustments between revenue and capital resources	**35.3**	**15.3**	**0**	**50.6**	**(50.6)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	42.7	0	(42.7)	0	0
Total adjustments to capital resources	**42.7**	**0**	**(42.7)**	**0**	**0**
Total adjustments	**(15.9)**	**15.3**	**(24.5)**	**(25.1)**	**25.1**

2014/15

	Usable Reserves				Unusable Reserves
	County Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total £m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the Pensions Reserve)	(31.2)	0	0	(31.2)	31.2
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(21.1)	0	0	(21.1)	21.1
Council tax and NDR (transfers to or from the Collection Fund)	3.7	0	0	3.7	(3.7)
Holiday pay (transferred to the Accumulated Absences Reserve)	6.4	0	0	6.4	(6.4)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the Capital Adjustment Account):	(64.3)	0	25.3	(39.0)	39.0
Total adjustments to revenue resources	**(106.5)**	**0**	**25.3**	**(81.2)**	**81.2**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	13.1	(1.7)	0	11.4	(11.4)
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	36.5	0	0	36.5	(36.5)
Total adjustments between revenue and capital resources	**49.6**	**(1.7)**	**0**	**47.9**	**(47.9)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	26.7	0	(26.7)	0	0
Total adjustments to capital resources	**26.7**	**0**	**(26.7)**	**0**	**0**
Total adjustments	**(30.2)**	**(1.7)**	**(1.4)**	**(33.3)**	**33.3**

Further information is provided in Note 30 which details the movements on unusable reserves.

16 TRANSFERS TO/FROM EARMARKED RESERVES

The Council sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover contingencies (unallocated balances). 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 in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund balance in the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

This note sets out the amounts set aside from the County Fund in earmarked reserves to provide financing for future spending plans and the amounts posted back from earmarked reserves to meet county fund expenditure in 2015/16.

The Council's reserves are detailed below:

Reserves held to meet spending pressures

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.

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 2016/17 and develops its strategy to reduce costs over the following 2 years.

Transitional Reserve: All reserves have been extensively reviewed to ascertain whether the need for them remains and whether their scale continues to be appropriate. This led to many reserves being closed or significantly reduced and their balances transferred to the new Transitional Reserve as part of the 2016/17 budget setting process in February 2016.

Risk Management Reserve: This reserve was set up to record extra ordinary income such as the underspend on capital financing due to the sale of bonds, and one off resources available such as council tax surplus. This reserve is intended to help the Council manage risks to funding and service delivery going forward.

Reserves held to pay for expenditure commitments

Funding of capital projects: This reserve is comprised of revenue monies earmarked to support committed capital projects in the Council's 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, the Council holds it as a reserve for them to use in the future. This reserve cannot be used for any other purpose.

Reserves held to meet service priorities (directorate reserves)

These earmarked reserves consist of amounts carried forward for specifically agreed projects within directorates.

	Balance at 31 March 2014 £m	Transfers out 2014/15 £m	Transfers in 2014/15 £m	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m
Reserves held to meet spending pressures							
Business Rates volatility reserve	(5.0)	0	0	(5.0)	5.0	0	0
Reserves held to deliver corporate priorities							
Strategic investment reserve	(26.8)	5.4	0	(21.4)	10.4	0	(11.0)
Modern apprentices	(0.2)	0.2	0	0	0	0	0
Local welfare reserve	(1.8)	1.8	0	0	0	0	0
Reserves held to deliver organisational change							
Downsizing reserve	(99.2)	25.5	(6.9)	(80.6)	20.7	(5.0)	(64.9)
Risk management reserve	0	0	(82.0)	(82.0)	73.4	(7.2)	(15.8)
LAA PRG monies – Lancashire	(3.9)	3.9	0	0	0	0	0
Transitional Reserve	0	0	0	0	0	(141.8)	(141.8)
Reserves held to pay for expenditure commitments							
Equal pay review reserve	(0.4)	0.4	0	0	0	0	0
CC election reserve	(0.5)	0	(0.3)	(0.8)	0	(0.4)	(1.2)
Funding of capital projects	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
School reserves							
Individual school reserves	(55.9)	0.3	(0.8)	(56.4)	10.6	(7.9)	(53.7)
Other school reserves	(31.2)	20.7	(23.0)	(33.5)	25.3	(17.9)	(26.1)
Centrally managed schools maintenance reserve	(4.2)	4.2	(6.1)	(6.1)	6.1	(6.2)	(6.2)
Reserves held to meet service priorities (directorate reserves)							
Corporate reserves	(0.6)	0.5	0	(0.1)	0	0	(0.1)
Directorate reserves	(65.8)	37.6	(60.9)	(89.1)	60.4	(15.0)	(43.7)
Building repairs & maintenance reserve	(1.1)	0	0	(1.1)	1.1	0	0
Total earmarked revenue and capital reserves	**(309.8)**	**107.0**	**(185.8)**	**(388.6)**	**225.7**	**(201.7)**	**(364.6)**
Earmarked capital reserves	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
Earmarked revenue reserves	(296.6)	100.5	(180.0)	(376.1)	213.0	(201.4)	(364.5)

17 CAPITAL EXPENDITURE AND CAPITAL FINANCING

Capital expenditure and income result from transactions in respect of the following:

- Buying or selling land or property
- Building new infrastructure assets
- Purchasing plant or equipment
- Significantly enhancing the value of our property
- Providing grants to others for the above

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

This statement incorporates details of the movements in the capital financing requirement (CFR). This is a measure of the capital expenditure historically incurred by the Council that has yet to be financed. This will be discharged by future charges to revenue.

31 March 2015 £m		31 March 2016 £m
1,039.0	**Opening capital financing requirement**	**1,002.5**
	Capital investment	
156.7	Property, plant and equipment	148.8
2.5	Intangible assets	7.2
18.9	Revenue expenditure funded from capital under statute	30.1
178.1	**Total capital investment**	**186.1**
	Sources of finance	
(11.4)	Capital receipts	(26.5)
(150.9)	Government grants and other contributions	(152.7)
	Sums set aside from revenue:	
(15.8)	Direct revenue contributions	(6.9)
(6.3)	Write down of PFI liability	(4.7)
(30.2)	Minimum revenue provision (MRP) for debt repayment	(19.4)
1,002.5	**Closing capital financing requirement**	**978.4**
	Explanation of movement in year	
(23.8)	Increase in underlying need to borrow (supported by Government financial assistance)	(14.5)
(6.4)	Increase in underlying need to borrow (unsupported by Government financial assistance)	(4.9)
(6.3)	Write down of PFI liability	(4.7)
(36.5)	**Total movement**	**(24.1)**

18 CAPITAL CONTRACTUAL COMMITMENTS

At 31 March 2016 the Council had entered into numerous contracts for the construction or enhancement of property, plant and equipment in 2016/17 or future years.

The major contractual commitments are as follows:

PFI schemes

Capital payments remaining under the PFI contracts are £167.7 million (Note 28).

Department for Transport – Challenge Fund Street Lighting

2016/17 - £8.5 million, 2017/18 - £6.6 million to;

- replace 67,000 energy inefficient street lighting lanterns with modern LED equivalents across Lancashire
- replace up to 4,000 lighting columns that have reached the end of their service life across Lancashire
- fund 150 charging points to encourage a greater uptake of Ultra Low Emission Vehicles (ULEV) in Lancashire.

Heysham to M6 link road

2016/17 - £40.0 million to complete structures, road works and motorway communications.

19 PROPERTY, PLANT AND EQUIPMENT

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 the current Code of Practice on Local Authority Accounting. Valuations are undertaken internally by Lancashire County Council's estates service. All valuations have been undertaken by qualified chartered surveyors who are members of the Royal Institution of Chartered Surveyors.

Properties regarded by the Council as operational are 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 valued on the basis of market value.

The Council commissions a rolling programme of valuations, with a maximum revaluation period for any individual asset of 5 years to meet the Code requirements. As part of the process at least 20% of assets are valued in any year. In addition, during the financial year valuations will be required in the following circumstances:

- Potential sales
- Purchases
- Building extensions and improvements (including major refurbishments)
- Building demolitions

- Changes of use or occupation
- Changes in estimates of remaining useful life
- New planning consents
- Political decisions which affect the asset's use
- Impairment
- Assets requiring revaluation as part of a review to ensure that carrying amounts are reasonable at year end

Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices.

The basis of valuation is set out in the accounting policies.

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:

- Land is not depreciated.
- 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 10 to 50 years depending upon the nature of the asset.

Where a 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.

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

	Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Infrastructure £m	Assets Under Construction £m	Total £m
Carried at historical cost	**138.2**	**83.3**	**907.0**	**8.0**	**1,136.5**
31 March 2016	925.3	0	0	0	925.3
31 March 2015	335.7	0	0	0	335.7
31 March 2014	239.8	0	0	0	239.8
31 March 2013	226.1	0	0	0	226.1
31 March 2012	71.5	0	0	0	71.5
Total cost or valuation	**1,936.6**	**83.3**	**907.0**	**8.0**	**2,934.9**

Property, plant and equipment - movements in 2015/16

	Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Infrastructure Assets £m	Assets Under Construction £m	Total £m	PFI Assets included in Property, Plant and Equipment £m
Cost or valuation						
At 1 April 2015	**1,960.9**	**80.8**	**794.3**	**39.8**	**2,875.8**	**244.8**
Additions	23.9	6.0	112.7	6.2	148.8	0.4
Derecognition – disposals	(3.8)	0	0	0	(3.8)	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	38.2	0	0	0	38.2	(10.2)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(124.4)	0	0	0	(124.4)	(81.1)
Assets reclassified	41.8	(3.5)	0	(38.0)	0.3	(31.2)
At 31 March 2016	**1,936.6**	**83.3**	**907.0**	**8.0**	**2,934.9**	**122.7**
Depreciation and Impairment						
At 1 April 2015	**(91.4)**	**(49.5)**	**(96.7)**	**0**	**(237.6)**	**(5.0)**
Depreciation charge	(24.4)	(6.7)	(14.6)	0	(45.7)	(1.9)
Depreciation written out to Revaluation Reserve	25.2	0	0	0	25.2	2.5
Depreciation written out to the surplus/deficit on provision of services	4.8	0	0	0	4.8	3.1
De-recognition – disposals	0.1	0	0	0	0.1	0
Reclassification	(3.9)	3.9	0	0	0	0
At 31 March 2016	**(89.6)**	**(52.3)**	**(111.3)**	**0**	**(253.2)**	**(1.3)**
At 1 April 2015	**1,869.5**	**31.3**	**697.6**	**39.8**	**2,638.2**	**239.8**
At 31 March 2016	**1,847.0**	**31.0**	**795.7**	**8.0**	**2,681.7**	**121.4**

Comparative movements in 2014/15

	Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Infrastructure Assets £m	Assets Under Construction £m	Total £m	PFI Assets included in Property, Plant and Equipment £m
Cost or valuation						
At 1 April 2014	**2,081.3**	**75.4**	**687.8**	**28.9**	**2,873.4**	**246.5**
Additions	33.7	5.4	106.5	10.9	156.5	0
Derecognition – disposals	(3.8)	0	0	0	(3.8)	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	15.5	0	0	0	15.5	0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(167.4)	0	0	0	(167.4)	(1.7)
Assets reclassified	1.6	0	0	0	1.6	0
At 31 March 2015	**1,960.9**	**80.8**	**794.3**	**39.8**	**2,875.8**	**244.8**
Depreciation and Impairment						
At 1 April 2014	**(110.5)**	**(42.4)**	**(80.5)**	**0**	**(233.4)**	**(4.2)**
Depreciation charge	(24.7)	(7.1)	(16.2)	0	(48.0)	(2.5)
Depreciation written out to the Revaluation Reserve	5.0	0	0	0	5.0	0
Depreciation written out to the surplus/deficit on the provision of services	38.6	0	0	0	38.6	1.7
Derecognition – disposals	0.2	0	0	0	0.2	0
At 31 March 2015	**(91.4)**	**(49.5)**	**(96.7)**	**0**	**(237.6)**	**(5.0)**
At 1 April 2014	**1,970.8**	**33.0**	**607.3**	**28.9**	**2,640.0**	**242.3**
At 31 March 2015	**1,869.5**	**31.3**	**697.6**	**39.8**	**2,638.2**	**239.8**

The waste treatment facilities figure within land and buildings also includes the value of equipment which is considered to be integral to the overall facility rather than the separate items of loose equipment.

20 SCHOOLS

At the beginning of the financial year the Council had 14 schools subject to PFI contracts, the buildings for which are shown on the Council's Balance Sheet together with the related liability.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

Dedicated Schools Grant (DSG) is credited to the Comprehensive Income and Expenditure Statement based on amounts due from the Department for Education. (Further details are provided in Note 10).

DSG is allocated to budgets delegated to individual schools and centrally retained Council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the Comprehensive Income and Expenditure Statement under Children's and Education Services.

Schools included on the Council's Balance Sheet

31 March 2015			31 March 2016	
Number of Schools	Value of Land and Buildings £m		Number of Schools	Value of Land and Buildings £m
273	759.9	Community schools (excluding PFI schools)	269	711.3
11	131.8	Foundation schools (excluding PFI schools)	11	87.8
270	470.6	Voluntary- Aided Schools	269	495.3
50	84.7	Voluntary- Controlled Schools	50	88.0
604	**1,447.0**	**Total**	**599**	**1,382.4**
14	239.8	Schools included in the above subject to PFI contracts	14	121.4

21 HERITAGE ASSETS

Heritage assets are those non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge or culture. The collections have been valued by in-house professionals.

Paintings, furniture and other artefacts

The Council's heritage assets are mainly contained within the Museum Service and the Libraries Special Collection. The museum service contains around 140,000 items which cover a variety of artefacts which are relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects.

Manuscripts and books

Lancashire also holds a Libraries Special Collection which consists of publications held for their historical and cultural importance. Where these do not form part of the normal operations of the library service they are treated as heritage assets and a valuation made.

There have been no additions or disposals during the year and the values remain unchanged from 2014/15.

In addition, Lancashire County Council has an interest in 2 properties which are considered heritage assets but due to their nature it is not considered appropriate to place a value on them and therefore they are included at a nominal value of £1. These properties are Gawthorpe Hall a 17th century country house held on a long term lease from the National Trust and part of Ribchester Roman Bath House.

Lancashire County Council maintains accession registers for its heritage assets. Some of these records are published on the internet for as broad access as possible. Work is ongoing to migrate any paper records that accompany existing collections onto the computerised system. Access to collections (assets) and their records can be affected in a number of ways from virtual access to physical examination – either on display in temporary or longer term displays and exhibitions or on request from those held in store. For the latter a mutually convenient appointment is needed to view the item(s) concerned.

	Paintings and Furniture £m	Other Museum Artefacts £m	Manuscripts and Books £m	Total Heritage Assets £m
Cost or valuation				
At 31 March 2016	**3.0**	**11.1**	**14.6**	**28.7**

22 LONG TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
39.1	Transferred Debt [1]	35.6
35.1	Finance Lease Debtor [2]	33.3
74.2	**Total**	**68.9**

[1] Transferred debt is managed for other authorities as a result of various local government reorganisations, which is being repaid over time.
[2] Finance lease debtor is a long term debtor due to the Council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 29).

23 SHORT TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
23.0	Central Government bodies	13.3
25.0	Other local authorities	31.7
16.2	NHS bodies	7.6
0.1	Public corporations	0.1
16.7	Council tax	16.2
1.0	Non-domestic rates	0.8
53.8	Other entities and individuals	39.5
135.8	**Total**	**109.2**

Other debtors mainly comprise low value high volume debtors for supply of goods and services.

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £41.8 million in 2015/16 (£34.8 million in 2014/15). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

24 CASH AND CASH EQUIVALENTS

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

31 March 2015 £m		31 March 2016 £m
0.8	Cash held by the Council	0.7
22.2	Bank current accounts	33.3
107.3	Short term deposits under 3 months	10.7
130.3	**Total**	**44.7**

25 SHORT TERM CREDITORS

31 March 2015 £m		31 March 2016 £m
(19.8)	Central Government bodies	(19.9)
(14.8)	Other local authorities	(17.4)
(5.3)	NHS bodies	(7.2)
(0.2)	Public corporations and trading funds	(0.4)
(164.4)	Other entities and individuals	(128.4)
(204.5)	**Total**	**(173.3)**

Central Government bodies include creditors in respect of PAYE and NI of £13.2 million (£14.0 million in 2014/15).

Other creditors mainly comprise low value high volume creditors for the purchase of goods and services with the exception of £4.5 million (£7.5 million 2014/15) for capital creditors, waste payments £4.8 million (£4.3 million in 2014/15) and adult social care non-residential placements £12.1 million (£12.0 million in 2014/15).

26 PROVISIONS

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

	Balance at 1 April 2015 £m	Additional provision made in 2015/16 £m	Spending met from the provision in 2015/16 £m	Unused amounts reversed in 2015/16 £m	Balance at 31 March 2016 £m
Long term provisions					
Insurance provision	(10.4)	(12.7)	7.8	0	(15.3)
MMI provision	(3.2)	(0.3)	0	0	(3.5)
Other long term provisions	(0.2)	0	0	0	(0.2)
Total long term provisions	**(13.8)**	**(13.0)**	**7.8**	**0**	**(19.0)**
Short term provisions					
NNDR appeals	(5.2)	(7.6)	5.2	0	(7.6)
Early retirement	(10.0)	(1.4)	5.6	2.9	(2.9)
Other short term provisions	(2.8)	(0.1)	0.6	0.6	(1.7)
Total short term provisions	**(18.0)**	**(9.1)**	**11.4**	**3.5**	**(12.2)**
Total provisions	**(31.8)**	**(22.1)**	**19.2**	**3.5**	**(31.2)**

Insurance provision

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

Municipal Mutual Insurance (MMI)

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

NNDR appeals

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

Early retirement provision

This provision is for future voluntary redundancy costs.

Other Provisions

All other provisions are individually insignificant.

27 FINANCIAL INSTRUMENTS

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and Government grants do not give rise to financial instruments.

Financial assets

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
63.8	74.6	138.4	Loans and receivables	53.0	10.3	**63.3**
198.4	0	198.4	Available for sale financial assets	392.0	0	**392.0**
0	193.2	193.2	Financial assets at fair value through profit and loss	0	109.4	**109.4**
262.2	**267.8**	**530.0**	**Total investments**	**445.0**	**119.7**	**564.7**
0	130.3	130.3	Cash and cash equivalents	0	44.7	**44.7**
74.2	108.3	182.5	Debtors *	68.9	76.3	**145.2**
336.4	**506.4**	**842.8**	**Total financial assets**	**513.9**	**240.7**	**754.6**
***** *The debtors figure stated is lower than the debtors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial asset – receipts in advance and non-exchange transactions*						
0	*27.5*	*27.5*		*0*	*32.9*	*32.9*

Financial liabilities

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(467.6)	(574.1)	(1,041.7)	Financial liabilities at amortised cost	(583.4)	(399.2)	**(982.6)**
0	# (161.5)	(161.5)	Creditors *	0	(127.0)	**(127.0)**
(167.8)	(4.6)	(172.4)	Other financial liabilities (PFI) at amortised cost	(163.1)	(4.6)	**(167.7)**
(635.4)	**(740.2)**	**(1,375.6)**	**Total financial liabilities**	**(746.5)**	**(530.8)**	**(1,277.3)**
***** *The creditors figure stated is lower than the creditors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions*						
0	*43.0*	*43.0*		*0*	*46.3*	*46.3*

The prior year creditors figure has been restated.

Income, expense, gains and losses on financial instruments

The gains and losses on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following tables:

2015/16

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans and Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m
Interest expense	34.7	0	0	0	34.7
Fee expense	0.7	0	0	0	0.7
Total expense in surplus on the provision of services	**35.4**	**0**	**0**	**0**	**35.4**
Interest income	0	(4.9)	(6.5)	(1.6)	(13.0)
Decreases in fair value	0	0	0	0.4	0.4
Gains on de-recognition	0	0	(11.5)	(6.7)	(18.2)
Loss on de-recognition	0	0.8	1.6	0.5	2.9
Total income in surplus on the provision of services	**0**	**(4.1)**	**(16.4)**	**(7.4)**	**(27.9)**
(Gain)/loss on revaluation	0	0	2.2	0	2.2
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**2.2**	**0**	**2.2**
Total net (gain)/loss for the year	**35.4**	**(4.1)**	**(14.2)**	**(7.4)**	**9.7**

2014/15

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans and Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m
Interest expense [1]	67.9	0	0	0	67.9
Fee expense	0.5	0	0	0	0.5
Total expense in surplus on the provision of services	**68.4**	**0**	**0**	**0**	**68.4**
Interest income	0	(4.9)	(5.1)	(1.1)	(11.1)
Decreases in fair value	0	0	0	0.1	0.1
Gains on de-recognition	0	0	(14.7)	(66.0)	(80.7)
Loss on de-recognition	0	0.5	1.2	7.6	9.3
Total income in surplus on the provision of services	**0**	**(4.4)**	**(18.6)**	**(59.4)**	**(82.4)**
(Gain)/loss on revaluation	0	0	(20.8)	0	(20.8)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**(20.8)**	**0**	**(20.8)**
Total net (gain)/loss for the year	**68.4**	**(4.4)**	**(39.4)**	**(59.4)**	**(34.8)**

[1] This includes a premium of £24.3 million in relation to the refinancing of waste treatment facilities

Fair value of financial assets and liabilities

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

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

Fair value of financial assets

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial assets held at fair value			
		Available for sale financial assets			
38.1	38.1	Local authority bonds	2	37.8	37.8
160.3	160.3	Bond, equity and property funds	1	354.2	354.2
198.4	**198.4**	**Sub total**		**392.0**	**392.0**
		Financial assets at fair value through profit and loss			
193.2	193.2	Bond, equity and property funds	1	109.4	109.4
		Financial assets held at amortised cost			
56.9	59.0	Long term bank deposits	2	46.9	49.1
35.1	39.6	Lease receivables	3	33.3	37.2
39.1	34.8	Transferred debt receivables	2	35.6	35.5
6.9	7.9	Long term loans to companies	3	6.1	6.9
138.0	**141.3**	**Sub total**		**121.9**	**128.7**
529.6	**532.9**	**Total**		**623.3**	**630.1**
313.1		**Assets for which fair value is not disclosed ***		131.3	
842.8		**Total financial assets**		**754.6**	
		Recorded on Balance Sheet as:			
74.2		Long term debtors		68.9	
262.2		Long term investments		445.0	
108.3		Short term debtors		76.3	
267.8		Short term investments		119.7	
130.3		Cash and cash equivalents		44.7	
842.8		**Total financial assets**		**754.6**	

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

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made. This shows a notional future profit (based on economic conditions at 31 March 2016) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial liabilities held at amortised cost			
338.9	385.9	Long term PWLB loans	2	338.9	389.8
52.2	106.9	Long term LOBO loans	2	52.1	106.9
76.5	79.1	Other long term loans	2	192.5	195.7
172.4	283.7	PFI liabilities	3	167.7	263.9
640.0	**855.6**	**Total**		**751.2**	**956.3**
735.6		**Liabilities for which fair value is not disclosed ***		526.1	
1,375.6	**855.6**	**Total financial liabilities**		**1,277.3**	**956.3**
		Recorded on Balance Sheet as:-			
161.5		Short term creditors		127.0	
574.1		Short term borrowings		399.2	
467.6		Long term borrowings		583.4	
172.4		Other long term liabilities		167.7	
1,375.6		**Total financial liabilities**		**1,277.3**	

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

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the Authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date.

This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

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 3 main credit rating agencies. The strategy also imposes a maximum sum and duration which the County Council can invest in an institution. This is dependent upon the quality of credit rating and in 2015/16 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 2015/16 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 2016 and summarises the Council's investments as at 31 March 2016 (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 £1.91 million in £441.9 million or 0.43% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	<1m	<3m	<6m	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m)	**10.7**	**4.0**	**10.0**	**0.0**	**39.9**	**122.5**	**16.1**	**238.7**	**441.9**
Historic default rate (AA-, %)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.72	
Historic default rate (A+, %)	0.0	0.0	0.0	0.0	0.07	0.29	0.09	0.74	
Historic default rate (A, %)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Exposure to default (£m)	**0.0**	**0.0**	**0.0**	**0.00**	**0.07**	**0.29**	**0.09**	**1.46**	**1.91**

Comparative data for 2014/15 can be seen below:

Credit Risk	<1m	<3m	<6m	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m)	107.2	35.0	0.0	55.0	55.3	171.5	33.4	128.8	586.2
Exposure to default (£m)	**0.0**	**0.01**	**0.0**	**0.08**	**0.05**	**0.58**	**0.23**	**0.85**	**1.8**

The maximum single commercial exposure is to London Greater Authority at £25.0 million (2014/15 £87.0 million to Svenska Handelsbanken), which is lower than the individual counterparty limit of £100 million for investments. Overall the portfolio is diversified by the use of counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The Council manages aged debt within the agreed policy.

Liquidity risk

Liquidity risk is the danger that, at any time, the Council will have insufficient funds in its bank account to make the payments necessary to meet its 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 Council has ready access to borrowings from the money markets and the Public Works Loans Board and access to the investment portfolio which is also considered to be liquid. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. 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 Director of Financial Resources 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 Council is exposed in its financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that the Council holds are affected in different ways by changes in market interest rates.

Movement in interest rates have a complex impact on the 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 a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by 2 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 £50 million loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is 7.5% 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.

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 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 following table attempts to quantify the interest rate risk looking back at the 31 March 2016 position.

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

	2015/16 £m
Increase in interest payable on variable rate borrowings	3.6
Increase in interest receivable on variable rate investments	(0.2)
Decrease in fair value of investments held for trading*	0.0
Impact on surplus on the provision of services	**3.4**
Decrease in fair value of fixed rate available for sale investment assets	(91.1)
Impact on other comprehensive income and expenditure	
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus on the Provision of Services or Other Comprehensive Income and Expenditure)	(7.8)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the surplus 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 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 PRIVATE FINANCE INITIATIVE (PFI)

Fleetwood High School

The Council signed a PFI contract with Fleetwood PPP Limited in 2001 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 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 1.37% is made for future inflation within the model.

Payments remaining to be made under the PFI contract at 31 March 2016 (excluding any availability/performance deductions) are as follows:

	Payment for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m
Payment in 2016/17	0.4	0.3	1.1	1.8
Payment within 2 to 5 years	1.3	2.2	3.9	7.4
Payment within 6 to 10 years	2.2	3.7	3.5	9.4
Payment within 11 to 15 years	0.4	1.5	0.7	2.6
Total	**4.3**	**7.7**	**9.2**	**21.2**

The Council received the following contributions towards the cost of the PFI scheme:

31 March 2015 £m		31 March 2016 £m
(1.3)	PFI grant from the Government	(1.3)
(0.4)	Contributions from the school	(0.4)
(1.7)	**Total**	**(1.7)**

Building Schools for the Future (BSF)

The Building Schools for the Future programme aimed to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 4 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 1.37% is made for future inflation within the model.

Consolidated payments remaining to be made under the PFI contract as at 31 March 2016 for the 4 phases above (excluding any availability/performance deductions) are as shown in the following table:

	Payment for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m
Payment in 2016/17	8.5	5.0	15.0	28.5
Payment within 2 to 5 years	39.7	20.8	55.3	115.8
Payment within 6 to 10 years	57.6	33.9	57.3	148.8
Payment within 11 to 15 years	64.3	49.2	40.3	153.8
Payment within 16 to 20 years	39.7	51.1	16.3	107.1
Total	**209.8**	**160.0**	**184.2**	**554.0**

The Council received the following contributions towards the cost of the PFI scheme:

31 March 2015 £m		31 March 2016 £m
(20.5)	PFI grant from the Government	(20.5)
(8.8)	Contributions from the school	(8.9)
(0.1)	Contributions from the local authority	(0.1)
(29.4)	**Total**	**(29.5)**

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 the contractor for capital expenditure incurred is as follows:

31 March 2015 £m		31 March 2016 £m
(177.1)	**Balance outstanding at start of year**	(172.4)
4.7	Payments during the year	4.7
(172.4)	**Balance outstanding at year end**	(167.7)

Under all these contracts (Fleetwood High School 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, and (iii) third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

The 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 PFIs 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 on Council default, or termination by the Council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

29 LEASES

Council as lessor – finance leases

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

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

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

31 March 2015 £m		31 March 2016 £m
0.9	Current	0.9
34.2	Non-current	33.3
20.0	Unearned finance income	18.7
55.1	**Gross investment in the finance lease**	**52.9**

The gross investment in the finance lease will be received over the following periods:

31 March 2015			31 March 2016	
Gross Investment £m	Minimum Lease Payments £m		Gross Investment £m	Minimum Lease Payments £m
2.2	0.9	Not later than one year	2.2	0.9
9.0	3.8	Later than one year and not later than 5 years	9.0	4.0
43.9	30.4	Later than 5 years	41.7	29.3
55.1	**35.1**	**Total**	**52.9**	**34.2**

30 RESERVES

Usable reserves

Movements in the Council’s usable reserves are shown in the Movement in Reserves Statement and further details on the earmarked reserves are shown in Note 16.

Unusable reserves

The table below gives details of the Council's unusable reserves:

31 March 2015 £m		31 March 2016 £m
6.6	Available for Sale Financial Instruments Reserve	8.8
48.2	Financial Instruments Adjustment Account	45.0
(674.2)	Revaluation Reserve	(724.9)
(1,020.0)	Capital Adjustment Account	(1,047.5)
1,238.2	Pensions Reserve	1,049.9
(6.4)	Collection Fund Adjustment Account	(3.6)
23.2	Accumulated Absences Adjustment Account	23.2
(384.4)	**Total**	**(649.1)**

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.

2014/15 £m		2015/16 £m
27.4	**Balance at 1 April**	**6.6**
(20.8)	Upward revaluation of investments	0
0	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	2.2
6.6	**Balance at 31 March**	**8.8**

Financial Instruments Adjustment Reserve

The Financial Instruments Adjustment Account absorbs the timing 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.

2014/15 £m		2015/16 £m
27.1	**Balance at 1 April**	**48.2**
24.3	Premiums incurred in year and charged to the Comprehensive Income & Expenditure Statement [1]	0
(3.2)	Proportion of premiums incurred in previous financial years to be charged against County Fund balance	(3.2)
48.2	**Balance at 31 March**	**45.0**

[1] Relates to the refinancing of waste treatment facilities.

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.

2014/15 £m		2015/16 £m
(665.0)	**Balance at 1 April**	**(674.2)**
(59.4)	Upward revaluation of assets	(164.2)
38.9	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	100.9
(20.5)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(63.3)**
10.1	Difference between fair value depreciation and historical cost depreciation	10.7
1.2	Accumulated gains on assets sold or scrapped	1.9
11.3	**Amount written off to the Capital Adjustment Account**	**12.6**
(674.2)	**Balance at 31 March**	**(724.9)**

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 enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

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

2014/15 £m		2015/16 £m
(999.8)	**Balance at 1 April**	**(1,020.0)**
	Reversal of items relating to capital expenditure charged to the Comprehensive Income and Expenditure Statement	
48.0	Charges for depreciation and impairment of non-current assets	45.7
128.8	Revaluation losses on property, plant and equipment including assets held for sale	112.5
3.9	Amortisation of intangible assets	4.4
18.9	Revenue expenditure funded from capital under statute	30.1
6.0	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	4.8
(6.3)	Write down of PFI liability	(4.7)
(11.3)	Adjusting amount written out of the Revaluation Reserve	(12.6)
(811.8)	**Net written out amount of the cost of non-current assets consumed in the year**	**(839.8)**
	Capital financing applied in the year	
(125.5)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(134.6)
(25.3)	Application of capital grants to capital financing from the Capital Grants Unapplied Account	(18.1)
(11.4)	Application of capital receipts to capital financing from the Capital Receipts Reserve	(26.5)
(30.2)	Statutory provision for the financing of capital investment charged against the County Fund	(19.4)
(15.8)	Capital expenditure charged against the County Fund	(6.9)
(208.2)		**(205.5)**
0	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	(2.2)
(1,020.0)	**Balance at 31 March**	**(1,047.5)**

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 the pension fund.

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.

2014/15 £m		2015/16 £m
905.1	**Balance at 1 April**	**1,238.2**
301.9	Remeasurement of the net defined benefit liability/(asset)	(228.7)
125.0	Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	132.4
(93.8)	Employer's pension contributions and direct payments to pensioners payable in the year	(92.0)
1,238.2	**Balance at 31 March**	**1,049.9**

31 POST-EMPLOYMENT BENEFITS

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 2014 and on revalued average salary (a “career average” scheme) for service from 1 April 2014 onwards.

At 31 March 2016 the Council'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 3 years. The latest actuarial valuation of the Fund was carried out at 31 March 2013, and at that date showed a funding level of 78% (assets of £5.0 billion against accrued liabilities of about £6.4 billion). 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 Council 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 Council's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The Council is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement.

Health workers

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

Government and risk management

The liability associated with the Council's pension arrangements is material to the Council, 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 3 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 18 years in order to meet the shortfall.

The weighted average duration of the Council'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 Council'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 outlined above for service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. 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 Council's assets and liabilities as a result of employing members who have accrued benefits with the Council.

Schemes for teachers and transferred NHS staff

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the Council. Again, the Council 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 Council 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		Teachers' Pension Scheme	
	2014/15 £m	**2015/16 £m**	**2014/15 £m**	**2015/16 £m**
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	73.0	91.0	0	0
Past service cost	0.1	0	0	0
(Gain)/loss from settlements and curtailments	12.9	2.1	0	0
Administration expenses	1.5	1.4	0	0
Financing and Investment Income and Expenditure				
Net Interest expense	31.8	33.6	5.8	4.3
Total post-employment benefit charged to the surplus or deficit on the provision of services	**119.3**	**128.1**	**5.8**	
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(172.3)	(38.1)	0	0
Actuarial (gains)/losses arising on changes in financial assumptions	463.8	(186.8)	10.4	(3.8)
Total re-measurement recognised in Other Comprehensive Income				
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**410.8**	**96.8**	**16.2**	**0.5**
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	119.3	128.1	5.8	4.3
Actual amount charged against the General Fund balance for pensions in the year				
Employers' contributions payable to the scheme	**82.9**	**81.2**	**10.9**	**10.7**

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 Council'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

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

In 2015/16 £50.3 million was paid to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£45.9 million and 14.1% in 2014/15).

In 2015/16 the Council paid £0.4 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14% of pensionable pay (£0.5m and 14% in 2014/15)

The Council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2015/16 these amounted to £8.3 million, representing 2.6% of pensionable pay (£8.5 million and 2.6% in 2014/15).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, a re-measurement of the net defined liability gain of £228.7 million (£301.9 million loss in 2014/15) was included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss £249.6 million.

Assets and liabilities in relation to retirement benefits

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

Lancashire County Pension Fund

2014/15 £m		2015/16 £m
2,093.0	**Opening balance as at 1 April**	**2,353.6**
172.3	Re-measurement (assets)	75.2
92.0	Interest on plan assets	38.1
(1.4)	Admin expenses	(1.4)
0	Settlements	(0.8)
82.9	Employer contributions	81.2
22.5	Contributions from scheme participants	21.8
(107.7)	Benefits/transfers paid	(110.8)
2,353.6	**Closing balance as at 31 March**	**2,456.9**

Reconciliation of present value of the scheme liabilities

	Funded liabilities: Lancashire County Pension Fund		Unfunded liabilities: Teachers' Pension Scheme	
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m
Opening balance as at 1 April	**(2,858.0)**	**(3446.4)**	**(140.0)**	**(145.3)**
Current service cost	(73.0)	(91.0)	0	0
Interest on pension liabilities	(123.9)	(108.8)	(5.8)	(4.3)
Contributions from scheme participants	(22.5)	(21.8)	0	0
Benefits/Transfers paid	107.8	110.8	10.9	0
Curtailment cost	(12.9)	(3.4)	0	0
- Gain/loss from settlements	0	2.1	0	0
- Past service cost	(0.1)	0	0	10.7
Re-measurement gains and (losses):				
- Actuarial gains/(losses) arising from changes in financial assumptions	(463.8)	186.8	(10.4)	3.8
Closing balance as at 31 March	**(3,446.4)**	**(3,371.7)**	**(145.3)**	**(135.1)**

Local Government Pension Scheme assets comprised:

31 March 2015 £m	Asset category	Quoted in active markets (Y/N)	31 March 2016 £m
114.0	**Cash and cash equivalents**	N	**84.5**
	Equity instruments (by industry type):		
260.2	Consumer	Y	266.8
144.8	Manufacturing	Y	136.9
52.6	Energy and utilities	Y	51.3
139.5	Financial institutions	Y	149.0
80.0	Health and care	Y	89.1
133.1	Information technology	Y	151.2
810.2	**Sub-total equity**		**844.3**
	Bonds (by sector):		
32.7	Corporate	Y	50.0
73.9	Government	Y	49.4
106.6	**Sub-total bonds**		**99.4**
	Property (by type):		
95.7	Retail	N	84.2
125.9	Commercial	N	152.0

221.6	**Sub-total property**		**236.2**
	Private equity:		
59.1	UK	N	40.1
83.7	Overseas	N	107.9
142.8	**Sub-total private equity**		**148.0**
	Other investment funds:		
131.0	Infrastructure	N	196.3
17.2	Property	N	33.9
810.2	Miscellaneous	N	814.3
958.4	**Sub-total other investment funds**		**1,044.5**
2,353.6	**Total assets**		**2,456.9**

Scheme history

The amounts included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans are as follows:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Present value of scheme liabilities					
Local Government Pensions Scheme	(2,555.4)	(2,986.1)	(2,858.0)	(3,446.4)	(3,371.7)
Teachers' Pensions Scheme	(137.4)	(150.1)	(140.1)	(145.4)	(135.1)
Fair value of assets in the Lancashire County Pension Fund	**1,753.2**	**2,009.1**	**2,093.0**	**2,353.6**	**2,456.9**
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(802.2)	(977.0)	(765.0)	(1,092.8)	(914.8)
Teachers' Pensions Scheme	(137.4)	(150.1)	(140.1)	(145.4)	(135.1)
Total	**(939.6)**	**(1,127.1)**	**(905.1)**	**(1,238.2)**	**(1,049.9)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,049.9 million in 2015/16 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in net assets of £1,138.2 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 2017 are £55 million. Expected contributions for the Teachers and Health Workers in the year to 31 March 2017 are £46.3 million and £0.3 million 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 2013.

The principal assumptions used by the actuary have been as follows:

2014/15		2015/16
Mortality assumptions		
Longevity at 65 for current pensioners		
22.9 years	Male	23.0 years
25.4 years	Female	25.6 years
Longevity at 65 for future pensioners		
25.1 years	Male	25.2 years
27.8 years	Female	27.9 years
Financial assumptions		
2.00%	Rate of CPI inflation	2.00%
3.50%	Rate of increase in salaries	3.50%
2.00%	Rate of increase in pensions	2.00%
3.20%	Rate for discounting scheme liabilities	3.50%

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 March 2015 %		31 March 2016 %
49.2	Equity investments	48.4
4.5	Bonds	4.0
46.3	Other assets	47.6
100.0	**Total**	**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 Council 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 £m	**Decrease in Assumption £m**
Longevity (increase or decrease in 1 year)	66.0	(66.0)
Rate of inflation (increase or decrease by 1%)	611.2	(611.2)
Rate of increase in salaries (increase or decrease by 1%)	137.2	(137.2)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(600.3)	600.3

32 CASH FLOWS FROM OPERATING ACTIVITIES

The net surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement has been subject to the following adjustments in order to arrive at the net cash flows from operating activities:

The cash flows for operating activities include the following items:

31 March 2015 £m		31 March 2016 £m
(83.9)	Interest received	(28.7)
41.2	Interest paid	35.1

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

31 March 2015 £m		31 March 2016 £m
(48.0)	Depreciation	(43.5)
(128.8)	Impairment and downward valuations	(117.5)
(3.9)	Amortisation of intangible assets	(3.3)
3.8	Increase/(decrease) in provision for bad debts	7.0
21.1	(Increase)/decrease in creditors	1.4
15.0	Increase/(decrease) in debtors	(19.8)
(0.2)	Increase/(decrease) in inventories	(0.3)
(31.2)	Movement in pension liability	(40.4)
(6.0)	Carrying amount of non-current assets sold	(4.7)
(5.3)	Other non-cash items charged to the surplus or deficit on the provision of services	(1.0)
(183.5)	**Total**	**(222.1)**

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

31 March 2015 £m		31 March 2016 £m
71.9	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	16.1
13.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11.2
152.2	Capital grants credited to the surplus on the provision of services	177.2
237.2	**Total**	**204.5**

33 CASH FLOWS FROM INVESTING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
166.3	Purchase of property, plant and equipment, investment property and intangible assets	159.0
12,186.0	Purchase of short term and long term investments	6,280.6
35.5	Other payments for investing activities	0
(13.1)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.5)
(12,282.0)	Proceeds from the sale of short term and long term investments	(6,235.7)
(151.6)	Other capital grants and receipts from investing activities	(195.3)
(58.9)	**Net cash flows from investing activities**	**2.1**

34 CASH FLOWS FROM FINANCING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
(1,275.5)	Cash receipts from short term and long term borrowing	(1,104.5)
3.7	Appropriate to/from Collection Fund Adjustment Account	(2.9)
1,059.1	Repayment of short term and long term borrowing	1,163.9
227.6	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	4.7
14.9	**Net cash flows from financing activities**	**61.2**

35 RELATED PARTIES

The Council is required to disclose material transactions with related parties - bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

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

Members

Members of the County Council have direct control over the Council's financial and operating policies.

The total of Members' allowances paid in 2015/16 is shown in Note 12.

Under Section 81 the Local Government Act 2000, their outside interests are recorded in a formal register, The Register of Interest, which is available for public 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://www.lancashire.gov.uk/council/transparency/registers/county-councillors-register-of-interests/

The Council's 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.

All councillors are required to complete a declaration regarding any interests which they or a family member has in any organisations that has dealings with the Council. These interests include:

- Roles with voluntary organisations and charities which receive grants from the Council.
- Roles where they have significant influence/control within limited companies that hold contracts with the Council
- Family members that have significant influence/control within any organisation that has dealings with the Council.

There were a number of transactions that were identified between Lancashire County Council and these organisations.

None of the transactions were considered to be significant to Lancashire County Council.

- County Councillor Jackie Oakes is a board member of Rosso (Rossendale Transport Limited), the organisation received payments totalling £1,361,458.
- County Councillor Jennifer Mein is a member of the Council of Governors for Lancashire Teaching Hospitals NHS Foundation Trust and is a trustee at Emmaus Preston. Lancashire Teaching Hospitals NHS Foundation Trust received payments totalling £271,039 and Emmaus Preston received payments totalling £7,240.
- County Councillor Susie Charles is a board member of Dukes Playhouse, the organisation received payments totalling £164,607.
- County Councillor Ian Brown is a board member of Ribble Valley Homes, the organisation received payments totalling £92,306.
- County Councillor Alyson Barnes is the chair of RTB Partnership, the organisation received payments totalling £72,661.
- County Councillors David O'Toole, Liz Oades, Jeff Sumner, Miles Parkinson and John Shedwick are board members of Lancashire Fire & Rescue, the organisation received payments totalling £45,171.
- County Councillor John Shedwick is a board member of Blackpool Grand Theatre Trust Limited, the organisation received payments totalling £10,654.
- County Councillor Carl Crompton is a board member of Gift 92, the charity received payments totalling £5,237.
- County Councillor Jackie Oakes is a trustee at Stacksteads Countryside Park Group, the organisation received payments totalling £2,150.
- County Councillor Mike Otter is a trustee at Community Futures, the organisation received payments totalling £521.
- County Councillor Peter Buckley provided music workshops to Lancashire County Council, he received two payments totalling £510.

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

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

In 2015/16 the following interests were declared:

- Steve Browne, Corporate Director of Commissioning and Deputy Chief Executive is also chairman of the board of Preston's College. The College received payments totalling £757,829.
- Damon Lawrenson was appointed as interim Director of Financial Resources from March 2015 until March 2016. Payments totalling £140,270.30 excluding VAT were made to the company DDL Consultancy Limited in 2015/16 of which Damon was a director.

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 (£4.5 million in 2014/15) 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 £81.4 million to the fund in 2015/16 (£79.5 million in 2014/15). 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 County Council.

On 8 April 2016 Lancashire County Council entered into a joint venture with the London Pensions Fund Authority for the pooling of the executive functions of the 2 organisations together with the investment assets of the 2 funds.

The staff involved in the operation of the 2 funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April.

LPP will operate the 2 pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

Interests in companies and other entities

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. Copies of the company accounts are available from the following address (unless otherwise stated):

PO Box 78
County Hall
Preston
Lancashire
PR1 8XJ

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity.

An assessment of all of the Council's interests has been carried out to determine which of the following categories they fall under. Where an entity is considered to be immaterial, they are not included in the group accounts.

Subsidiaries

Subsidiaries are entities that the authority controls subject to the following applying:

- power over the entity
- exposure, or rights, to variable returns from its involvement with entity, and

- the ability to use its power over the entity to affect the amount of the authority's returns.

The following companies are considered subsidiaries of Lancashire County Council, however, the majority are not considered to be material and have been excluded from the Council's group accounts with the exception of Lancashire County Developments Limited.

Lancashire County Developments Limited

Lancashire County Developments Limited (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 Lancashire County Council. The transactions of LCDL are included within the Council's group accounts on page 145.

Global Renewables Lancashire Operations Limited

Global Renewables Lancashire Limited (GRLL) is a private sector special purpose vehicle that was established to design, build, finance and operate a network of waste management facilities in the county for the reception, treatment, transportation and disposal of waste, along with a number of related services on behalf of Lancashire County Council and Blackpool Council in connection with the Councils' waste PFI project.

The services were delivered under the terms of a subcontract between GRLL and an operating company, Global Renewables Lancashire Operations Limited (GRLOL). On 31 July 2014 the operating company's entire issued share capital (3,600,001 shares) was acquired by Lancashire County Council for £1, with the intention that a 12.5% shareholding would subsequently be transferred to Blackpool Council. The company's board of directors currently comprises 5 County councillors and one Blackpool councillor.

Lancashire County Council and Blackpool Council make bi-monthly payments to fund the running of GRLOL and reimburse GRLOL monthly for payments to third party specialist waste disposal companies.

Payments to GRLOL from 1 April 2015 to 31 March 2016 were £23,200,738 for the running and lifecycle costs and £16,229,314 for the reimbursed costs. Payments to Lancashire County Council from GLROL for the year to 31 March 2016 were £90,915. At 31 March 2016 the amount owed by Lancashire County Council to GRLOL was £2,202,878. The amount owed to Lancashire County Council from GLROL at 31 March 2016 was £2,526,899. These all exclude Blackpool Council's 12.5% share where relevant.

Lancashire Sports Partnership Limited

Lancashire Sports Partnership Limited is a County Sports Partnership and a leading grassroots sports and physical activity charity covering the 15 local authorities of the sub region in Lancashire. The aim of the organisation is to increase and sustain participation in, and widen access to sport and physical activity across the county and support the improving of the health and wellbeing of its Communities. The organisation has been established since 2001 and in March 2009 became a company limited by guarantee with a board of trustees. In January 2015 the organisation was incorporated as a charity. Lancashire County Council is the sole owner and has 100% of the voting rights.

During the year, the company received £12,000 of funding (£15,000 in 2014) from its member, Lancashire County Council. The company paid £22,441 (£6,106 in 2014) to Lancashire County Council for the use of various services and facilities.

A copy of the accounts can be obtained from:

Lancashire Sport Partnership Limited
Farington House
Lancashire Business Park
Leyland
Preston
PR26 6TW

Lancashire Workforce Development Partnership Limited

Lancashire Workforce Development Partnership Limited is a company limited by guarantee providing support through products and services designed to improve the skills and knowledge of the independent and private social care sector workforce within the Lancashire County Council boundaries. It is controlled by Lancashire County Council within the meaning of Part V of the Government and Housing Act (1989) with a liability limited to £1. Lancashire County Council is the sole owner and has 100% of the voting rights.

An amount of £500,000 (£700,000 in 2014/15) was received in the year under a service agreement with Lancashire County Council. Lancashire Workforce Development Partnership also paid £52,221 in contributions (£45,446 in 2014/15) to the Local Government Pension Scheme administered by Lancashire County Council.

Lancashire Enterprise Partnership Limited

The Lancashire Enterprise Partnership Limited (LEP) was incorporated in September 2010 and is wholly owned by Lancashire County Council. The LEP is a strategic organisation which directs economic development growth and drives job creation.

LCC Building Schools for the Future

LCC Building Schools for the Future (LCC BSF) was incorporated in December 2006 to facilitate the Council's investment in the East Lancashire Local Education Partnership. The investment in the East Lancashire Local Education Partnership was sold during 2015/16.

Lancashire County Council is the sole member of LCC BSF and has 100% of the voting rights.

The amount owed by Lancashire County Council to LCC BSF at 31 March 2016 was £16,203 and the amount owed to Lancashire County Council from LCC BSF at 31 March 2016 was £182,732.

Marketing Lancashire Limited (formerly Lancashire and Blackpool Tourist Board Limited)

Marketing Lancashire Limited was created in 2004. It is one of 4 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. Lancashire County Council is the sole owner and has 100% of the voting rights.

During the year, the company declared purchases of £1,331 (£22,085 in 2014/15) from Lancashire County Council. Sales for the year to Lancashire County Council were £272,983 (£82,766 in 2014/15). Amounts owed by Lancashire County Council to Marketing Lancashire as at 31 March 2016 amounted to £14,850 (£1,382 in 2014/15).

Healthwatch Lancashire Limited

Healthwatch Lancashire Limited commenced operations on 1 April 2013 and is commissioned by Lancashire County Council to undertake statutory functions on the Council's behalf.

Healthwatch is the independent consumer champion for both health and social care. It exists in 2 distinct forms – local Healthwatch, at local level, and Healthwatch England at national level. The aim of Healthwatch Lancashire is 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 also provides or signposts people to information to help them make choices about health and care services.

During the year, Healthwatch Lancashire Limited received funding of £638,000 (£788,000 in 2014/15) from Lancashire County Council.

Associates

Associates are entities for which the authority is an investor that has significant influence.

Significant influence is the power to participate in the financial and operating policy decisions of the investee. It is presumed that holding more than 20% of the voting power of an investee brings significant influence.

The following companies are associate companies of Lancashire County Council, however, they are not considered to be material and are, therefore, excluded from the group accounts.

Lancashire Environmental Fund Limited

Lancashire Environmental Fund Limited 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 and has 25% voting rights. The other shareholders in Lancashire Environmental Fund Limited are SITA, Community Futures Limited and Lancashire Wildlife Trust. County Councillor J Hanson was the Chairman of the charitable company.

Public Transport Information Limited

Public Transport Information (PTI) Limited 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 members is limited to £1. The members of this company are Lancashire County Council 40%, Blackpool Council 5%, Blackburn with Darwen Borough Council 5% and Public Transport Operators 50%.

Lancashire County Council made contributions to the company of £40,788 (£47,778 in 2014) during the year. During the year Public Transport Information Limited issued a rebate of prior periods contributions totalling £21,600. Public Transport Information Limited acquired licences with a total cost of £3,455 (£3,400 in 2014) on behalf of Lancashire County Council which were subsequently recharged at cost, to the County Council. Lancashire County Council were also reimbursed expenses incurred on behalf of Public Transport Information Limited, these expenses totalled £28,633 (£nil in 2014). At the year end, Lancashire County Council were owed £25,920 (£nil in 2014) by Public Transport Information Limited. No amounts were owed to Lancashire County Council at the end of the year.

A copy of the accounts can be obtained from Companies' House, www.companieshouse.gov.uk.

Joint ventures

Joint ventures are arrangements under which two or more parties have contractually agreed to share control, such that decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control, and joint venturers have rights to the net assets of the arrangement.

The following companies are considered to be joint ventures:

New Era Trust Limited

New Era Trust Limited provides community services to the residents of Hyndburn. It is a company limited by guarantee and the liability of members is limited to £1. The members are Lancashire County Council and Hyndburn Borough Council, each with a 50% share.
Lancashire County Council, currently has one representative on the board of the Trust. During the year, there were no transactions between Lancashire County Council and New Era Trust Limited.

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.

Via Partnership Limited (formerly CXL and CX Limited)

CXL was incorporated on 11 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. Senior representatives of the 3 councils are members of the board.

In 2013/14 the 3 shareholders of Via Partnership Limited provided an interest bearing commercial loan of £1 million for working capital purposes to be repaid over the next 8 to 10 years, based on their respective shareholding. (Lancashire County Council £400,000, Blackburn with Darwen Borough Council £300,000 and Blackpool Council £300,000).

During the period April 2015 to December 2015, the company declared purchases of £7,288 (£50,631 in 2014/15) from Lancashire County Council. Sales for the period April 2015 to December 2015 to Lancashire County Council were £43,872 (£472,743 in 2014/15).

The Via Partnership Limited were placed in administration on 10 December 2015 and Deloitte LLP have been appointed as administrators.

Lancashire Partnership Against Crime Limited

The Lancashire Partnership Against Crime is a registered charity and a company limited by guarantee. Lancashire Partnership Against Crime Limited works in partnership with other organisations, to secure funding for additional community safety and crime reduction measures across the county.

The members of this company are Lancashire County Council, Lancashire Constabulary, the Lancashire branch of the Association of District Councils and the Police and Crime Commissioner, each with a 25% shareholding. Lancashire Constabulary perform all accounting functions.

Regenerate Pennine Lancashire

The Council is one of 6 local authorities with an interest in Regenerate Pennine Lancashire, an economic development company designed to help increase prosperity and life choices for people living and working in Pennine Lancashire. The other member authorities are Burnley, Blackburn with Darwen, Pendle, Hyndburn and Rossendale. By working alongside businesses to boost Lancashire's economy, the company is able to create new job opportunities and access local funds, Government grants and European funding. The company is limited by guarantee. Lancashire County Council is the accountable body and Blackburn with Darwen Borough Council acts as the employing body for staff and provides HR, IT and related support.

36 TRUST FUNDS

The Council administers several small trust and special funds. Most of the trust funds are 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.

Trust funds 2015/16

	Adult Services, Health and Wellbeing £000	Children and Young People £000	Other £000	Total £000	* 2014/15 Total £000
Capital accounts					
Balance as at 1 April	(3.8)	(214.6)	(0.8)	**(219.2)**	(200.7)
Net Movement in funds	0.2	8.3	0	**8.5**	(18.5)
Balance as at 31 March	**(3.6)**	**(206.4)**	**(0.8)**	**(210.8)**	**(219.2)**
Revenue accounts					
Balance as at 1 April	(6.7)	(70.4)	(14.3)	**(91.5)**	(89.5)
Income received	(0.1)	(7.5)	(15.5)	**(23.1)**	(20.4)
Less payments during the year	0	0	10.3	**10.3**	18.4
Balance as at 31 March	**(6.9)**	**(77.9)**	**(19.5)**	**(104.3)**	**(91.5)**
Aggregate balance as at 31 March	**(10.5)**	**(284.3)**	**(20.3)**	**(315.1)**	**(310.7)**

* 2014/15 balance restated

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GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the financial year 2015/16 and its position at the year end of 31 March 2016. The Accounts and Audit (England) Regulations 2011 require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice for Local Authorities 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

ACCRUALS OF EXPENDITURE AND INCOME

The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of 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. are 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.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category will include cash on call and 3 months or less term deposit and also instant access money market funds.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

COLLECTION FUND 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.

EMPLOYEE BENEFITS

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 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.

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.

Post-employment benefits - Pension arrangements

Employees of the Council are members of 3 separate pension schemes:

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

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council.

The teachers' 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:

- Lancashire County Council paid an employer's contribution of 12.6% for non-school employees and 20% for schools employees during 2015/16; plus a separate contribution of £16 million towards the pension fund deficit.
- 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 3.6%. 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

This 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 Comprehensive Income and Expenditure Statement in cost of services;

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 "Re-measurements". 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 is 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.

Re-measurements (assets)

These are set out in IAS19 as being the return on assets net of interest on assets. 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".

Re-measurements (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

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 when the 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.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period 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.

FINANCIAL INSTRUMENTS

Financial instruments arise when contracts create financial assets and liabilities, and these are recognised on the Council's Balance Sheet. Typical financial assets include bank deposits, investments and loans by the Council and amounts receivable whilst financial liabilities include amounts borrowed by the Council and amounts payable.

Financial assets

Financial assets are classified into 3 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 against 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.

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.

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.

GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the 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.

HERITAGE ASSETS

The CIPFA Code of Practice defines Heritage Assets as any asset that is held as a contribution to knowledge or culture. The Council has a number of assets which are held and maintained principally for their contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage Assets. These assets are carried at valuation as permitted by the Code.

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 Council. In broad terms any acquisition by the Council must relate to the County Palatine of Lancaster. Consideration is also given to the ability of the 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. However, no collection is static and Lancashire County Museum Service is currently reviewing the collections to identify any areas that are not appropriate to the formal Acquisition and Disposals Policy or are not in a fit state for long term preservation. If any items are thought to be appropriate for rationalisation the Museums Association Code of Practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location of an item before any consideration of final disposal is made.

The valuation of the Council's heritage assets has included a degree of estimation. With respect to the museum's collection those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items. It is not considered to be economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the Council's holding.

As part of the valuation process for heritage assets consideration is given as to whether there has been any physical damage or any factors which are likely to significantly affect the market value. Where there is a change in the value of the heritage assets the normal accounting policy for the change as outlined in the accounting policy for property, plant and equipment will be followed.

LEASES

Leases are classified as either finance or operating leases based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee. The decision depends on the substance of the transaction rather than the contract. Leases are classed as finance leases where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance lease debtors are recognised in the Balance Sheet on commencement at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

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.

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 2015/16 (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 2 cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the net cost of services.

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.

PRIVATE FINANCE INITIATIVE (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 the 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.

The amounts payable to the PFI operators each year are analysed into 5 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 recognised as property, plant and equipment 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 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.

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 benefit(s) 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

The valuation basis of operational property, plant and equipment has not changed with the incorporation of International Financial Reporting Standard (IFRS) 13 'Fair Value Measurement' into the 2015/16 Code of Practice on Local Authority Accounting.

Assets that are purchased, 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.

- All other assets including surplus assets and asset held for sale – fair value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost 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 5 years in accordance with Code of Practice requirements. Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in valuation for similar assets and a range of indices to the carrying amounts of those assets. Indices are used to support market-based evidence that valuations are kept up to date rather than being used to calculate the carrying value of the assets. The revaluation programme is managed so that this estimate is not materially different to the carrying amount in the Balance Sheet.

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 evaluated 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 in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line 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 10 to 50 years depending upon the nature of the asset.

Where a 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

Surplus assets are defined as assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale. Only when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction within the coming year, it is reclassified as an asset held for sale. The 2015/16 Code of Practice on Local Authority Accounting has revised the requirements for valuation of surplus and available for sale assets. Under the new code surplus assets must be held at fair value which is defined as 'the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.' 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 property, plant and equipment 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.

Property, plant and equipment not owned by the Council

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within our property, plant and equipment as the Council receives the benefit from using the properties in terms of delivery of services and also meet their costs of service provision.

PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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.

Contingent assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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.

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 notes.

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 in the Movement in Reserves Statement from the County Fund to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of council tax.

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.

Supplementary Accounts and Explanatory Notes

Avenham Park, Preston

INTRODUCTION

The standard financial statements consider the County Council only as a single entity, accounting for its interests in other organisations only to the extent of its investment, and not current performance and balances. Thus a full picture of the Council's economic activities, financial position, service position, accountability for resources and exposure to risk is not presented in the Council's single entity financial statements.

As a result, group financial statements are produced to reflect the extent of Lancashire County Council's involvement with its group undertakings in order to provide a clearer picture of the Council's activities as a group.

The group accounts contain core financial statements similar to those included in the Council's single entity statements, consolidated with figures from organisations considered to be part of the group.

The following pages include:

- Group Comprehensive Income and Expenditure Statement
- Group Movement in Reserves Statement
- Group Balance Sheet
- Group Cash Flow Statement
- Notes to the Group Financial Statements

The group financial statements are presented in accordance with the IFRS based Code.

Lancashire County Developments Limited
Company registration number: 1624144

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989.

Lancashire County Developments Limited (LCDL) 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, with the other 2 members of the company (Blackburn with Darwen Borough Council and Blackpool Borough Council) having 10% of voting rights each. It is classed as a subsidiary of the County Council.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are Lancashire County Developments (Property) Limited which owns and manages 3 commercial estates in Lancashire and Lancashire County Developments (Investments) Limited which has an investment portfolio of business loans to companies operating in Lancashire within key sectors to enable start up and growth.

There are 6 other dormant companies within the group structure which are subsidiaries of LCDL:

Preston Technology Management Centre Limited
Lancashire County Enterprises (Leasing) Limited
Lancashire Enterprises (Investments) Limited
Lancashire Business and Innovation Centre Limited
The Lancashire Rosebud (small firms) Fund Company Limited
North West Regional Fund Limited

County Councillors have been appointed as directors 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.

Consolidation of subsidiaries

Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated

Due to the timing, this information is based on unaudited accounts.

Principal risks and uncertainties

The group uses financial instruments; these include cash and various other items, such as trade debtors and trade creditors that arise directly from its operations. The existence of these financial instruments exposes the group to a number of financial risks, which are described in more detail below.

- ***Liquidity risk*** - The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.
- ***Credit risk*** - The group's principal financial assets are cash deposits, cash and trade debtors. The credit risk associated with cash is limited. The principal credit risk arises, therefore, from its trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

2014/15				2015/16		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
7.9	(5.7)	2.2	Central services to the public	4.7	(0.6)	4.1
1,136.1	(955.6)	180.5	Children's and education services	1,226.7	(949.7)	277.0
27.0	(3.7)	23.3	Cultural and related services	24.5	(3.6)	20.9
211.3	(36.4)	174.9	Environmental and regulatory services	102.6	(12.9)	89.7
114.1	(27.5)	86.6	Highways and transport services	97.3	(26.3)	71.0
0.2	0	0.2	Other housing services	0	0	0
444.1	(114.9)	329.2	Adult social care	516.9	(173.0)	343.9
31.9	(23.6)	8.3	Planning services	40.1	(7.8)	32.3
52.9	(56.2)	(3.3)	Public health	62.4	(65.4)	(3.0)
8.8	(19.6)	(10.8)	Corporate and democratic core	5.4	0	5.4
117.2	(37.2)	80.0	Non distributed costs	133.7	(43.5)	90.2
2,151.5	**(1,280.4)**	**871.1**	**Cost of services**	**2,214.3**	**(1,282.8)**	**931.5**
7.1	(13.8)	(6.7)	Other operating income and expenditure (Note 2)	5.8	(18.4)	(12.6)
106.0	(84.1)	21.9	Financing and investment income and expenditure (Note 3)	73.4	(35.2)	38.2
0	(937.5)	(937.5)	Taxation and non-specific grant income	0	(922.9)	(922.9)
2,264.6	**(2,315.8)**	**(51.2)**	**(Surplus)/deficit on provision of services**	**2,293.5**	**(2,259.3)**	**34.2**
0.1	0	0.1	Taxation on profit on ordinary activities (Note 5)	0	0	0
2,264.7	**(2,315.8)**	**(51.1)**	**Group (surplus)/deficit**	**2,293.5**	**(2,259.3)**	**34.2**
		(20.5)	(Surplus)/deficit on revaluation of non-current assets			(63.3)
		301.9	Remeasurement of the net defined benefit pension liability/(asset)			(228.7)
		5.1	Other adjustments			(2.2)
		(20.8)	(Surplus)/deficit on revaluation of available for sale assets			2.2
		265.7	**Other comprehensive income and expenditure**			**(292.0)**
		214.6	**Total comprehensive income and expenditure**			**(257.8)**

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2015/16

	County Fund	Earmarked Revenue Reserves	Earmarked Capital Funding Reserves (Revenue)	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves of the Authority	Reserves of Subsidiaries	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**	**(34.8)**	**(920.9)**
Movement in 2015/16										
(Surplus)/deficit on the provision of services	39.9	0	0	0	0	**39.9**	0	**39.9**	(5.7)	**34.2**
Other comprehensive income and expenditure	0	0	0	0	(2.2)	**(2.2)**	(289.8)	**(292.0)**	0	**(292.0)**
Total comprehensive income and expenditure	**39.9**	**0**	**0**	**0**	**(2.2)**	**37.7**	**(289.8)**	**(252.1)**	**(5.7)**	**(257.8)**
Adjustment between accounting basis and funding basis under regulation	(15.9)	0	0	15.3	(24.5)	**(25.1)**	25.1	**0**	0	**0**
Net (increase)/decrease before transfers to earmarked reserves	**24.0**	**0**	**0**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**	**(5.7)**	**(257.8)**
Transfers (to)/from earmarked reserves (Note 6)	(24.0)	11.6	12.4	0	0	**0**	0	**0**	0	**0**
(Increase)/decrease in year	**0**	**11.6**	**12.4**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**	**(5.7)**	**(257.8)**
Balance at 31 March 2016	**(36.0)**	**(364.5)**	**(0.1)**	**(17.7)**	**(70.8)**	**(489.1)**	**(649.1)**	**(1,138.2)**	**(40.5)**	**(1,178.7)**

2014/15

	County Fund	Earmarked Revenue Reserves	Earmarked Capital Funding Reserves (Revenue)	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves of the Authority	Reserves of Subsidiaries	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2014	**(36.0)**	**(296.6)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**	**(32.3)**	**(1,135.5)**
Movement in 2014/15										
(Surplus)/deficit on the provision of services	(48.6)	0	0	0	0	**(48.6)**	0	**(48.6)**	(2.5)	**(51.1)**
Other comprehensive income and expenditure	0	0	0	0	5.1	**5.1**	260.6	**265.7**	0	**265.7**
Total comprehensive income and expenditure	**(48.6)**	**0**	**0**	**0**	**5.1**	**(43.5)**	**260.6**	**217.1**	**(2.5)**	**214.6**
Adjustment between accounting basis and funding basis under regulation	(30.2)	0	0	(1.7)	(1.4)	**(33.3)**	33.3	**0**	0	**0**
Net (increase)/decrease before transfers to earmarked reserves	**(78.8)**	**0**	**0**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**	**(2.5)**	**214.6**
Transfers (to)/from earmarked reserves (Note 6)	78.8	(79.5)	0.7	0	0	**0**	0	**0**	0	**0**
(Increase)/decrease in year	0	(79.5)	0.7	(1.7)	3.7	**(76.8)**	293.9	**217.1**	**(2.5)**	**214.6**
Balance at 31 March 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**	**(34.8)**	**(920.9)**

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31 March 2015 £m		Note	31 March 2016 £m
2,638.2	Property, plant and equipment		2,681.7
28.7	Heritage assets		28.7
38.1	Investment properties	7	45.4
21.7	Intangible assets		24.6
257.4	Long term investments	12	440.4
78.3	Long term debtors	8	72.8
3,062.4	**Long term assets**		**3,293.6**
267.8	Short term investments	12	119.7
3.0	Inventories		2.7
137.6	Short term debtors	9	109.2
12.6	Payments in advance		13.2
137.4	Cash and cash equivalents	10	51.1
5.2	Assets held for sale		11.3
563.6	**Current assets**		**307.2**
(574.2)	Short term borrowing		(399.2)
(203.9)	Short term creditors	11	(172.5)
(15.4)	Receipts in advance		(16.5)
(18.0)	Short term provisions		(12.2)
(4.6)	Other current liabilities		(4.6)
(816.1)	**Current liabilities**		**(605.0)**
(13.8)	Long term provisions		(19.0)
(0.1)	Deferred tax liability	13	(0.1)
(469.0)	Long term borrowing	12	(584.8)
(1,406.1)	Other long term liabilities	12	(1,213.2)
(1,889.0)	**Long term liabilities**		**(1,817.1)**
920.9	**Net assets**		**1,178.7**
(501.7)	Usable reserves		(489.1)
(384.4)	Unusable reserves	14	(649.1)
(27.2)	Subsidiary usable reserves		(27.6)
(7.6)	Subsidiary unusable reserves	14	(12.9)
(920.9)	**Total reserves**		**(1,178.7)**

2014/15 £m		Note	2015/16 £m
(51.1)	Net surplus/(deficit) on the provision of services		34.2
(180.3)	Adjustments to net surplus/deficit on the provision of services for non-cash movements		(216.2)
238.6	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities		204.6
0.2	Taxation paid		0
7.4	**Net cash flows from operating activities**	15	**22.6**
(60.0)	Investing activities	16	2.5
14.9	Financing activities	17	61.2
(37.7)	**Net increase/(decrease) in cash or cash equivalents**		**86.3**
(99.7)	Cash and cash equivalents at the beginning of the reporting period		(137.4)
(137.4)	**Cash and cash equivalents at the end of the reporting period**	10	**(51.1)**

1 GROUP AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

Reconciliation of Departmental Income and Expenditure to cost of services in the Comprehensive Income and Expenditure Statement

31 March 2015 £m		31 March 2016 £m
781.6	**Net expenditure in the departmental analysis**	**726.1**
186.6	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	217.9
(97.1)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(12.5)
871.1	**Cost of services in the Comprehensive Income and Expenditure Statement**	**931.5**

Reconciliation to subjective analysis 2015/16

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(253.3)	(119.5)	89.3	**(283.5)**	(20.5)	**(304.0)**
Interest and investment income	(28.0)	28.0	0	**0**	(33.1)	**(33.1)**
Income from council tax precept	0	0	0	**0**	(394.4)	**(394.4)**
Income from business rates precept	0	0	0	**0**	(33.4)	**(33.4)**
Government grants and contributions	(152.1)	(847.2)	0	**(999.3)**	(495.1)	**(1,494.4)**
Total income	**(433.4)**	**(938.7)**	**89.3**	**(1,282.8)**	**(976.5)**	**(2,259.3)**
Employee expenses	366.4	624.5	0	**990.9**	0	**990.9**
Other service expenses	722.8	533.2	(101.8)	**1,154.2**	0	**1,154.2**
Depreciation, amortisation and impairment	50.1	0	0	**50.1**	0	**50.1**
Interest payments	19.1	0	0	**19.1**	35.4	**54.5**
Levies	1.1	(1.1)	0	**0**	1.1	**1.1**
Net pension interest costs	0	0	0	**0**	38.0	**38.0**
Gain or loss on disposal of non-current assets	0	0	0	**0**	4.7	**4.7**
Total expenditure	**1,159.5**	**1,156.6**	**(101.8)**	**2,214.3**	**79.2**	**2,293.5**
(Surplus)/deficit on the provision of services	**726.1**	**217.9**	**(12.5)**	**931.5**	**(897.3)**	**34.2**

Reconciliation to subjective analysis 2014/15

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(291.3)	(1.8)	0	**(293.1)**	(13.5)	**(306.6)**
Interest and investment income	(82.4)	0	82.4	**0**	(84.5)	**(84.5)**
Income from council tax precept	0	0	0	**0**	(380.2)	**(380.2)**
Income from business rates precept	0	0	0	**0**	(32.9)	**(32.9)**
Government grants and contributions	(1,104.6)	0	117.3	**(987.3)**	(524.3)	**(1,511.6)**
Total income	**(1,478.3)**	**(1.8)**	**199.7**	**(1,280.4)**	**(1,035.4)**	**(2,315.8)**
Employee expenses	1,003.2	(12.9)	0	**990.3**	0	**990.3**
Other service expenses	1,187.3	1.2	(227.4)	**961.2**	0	**961.2**
Support service recharges	0	0	0	**0**	0	**0**
Depreciation, amortisation and impairment	0	200.0	0	**200.0**	0	**200.0**
Interest payments	68.4	0	(68.4)	**0**	68.4	**68.4**
Levies	1.0	0	(1.0)	**0**	1.0	**1.0**
Net pension interest costs	0	0	0	**0**	37.6	**37.6**
Gain or loss on disposal of non-current assets	0	0	0	**0**	6.2	**6.2**
Total expenditure	**2,259.9**	**188.4**	**(296.8)**	**2,151.5**	**113.2**	**2,264.7**
(Surplus)/deficit on the provision of services	**781.6**	**186.6**	**(97.1)**	**871.1**	**(922.2)**	**(51.1)**

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2 GROUP OTHER OPERATING INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
1.0	Levies for flood defences and inshore fisheries and conservation authorities	1.1
(7.4)	Net (gains)/losses on the disposal of non-current assets	(7.2)
(0.3)	Other operating income/expenditure	(6.5)
(6.7)	**Total**	**(12.6)**

3 GROUP FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
17.9	Interest payable and other similar charges	19.1
26.2	Interest payable on PFI unitary payments	16.3
[1] 24.3	Premium on early repayment of debt	0
37.6	Net interest of the net defined benefit liability	38.0
[2] (82.6)	Interest receivable and similar income	(27.8)
(1.9)	Changes in the fair value of investment properties	(7.4)
21.5	**Total**	**38.2**

[1] Relates to the refinancing of waste treatment facilities
[2] The sale of bonds by LCC has been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

4 GROUP FEES PAYABLE TO AUDITORS

2014/15 £000		2015/16 £000
182	Fees incurred with regard to external audit services provided by Grant Thornton	143
3	Fees incurred for the certification of grant claims and returns by Grant Thornton	0
4	Fees incurred for other audit work undertaken by Grant Thornton	8
20	Fees payable in respect of other services provided by Grant Thornton during the year	24
209	**Total**	**175**

5 GROUP TAXATION

Taxation expenses are only applicable to subsidiary company of Lancashire County Council.

31 March 2015 £m		31 March 2016 £m
0.6	Deferred tax: origination and reversal of timing differences	0.9
0.6	**Total deferred tax**	**0.9**
0.6	**Taxation on profit on ordinary activities**	**0.9**

Factors affecting the tax charge for the year

The tax assessed for the year is £1 million. The standard rate of corporation tax in the UK is 20%. The differences are explained below:

31 March 2015 £m		31 March 2016 £m
5.7	**Profit on ordinary activities before taxation**	**5.2**
1.2	Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	1.0
	Effect of:	
(0.1)	Capital allowances for year in excess of depreciation	0
(0.1)	Adjustments to tax charge in respect of prior periods	0
0	Other short term timing differences	(0.2)
(1.1)	Tax on fair value movements	(1.0)
0.5	Capital gains	0.9
0	Fixed asset differences	0.1
0.6	**Tax charge for year**	**0.9**

6 GROUP TRANSFERS TO/FROM EARMARKED RESERVES

i. Detailed below are the transfers to and from earmarked reserves for Lancashire County Council

	Balance at 31 March 2014 £m	Transfers out 2014/15 £m	Transfers in 2014/15 £m	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m
Reserves held to meet spending pressures							
Business Rates volatility reserve	(5.0)	0	0	(5.0)	5.0	0	0
Reserves held to deliver corporate priorities							
Strategic investment reserve	(26.8)	5.4	0	(21.4)	10.4	0	(11.0)
Modern apprentices	(0.2)	0.2	0	0	0	0	0
Local welfare reserve	(1.8)	1.8	0	0	0	0	0
Reserves held to deliver organisational change							
Downsizing reserve	(99.2)	25.5	(6.9)	(80.6)	20.7	(5.0)	(64.9)
Risk management reserve	0	0	(82.0)	(82.0)	73.4	(7.2)	(15.8)
LAA PRG monies – Lancashire	(3.9)	3.9	0	0	0	0	0
Transitional reserve	0	0	0	0	0	(141.8)	(141.8)
Reserves held to pay for expenditure commitments							
Equal pay review reserve	(0.4)	0.4	0	0	0	0	0
CC election reserve	(0.5)	0	(0.3)	(0.8)	0	(0.4)	(1.2)
Funding of capital projects	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
School reserves							
Individual school reserves	(55.9)	0.3	(0.8)	(56.4)	10.6	(7.9)	(53.7)
Other school reserves	(31.2)	20.7	(23.0)	(33.5)	25.3	(17.9)	(26.1)
Centrally managed schools maintenance reserve	(4.2)	4.2	(6.1)	(6.1)	6.1	(6.2)	(6.2)
Reserves held to meet service priorities (directorate reserves)							
Corporate reserves	(0.6)	0.5	0	(0.1)	0	0	(0.1)
Directorate reserves	(65.8)	37.6	(60.9)	(89.1)	60.4	(15.0)	(43.7)
Building repairs and maintenance reserve	(1.1)	0	0	(1.1)	1.1	0	0
Total earmarked revenue and capital reserves	**(309.8)**	**107.0**	**(185.8)**	**(388.6)**	**225.7**	**(201.7)**	**(364.6)**
Earmarked capital reserves	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
Earmarked revenue reserves	(296.6)	100.5	(180.0)	(376.1)	213.0	(201.4)	(364.5)

ii. Detailed below are the reserves of the subsidiaries of the Authority

	Balance at 31 March 2014 £m	Transfers out 2014/15 £m	Transfers in 2014/15 £m	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m
Earmarked reserves of subsidiaries							
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(21.0)	2.5	0	(18.5)	5.3	(5.7)	(18.9)
Total revenue and capital reserves	**(29.7)**	**2.5**	**0**	**(27.2)**	**5.3**	**(5.7)**	**(27.6)**

7 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

31 March 2015 £m		31 March 2016 £m
(3.2)	Rental Income from investment property	(3.2)
1.9	Direct operating expenses arising from investment property	2.0
1.3	**Total**	**1.2**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The following table summarises the movement in the value of investment properties over the year.

31 March 2015 £m		31 March 2016 £m
37.4	**Balance as at 1 April**	**38.1**
0	Additions	2.6
(1.2)	Disposals	(0.6)
1.9	Net gains/(losses) from fair value adjustments	5.3
38.1	**Balance as at 31 March**	**45.4**

Fair Value Hierarchy

Details of the Authority's investment properties and information about the fair value hierarchy as at 31 March 2016 are as follows.

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
2.8	2.8	Residential Properties	2	4.4	4.4
35.3	35.3	Commercial Units	2	41.0	40.6
38.1	**38.1**	**Total**		**45.4**	**45.0**

Significant Observable Inputs – Level 2

The fair value for the residential properties (at market rents) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The fair value for the commercial units (at market rents) have been valued by Cushman and Wakefield commercial real estate agents in accordance with the appropriate sections of the RICS Professional Standards ("PS"), RICS Global Valuation Practice Statements ("VPS"), RICS Global Valuation Practice Guidance – Applications ("VPGAs") and United Kingdom Valuation Standards ("UKVS") contained within the RICS Valuation - Professional Standards 2014, (the "Red Book"). It follows that the valuations are compliant with International Valuation Standards.

8 GROUP LONG TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
39.1	Transferred Debt [1]	35.6
35.1	Finance Lease Debtor [2]	33.3
4.1	Other Loan	3.9
78.3	**Total**	**72.8**

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

9 GROUP SHORT TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
23.0	Central Government bodies	13.3
25.0	Other local authorities	31.7
16.2	NHS bodies	7.6
0.1	Public corporations	0.1
16.7	Council tax	16.2
1.0	Non-domestic rates	0.8
55.6	Other entities and individuals	39.5
137.6	**Total**	**109.2**

10 GROUP CASH AND CASH EQUIVALENTS

31 March 2015 £m		31 March 2016 £m
0.8	Cash held by the Council	0.7
29.3	Bank current accounts	39.7
107.3	Short term deposits under 3 months	10.7
137.4	**Total**	**51.1**

11 GROUP SHORT TERM CREDITORS

31 March 2015 £m		31 March 2016 £m
(19.8)	Central Government bodies	(19.9)
(14.8)	Other local authorities	(17.4)
(5.3)	NHS bodies	(7.2)
(0.2)	Public corporations and trading funds	(0.4)
(163.8)	Other creditors	(127.6)
(203.9)	**Total**	**(172.5)**

12 GROUP FINANCIAL INSTRUMENTS

Financial assets

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
58.0	74.6	132.6	Loans and receivables	47.2	10.3	**57.5**
198.4	0	198.4	Available for sale financial assets	392.0	0	**392.0**
1.0	193.2	194.2	Financial assets at fair value through profit and loss	1.2	109.4	**110.6**
257.4	**267.8**	**525.2**	**Total investments**	**440.4**	**119.7**	**560.1**
0	137.4	137.4	Cash and cash equivalents	0	51.1	**51.1**
78.3	110.1	188.4	Debtors *	72.8	76.1	**148.9**
335.7	**515.3**	**851.0**	**Total financial assets**	**513.2**	**246.9**	**760.1**
***** *The debtors figure stated is lower than the debtors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial asset – receipts in advance and non-exchange transactions*						
0	*27.5*	*27.5*		*0*	*33.1*	*33.1*

Financial liabilities

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(469.0)	(574.2)	(1,043.2)	Financial liabilities at amortised cost	(584.8)	(399.2)	**(984.0)**
0	# (160.9)	(160.9)	Creditors *	0	(126.2)	**(126.2)**
(167.8)	(4.6)	(172.4)	Other financial liabilities (PFI) at amortised cost	(163.1)	(4.6)	**(167.7)**
(636.8)	**(739.7)**	**(1,376.5)**	**Total financial liabilities**	**(747.9)**	**(530.0)**	**(1,277.9)**
***** *The creditors figure stated is lower than the creditors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions*						
0	*43.0*	*43.0*		*0*	*46.3*	*46.3*

The prior year creditors figure has been restated following further analysis.

Income, expense, gains and losses on financial instruments

2015/16

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans & Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit & Loss £m	Total £m
Interest expense	34.7	0	0	0	34.7
Fee expense	0.7	0	0	0	0.7
Total expense in surplus on the provision of services	**35.4**	**0**	**0**	**0**	**35.4**
Interest income	0	(4.7)	(6.5)	(1.6)	(12.8)
Decreases in fair value	0	0	0	0.4	0.4
Gains on de-recognition	0	0	(11.5)	(6.7)	(18.2)
Loss on de-recognition	0	0.8	1.6	0.5	2.9
Total income in surplus on the provision of services	**0**	**(3.9)**	**(16.4)**	**(7.4)**	**(27.7)**
(Gain)/loss on revaluation	0	0	2.2	0	2.2
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**2.2**	**0**	**2.2**
Total net (gain)/loss for the year	**35.4**	**(3.9)**	**(14.2)**	**(7.4)**	**9.9**

2014/15

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans & Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit & Loss £m	Total £m
Interest expense [1]	67.9	0	0	0	67.9
Fee expense	0.5	0	0	0	0.5
Total expense in surplus on the provision of services	**68.4**	**0**	**0**	**0**	**68.4**
Interest income	0	(4.7)	(5.1)	(1.1)	(10.9)
Decreases in fair value	0	0	0	0.1	0.1
Gains on de-recognition	0	0	(14.8)	(65.9)	(80.7)
Loss on de-recognition	0	0.5	1.2	7.6	9.3
Total income in surplus on the provision of services	**0**	**(4.2)**	**(18.7)**	**(59.3)**	**(82.2)**
(Gain)/loss on revaluation	0	0	(20.8)	0	(20.8)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**(20.8)**	**0**	**(20.8)**
Total net (gain)/loss for the year	**68.4**	**(4.2)**	**(39.5)**	**(59.3)**	**(34.6)**

[1] This includes a premium of £24.3 million in relation to the refinancing of waste treatment facilities

Fair value of financial assets

31 March 2015				31 March 2016	
Balance Sheet Value £m	**Fair Value £m**		**Fair Value Level**	**Balance Sheet Value £m**	**Fair Value £m**
		Financial assets held at fair value			
		Available for sale financial assets			
38.1	38.1	Local authority bonds	2	37.8	37.8
160.3	160.3	Bond, equity and property funds	1	354.2	354.2
1.0	1.0	Equity investment in companies	3	1.1	1.1
199.4	**199.4**	**Sub total**		**393.1**	**393.1**
		Financial assets at fair value through profit and loss			
193.2	193.2	Bond, equity and property funds	1	109.4	109.4
193.2	**193.2**	**Sub total**		**109.4**	**109.4**
		Financial assets held at amortised cost			
56.9	59.0	Long term bank deposits	2	46.9	49.1
35.1	39.6	Lease receivables	3	33.3	37.2
39.1	34.8	Transferred debt receivables	2	35.6	35.5
5.2	5.4	Long term loans to companies	3	4.2	4.0
136.3	**138.8**	**Sub total**		**120.0**	**125.8**
528.9	**531.4**	**Total**		**622.5**	**628.3**
322.1		**Assets for which fair value is not disclosed ***		137.6	
851.0		**Total financial assets**		**760.1**	
		Recorded on Balance Sheet as:			
78.3		Long term debtors		72.8	
257.4		Long term investments		440.4	
110.1		Short term debtors		76.1	
267.8		Short term investments		119.7	
137.4		Cash and cash equivalents		51.1	
851.0		**Total financial assets**		**760.1**	

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

Fair value of financial liabilities

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial liabilities held at amortised cost			
338.9	385.9	Long term PWLB loans	2	338.9	389.8
52.2	106.9	Long term LOBO loans	2	52.1	106.9
77.9	80.5	Other long term loans	2	193.9	197.1
172.4	283.7	PFI liabilities	3	167.7	263.9
641.4	**857.0**	**Total**		**752.6**	**957.7**
735.1		**Liabilities for which fair value is not disclosed ***		525.3	
1,376.5		**Total financial liabilities**		**1,277.9**	
		Recorded on Balance Sheet as:-			
160.9		Short term creditors		126.2	
574.2		Short term borrowings		399.2	
469.0		Long term borrowings		584.8	
172.4		Other long term liabilities		167.7	
1,376.5		**Total financial liabilities**		**1,277.9**	

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

13 DEFERRED TAXATION

Taxation expenses are only applicable to subsidiary company of Lancashire County Council. The deferred taxation balance consists of accelerated capital allowances.

31 March 2015 £m		31 March 2016 £m
0.1	**Balance as at 1 April**	**0.1**
0	Charge for the year	0
0.1	**Balance as at 31 March**	**0.1**

14 GROUP UNUSABLE RESERVES

The table below gives details of the Council's unusable reserves:

31 March 2015 £m		31 March 2016 £m
6.6	Available for Sale Financial Instruments Reserve	8.8
48.2	Financial Instruments Adjustment Account	45.0
(674.2)	Revaluation Reserve	(724.9)
(1,020.0)	Capital Adjustment Account	(1,047.5)
1,238.2	Pensions Reserve	1,049.9
(6.4)	Collection Fund Adjustment Account	(3.7)
23.2	Accumulated Absences Adjustment Account	23.3
(384.4)	**Total unusable reserves of the Authority**	**(649.1)**
(7.6)	Revaluation reserve for subsidiary	**(12.9)**
(392.0)	**Total group unusable reserves**	**(662.0)**

The revaluation reserve for the subsidiary is detailed below.

31 March 2015 £m		31 March 2016 £m
(2.6)	**Balance as at 1 April**	**(7.6)**
(5.0)	Upward revaluation of assets	(5.3)
(5.0)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(5.3)**
(7.6)	**Balance as at 31 March**	**(12.9)**

15 GROUP CASH FLOWS FROM OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

31 March 2015 £m		31 March 2016 £m
(83.7)	Interest received	(28.5)
41.2	Interest paid	35.1

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

31 March 2015 £m		31 March 2016 £m
(48.0)	Depreciation	(43.5)
(128.8)	Impairment and downward valuations	(117.5)
(3.9)	Amortisation of intangible assets	(3.3)
4.0	Increase/(decrease) in provision for bad debts	7.1
24.2	(Increase)/decrease in creditors	3.7
13.8	Increase/(decrease) in debtors	(21.6)
(0.2)	Increase/(decrease) in inventories	(0.3)
(31.2)	Movement in pension liability	(40.4)
(7.0)	Carrying amount of non-current assets sold	(4.7)
(3.2)	Other non-cash items charged to the surplus or deficit on the provision of services	4.3
(180.3)	**Total**	**(216.2)**

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

31 March 2015 £m		31 March 2016 £m
71.9	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	16.2
14.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11.2
152.2	Capital grants credited to the surplus on the provision of services	177.2
238.6	**Total**	**204.6**

16 GROUP CASH FLOWS FROM INVESTING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
166.3	Purchase of property, plant and equipment, investment property and intangible assets	159.4
12,188.0	Purchase of short term and long term investments	6,282.3
35.5	Other payments for investing activities	0
(14.5)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.5)
(12,283.7)	Proceeds from the sale of short term and long term investments	(6,237.4)
(151.6)	Other capital grants and receipts from investing activities	(195.3)
(60.0)	**Net cash flows from investing activities**	**2.5**

17 GROUP CASH FLOWS FROM FINANCING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
(1,275.5)	Cash receipts from short term and long term borrowing	(1,104.5)
3.7	Appropriate to/from Collection Fund Adjustment Account	(2.9)
1,059.1	Repayment of short term and long term borrowing	1,163.9
227.6	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	4.7
14.9	**Net cash flows from financing activities**	**61.2**

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 Director of Financial Resources, who is also the Director of Financial Resources 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 Director of Financial Resources to the Pension Fund

The Director of Financial Resources 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 Director of Financial Resources 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 Director of Financial Resources 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 2016 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.

Neil Kissock
Director of Financial Resources
26 September 2016

ANNUAL GOVERNANCE STATEMENT 2015/16

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2016 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 162,466 members across 261 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund 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 Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's 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.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2016.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements.

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.
A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery
- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. Following a restructure of the County Council's management the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund. These functions were transferred to the interim Head of Fund on 24 March 2016. This was as a result of establishing the Local Pensions Partnership and the Director of the Fund transferring into this new arrangement.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.
The key planned activities of the Fund during 2015/16 were:

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pensions Fund Authority that could require fundamental changes to the Fund's Governance arrangements.

- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.

- The further review of the Fund's policies and discretions in the light of LGPS 2014.

- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.

- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved the arrangements for the pooling of assets and sharing of services with the London Pensions Fund Authority.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The Director of Finance, Governance and Public Services as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Head of Internal Audit who is managerially accountable to the Director of Legal and Democratic Services. The Head of Internal Audit provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Head of Internal audit's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Head of Internal Audit's Annual Report for 2015/16 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2016/17

The following specific actions are proposed for completion during 2016/17.

- Working with the Fund's Actuary and engaging with the employer's throughout the valuation process to ensure that risks to the longer term sustainability of the fund and costs to employers are dealt with in a balanced and transparent manner.
- Finalise a review of the investment strategy, and in particular the Strategic Asset Allocation for the fund based on the actuarial valuation.
- A further review of the Fund's governance arrangements as the relationship with Local Pensions Partnership (LPP) becomes more established.
- A review of the effectiveness of the Local Pensions Board.
- Preparing for the injection of new committee members following the 2017 elections by designing an induction and training program.

County Councillor Kevin Ellard
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Independent auditor's statement to the members of Lancashire County Council on the Pension Fund financial statements included in the Pension Fund annual report

The published version will include the Audit Certification on this page.

LANCASHIRE COUNTY PENSION FUND

Fund account

2014/15 £m		Note	2015/16 £m
	Dealing with members, employers and others directly involved in the Fund		
238.0	Contributions	6	238.6
4.8	Transfers in from other pension funds	7	5.5
242.8			**244.1**
(240.2)	Benefits	8	(245.8)
(100.1)	Payments to and on account of leavers	9	(12.5)
(35.4)	Management expenses	10	(45.3)
(375.7)			**(303.6)**
(132.9)	**Net withdrawals from dealings with members**		**(59.5)**
	Returns on investments		
90.7	Investment income	11	99.1
684.7	Profit and losses on disposal of investments and changes in the market value of investments	14	165.9
775.4	**Net return on investments**		**265.0**
642.5	**Net increase / (decrease) in the net assets available for benefits during the year**		**205.5**

LANCASHIRE COUNTY PENSION FUND

Net assets statement as at 31 March 2016

31 March 2015 £m		Note	31 March 2016 £m
6,383.1	Investment assets	14	6,108.0
60.0	Cash deposits	14	210.3
6,443.1			**6,318.3**
(629.6)	Investment liabilities	14	(291.0)
28.1	Current assets	20	27.7
(10.9)	Current liabilities	21	(18.8)
5,830.7	**Net assets of the Fund available to fund benefits at the period end**		**6,036.2**

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 as at 31 March 2016 and its income and expenditure for the year then ended.

Neil Kissock
Director of Financial Resources

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 2015/16 cash inflows during the year consisted of £343.2 million and cash outflows were £303.6 million, representing a net cash inflow of £39.6 million (compared with an outflow of £42.2 million in the previous year). Benefits payable amounted to £245.8 million and were partially offset by net investment income of £99.1 million (including £13.1 million accrued dividends); contributions of £238.6 million and transfers in of £5.5 million.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

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 Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house 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

On 8 April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11th April.
LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 369 employer organisations (2014/15: 320 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 261 have active members (2014/15: 218) as detailed below:

31 March 2015	Lancashire County Pension Fund	31 March 2016
320	Total number of employers	369
218	Number of employers with active members	261
	Number of active scheme members	
27,405	County Council	27,106
26,774	Other employers	29,223
54,179	**Total**	**56,329**
	Number of pensioners	
21,765	County Council	22,414
21,446	Other employers	22,093
43,211	**Total**	**44,507**
	Number of deferred pensioners	

29,148	County Council	33,253
26,665	Other employers	28,377
55,813	**Total**	**61,630**
153,203	**Total membership**	**162,466**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31 March 2016 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**	**Service post 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2015/16 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 25 of these accounts.

3. ACCOUNTING POLICIES

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

Normal contributions both from the members and from the employer are accounted for on an accruals basis. Member contributions are in accordance with the LGPS Regulations 2013 and employer contributions are at the percentage rate recommended by the scheme actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

3.1.2 Transfers to and from other schemes

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 Government 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.

3.1.3 Investment income

3.1.3.1 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.

3.1.3.2 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 assets statement as a current financial asset.

3.1.3.3 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 assets statement as a current financial asset.

3.1.3.4 Property–related income

Property-related income consists primarily of rental income.

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 based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 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.

3.2 Fund account – expense items

3.2.1 Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

3.2.2 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.

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs".

Management expenses have now been broken down across the following three categories:

- 3.2.4 - Administrative expenses
- 3.2.5 - Oversight and governance expenses
- 3.2.6 - Investment management expenses

3.2.4 Administrative expenses

Administration expenses consist of the following :

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

All administrative expenses are accounted for on an accruals basis. 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.

3.2.5 Oversight and governance expenses

Oversight and governance expenses include the following costs:

- Selection, appointment and performance management and monitoring of external fund managers;
- Selection, appointment and performance management and monitoring of fund managers;
- Investment advisory services (strategic allocation, manager monitoring and selection, etc);
- Independent advisors to the pension fund;
- Operation and support of the pensions committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

3.2.6 Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets.

All investment management expenses are accounted for on an accruals basis.

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.

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2015/16, £4.7m of fees is based on such estimates (2014/15: £2.3m).

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.

3.3 Net assets statement

3.3.1 Financial assets

Financial assets, other than loans and receivables, are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

3.3.2 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.

3.3.3 Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

3.3.4 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.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, 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 International Private Equity and Venture Capital Valuation Guidelines 2012.

3.3.5 Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.3.6 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.

3.3.7 Freehold and leasehold properties

The properties were valued at open market value at 31 March 2016 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.8 Acquisition costs of investments

The acquisition costs of investments are included within the purchase price.

3.3.9 Valuation of investments

Investments are shown at their fair value as at 31 March 2016. The fair value is the current bid price for quoted securities and unitised securities.

3.3.10 Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

3.3.11 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.

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.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

3.3.12 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.

3.3.13 Cash and cash equivalents

Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

3.3.14 Financial liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

3.3.15 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 or loss.

3.3.16 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 assets statement (note 25).

3.3.17 Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The AVC providers to the Pension Fund are Equitable Life and Prudential. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

3.3.18 Securities lending

Investments lent under securities lending arrangements continue to be recognised in the net assets 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.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

4.1 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 the International Private Equity and Venture Capital Valuation Guidelines 2012.

4.2 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 24. 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 ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2016 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 the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £917.7 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,454.2m. There is a risk that these investments might be under or overstated in the accounts.
Bonds secured on affordable housing assets	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £83.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £80.5m. 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 £380m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £165m.

6. CONTRIBUTIONS RECEIVABLE

2014/15 £m		2015/16 £m
	By category	
183.2	Employers	183.7
54.8	Members	54.9
238.0		**238.6**
	By authority	
102.1	County Council	104.2
115.4	Scheduled bodies	113.2
20.5	Admitted bodies	21.2
238.0		**238.6**
	By type	
54.8	Employee's normal contributions	54.8
124.4	Employer's normal contributions	122.5
47.3	Employer's deficit recovery contributions	49.0
11.5	Employer's augmentation contributions	12.3
238.0		**238.6**

Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2015/16, £0.4m is voluntary and additional regular contributions (2014/15: £0.4m).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

2014/15 £m		2015/16 £m
4.8	Individual transfers in from other schemes	5.5
4.8		**5.5**

8. BENEFITS PAYABLE

2014/15 £m		2015/16 £m
	By category	
192.0	Pensions	200.2
41.7	Lump sum retirement benefits	40.5
6.5	Lump sum death benefits	5.1
240.2		**245.8**
	By authority	
106.3	County Council	107.2
118.5	Scheduled bodies	120.4
15.4	Admitted bodies	18.2
240.2		**245.8**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014/15 £m		2015/16 £m
0.2	Refunds to members leaving service	0.7
10.3	Individual transfers	11.2
89.6	Group transfers	0.6
100.1		**12.5**

10. MANAGEMENT EXPENSES

2014/15 £m		2015/16 £m
3.5	Administrative costs	4.1
29.4	Investment management expenses	32.5
2.5	Oversight and governance costs	8.7
35.4		**45.3**

Oversight and governance costs rose during the year due to legal and advisory costs arising from the implementation of infrastructure opportunities in line with the Funds investment strategy as well costs associated with the Funds partnership with the LPFA for the pooling of the executive and investment assets of the two organisations.

10.1 Investment management expenses

2014/15 £m		2015/16 £m
1.8	Transaction costs	1.5
26.4	Management fees	27.9
1.0	Performance related fees	2.9
0.2	Custody fees	0.2
29.4		**32.5**

The analysis of costs of managing the Fund has been prepared in accordance with CIPFA guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

11. INVESTMENT INCOME

2014/15 £m		2015/16 £m
2.9	Fixed interest securities	3.3
40.6	Equity dividends	41.6
0.0	Index linked securities	1.1
15.0	Pooled investment vehicles	22.3
24.3	Net rents from properties	29.2
0.5	Interest on cash deposits	0.5
7.4	Other	1.1
90.7		**99.1**

12. PROPERTY INCOME

2014/15 £m		2015/16 £m
29.7	Rental income	32.3
(5.4)	Direct operating expenses	(3.1)
24.3	**Net income**	**29.2**

13. 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 2015/16 was £1.5m (2015/16: £2.2m)

Securities on loan at the 31 March 2016 were £76.2m (2015: £86m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £76.2m of equities (2015: £86m equities).

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 £81.6m of bonds (2015: £92m of equities).

14. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2015/16

	Market value as at 1 April 2015 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2016 £m
Fixed interest securities	148.8	103.2	(126.8)	(2.1)	123.1
Equities	2,000.7	377.7	(347.6)	39.1	2,069.9
Index linked securities	317.9	865.0	(1,115.5)	(3.7)	63.7
Pooled investment vehicles	2,740.2	950.4	(842.7)	87.7	2,935.6
Direct property	531.4	84.4	(52.6)	44.9	608.1
	5,739.0	**2,380.7**	**(2,485.2)**	**165.9**	**5,800.4**
Derivative contracts:					
Forward currency contracts asset value	632.4				294.5
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Investment assets	**6,443.1**				**6,318.3**
Forward currency contracts liability value	(629.6)				(291.0)
Portfolio value	**5,813.5**				**6,027.3**

2014/15

	Market value as at 1 April 2014 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2015 £m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	**2,639.1**	**(2,428.3)**	**684.7**	**5,739.0**
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	**5,192.8**				**6,443.1**
Forward currency contracts liability value	(21.3)				(629.6)
Portfolio value	**5,171.5**				**5,813.5**

Investments analysed by fund manager

31 March 2015				31 March 2016	
£m	%			£m	%
Public equity					
734.1	12.6%	External managers	Baillie Gifford	733.3	12.1%
334.2	5.7%		MFS	350.1	5.8%
283.5	4.9%		Morgan Stanley	324.6	5.4%
230.8	4.0%		NGAM	209.7	3.5%
448.5	7.7%		Robeco	496.0	8.2%
266.9	4.6%	UCITS funds	AGF	234.5	3.9%
238.1	4.1%		MFG (Magellan)	251.2	4.2%
2,536.1	**43.6%**			**2,599.4**	**43.1%**
Private equity					
269.9	4.7%	External managers	Capital Dynamics	336.5	5.6%
7.6	0.1%	Direct	Standard Life	11.7	0.2%
277.5	**4.8%**			**348.2**	**5.8%**
Long term credit investments					
123.2	2.1%	Senior secured loans	Ares Institutional	56.0	0.9%
72.8	1.3%		Babson	74.5	1.2%
44.2	0.8%		Hayfin	73.0	1.2%
57.1	1.0%		Highbridge	0.0	0.0%
0.0	0.0%		Kreos	4.9	0.1%
0.0	0.0%		Muzinich Private Debt Fund	5.9	0.1%
0.0	0.0%		Permira Credit Solutions	47.3	0.8%
55.8	1.0%		THL	57.0	0.9%
0.0	0.0%		White Oak	18.4	0.3%
42.6	0.7%	Loans secured on real assets	Heylo Housing	83.6	1.4%
153.5	2.6%		Prima	214.6	3.5%
0.0	0.0%		Venn Commercial Real Estate	83.0	1.4%

11.7	0.2%		Westmill	11.4	0.2%
128.8	2.2%	Emerging market debt	Bluebay	125.0	2.1%
58.2	1.0%		HSBC	60.0	1.0%
83.5	1.4%		Investec	83.1	1.4%
129.6	2.2%		Pictet	134.0	2.2%
34.4	0.6%	Credit opportunities	CRC-Christofferson Robb & Co	89.2	1.5%
44.3	0.8%		EQT	53.0	0.9%
54.8	1.0%		MFO King Street	109.9	1.8%
53.8	0.9%		Monarch	52.4	0.9%
58.8	1.0%		Neuberger Berman	54.0	0.9%
28.9	0.5%		Pimco Bravo	47.6	0.8%
1,236.0	**21.3%**			**1,537.8**	**25.5%**
Liquid credit (cash and bonds)					
226.9	3.9%	External managers	Babson	0.0	0.0%
181.9	3.1%		ING	0.0	0.0%
457.0	7.9%		In-house	283.8	4.7%
865.8	**14.9%**			**283.8**	**4.7%**
Infrastructure					
35.9	0.6%	Direct	Arclight Energy	62.6	1.0%
65.6	1.1%		Capital Dynamics Cape Byron	66.4	1.1%
32.9	0.6%		Capital Dynamics Clean Energy	31.7	0.5%
92.8	1.6%		Capital Dynamics Red Rose	76.0	1.3%
0.0	0.0%		Capital Dynamics US Solar	0.7	0.0%
13.1	0.2%		EQT Infrastructure	9.6	0.2%
15.9	0.3%		Global Infrastructure Partners	34.3	0.6%
0.0	0.0%		Guild Investments Ltd	70.4	1.1%
33.4	0.6%		Highstar Capital	35.2	0.6%

29.8	0.5%		Icon Infrastructure	34.0	0.6%
4.3	0.1%		ISQ Global Infrastructure	7.5	0.1%
0.0	0.0%		Madrilena Red de Gas (MRG)	135.9	2.3%
0.0	0.0%		Stonepeak Infrastructure	5.2	0.1%
323.7	**5.6%**			**569.5**	**9.5%**
Property					
531.4	9.1%	Direct	Knight Frank	608.1	10.1%
12.9	0.2%	Indirect	Gatefold Hayes	30.4	0.5%
0.0	0.0%		Kames Target	14.0	0.2%
30.1	0.5%		M&G Europe fund	36.1	0.6%
574.4	**9.8%**			**688.6**	**11.4%**
5,813.5	**100.0%**	**Portfolio value**		**6,027.3**	**100.0%**

Fixed interest securities

31 March 2015 £m		31 March 2016 £m
94.2	UK corporate bonds quoted	85.3
54.6	Overseas corporate bonds quoted	37.8
148.8		**123.1**

Equities

31 March 2015 £m		31 March 2016 £m
212.3	UK quoted	191.3
1,788.4	Overseas quoted	1,878.6
2,000.7		**2,069.9**

Index linked securities

31 March 2015 £m		31 March 2016 £m
317.9	UK quoted	63.7
317.9		**63.7**

Pooled investment vehicles

31 March 2015 £m		31 March 2016 £m
	UK managed funds:	
58.2	Fixed income funds	60.0
278.5	Venture capital	369.4
12.9	Property funds	44.5
	Overseas managed funds:	
505.0	Equity funds	485.7
1,443.8	Fixed income funds	1,097.3
0.5	Cash funds	0.6
30.1	Property funds	36.1
411.2	Venture capital	842.0
2,740.2		**2,935.6**

Properties

31 March 2015 £m		31 March 2016 £m
460.6	UK – freehold	515.7
70.8	UK – long leasehold	92.4
531.4		**608.1**

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants.

Details of these directly owned properties are as follows.

31 March 2015 £m		31 March 2016 £m
450.5	**Balance as at start of the year**	**531.4**
	Additions:	
57.3	Purchases	75.5
2.4	Construction	8.9
(26.1)	Disposals	(52.6)
47.3	Net gain/loss on fair value	44.9
531.4	**Balance as at the end of the year**	**608.1**

Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

2014/15 * £m		2015/16 £m
28.6	Leases expiring in the following year	29.5
98.2	Leases expiring in 2 to 5 years	87.0
105.8	Leases expiring after 5 years	87.6
232.6	**Total**	**204.1**

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.

* Figures for 2014/15 have been restated due to more detailed information becoming available to the Fund.

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

Derivative contracts (forward currency positions)

Settlements	Currency bought*	Local value m	Currency sold*	Local value m	Asset value £m	Liability value £m
Up to one month	GBP	286.0	USD	(405.6)	286.0	(282.2)
Up to one month	JPY	35.5	USD	(0.3)	0.2	(0.2)
One to six months	USD	11.2	CHF	(10.9)	7.7	(8.0)
One to six months	USD	0.8	AUD	(1.1)	0.6	(0.6)
Open forward currency contracts at 31 March 2016					**294.5**	**(291.0)**
Net forward currency contracts at 31 March 2016						**3.5**

Prior year comparative

					Asset value £m	Liability value £m
Open forward currency contracts at 31 March 2015					**632.4**	**(629.6)**
Net forward currency contracts at 31 March 2015						**2.8**

* Currencies are referred to above using International Standards Organisation codes.

GBP – British Pound
USD – US Dollar
CHF – Swiss Franc
AUD – Australian Dollar
JPY – Japanese Yen

Cash deposits

31 March 2015 £m		31 March 2016 £m
35.0	Sterling	114.9
25.0	Foreign currency	95.4
60.0		**210.3**

15. 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.

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31 March 2016	**Fair value through profit or loss £m**	**Loans and receivables £m**	**Financial liabilities at amortised cost £m**
Financial assets			
Fixed interest securities	123.1	0	0
Equities	2,069.9	0	0
Index linked securities	63.7	0	0
Pooled investment vehicles	2,935.6	0	0
Derivative contracts	294.5	0	0
Cash deposits	0	210.3	0
Investment accruals	13.1	0	0
Debtors	0	27.7	0
Total financial assets	**5,499.9**	**238.0**	**0**
Financial liabilities			
Derivative contracts	291.0	0	0
Creditors	0	0	18.8
Total financial liabilities	**291.0**	**0**	**18.8**

31 March 2015	Fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	148.8	0	0
Equities	2,000.7	0	0
Index linked securities	317.9	0	0
Pooled investment vehicles	2,740.2	0	0
Derivative contracts	632.4	0	0
Cash deposits	0	60.0	0
Investment accruals	11.7	0	0
Debtors	0	28.1	0
Total financial assets	**5,851.7**	**88.1**	**0**
Financial liabilities			
Derivative contracts	629.6	0	0
Creditors	0	0	10.9
Total financial liabilities	**629.6**	**0**	**10.9**

16. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The net gain on financial assets at fair value through profit and loss is £121.0m (2014/15: £634.1m)

17. FINANCIAL INSTRUMENTS – VALUATION

17.1 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.

17.1.1 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.

17.1.2 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. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

17.1.3 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 and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided 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 following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,341.1	245.6	1,913.2	5,499.9
Total financial assets	**3,341.1**	**245.6**	**1,913.2**	**5,499.9**
Financial liabilities				
Financial liabilities at fair value through profit and loss	291.0	0	0	291.0
Total financial liabilities	**291.0**	**0**	**0**	**291.0**

31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
Total financial assets	**4,047.9**	**368.8**	**1,420.5**	**5,837.2**
Financial liabilities				
Financial liabilities at fair value through profit and loss	629.6	0	0	629.6
Total financial liabilities	**629.6**	**0**	**0**	**629.6**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

18.1 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.

18.2 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.

18.3 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.

18.3.1 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 2015/16 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.4%
Total equities	9.6%
Alternatives	6.4%
Total property	2.4%

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 also shown):

Asset type	31 March 2016 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,233.0	6.4%	1,311.9	1,154.1
Total equities	2,902.9	9.6%	3,181.6	2,624.2
Alternatives	975.7	6.4%	1,038.1	913.3
Total property	688.8	2.4%	705.3	672.3
Total assets available to pay benefits	**5,800.4**		**6,236.9**	**5,363.9**

Asset type	31 March 2015 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
Total assets available to pay benefits	**5,739.0**		**6,175.9**	**5,302.0**

18.4 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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2015 £m	Asset type	31 March 2016 £m
60.0	Cash and cash equivalents	210.3
1,650.8	Fixed interest securities	1,280.3
1,710.8	**Total**	**1,490.6**

18.4.1 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 (1BPS = 0.01%). 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 March 2016 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	210.3	2.1	(2.1)
Fixed interest securities	1,280.3	12.8	(12.8)
Total change in assets available	**1,490.6**	**14.9**	**(14.9)**

Asset type		Change in year in net assets available to pay benefits	
	31 March 2015 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
Total change in assets available	**1,710.8**	**17.1**	**(17.1)**

18.5 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 2016 and as at the previous year end:

31 March 2015 £m	Currency exposure – asset type	31 March 2016 £m
1,498.3	Overseas bonds (including index linked)	850.9
2,513.8	Overseas equities	2,622.9
191.4	Overseas alternatives	868.0
30.1	Overseas property	36.1
4,233.6	**Total overseas assets**	**4,377.9**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1% (as measured by one standard deviation).

A 6.1% 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 (previous year = 6.2%).

A 6.1% 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 March 2016**	**Change in year in net assets available to pay benefits**	
		+6.1%	**-6.1%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	850.9	902.8	799.0
Overseas equities	2,622.9	2,782.9	2,462.9
Overseas alternatives	868.0	920.9	815.0
Overseas property	36.1	38.3	33.9
Total change in assets available	**4,377.9**	**4,644.9**	**4,110.8**

Currency exposure - asset type	**31 March 2015**	**Change in year in net assets available to pay benefits**	
		+6.2%	**-6.2%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
Total change in assets available	**4,233.6**	**4,496.1**	**3,971.0**

18.6 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 instructions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31 March 2016 was £210.3m (31 March 2015: £60m.) This was held with the following institutions:

Summary	Rating	31 March 2016 £m	31 March 2015 £m
Bank deposit accounts			
Northern Trust	A+	154.8	30.8
Svenska Handelsbanken	AA-	55.4	30.0
Bank current accounts			
Natwest account	BBB-	0.1	(0.8)
Total		**210.3**	**60.0**

18.7 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 2016 are due within the one year.

19. 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 2015 to 31 March 2016 for Prudential and 1 September 2014 to 31 August 2015 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.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.0	21.1	22.1
Income (incl. contributions, bonuses, interest & transfers in)	0.0	4.8	4.8
Expenditure (incl. benefits, transfers out & change in market value)	(0.2)	(3.9)	(4.1)
Value at the end of the year	**0.8**	**22.0**	**22.8**

20. CURRENT ASSETS

31 March 2015 £m		31 March 2016 £m
14.4	Contributions due – employers	13.9
4.6	Contributions due – members	4.6
9.1	Debtors - bodies external to general government	9.2
28.1		**27.7**

31 March 2015 £m	Analysis of debtors	31 March 2016 £m
15.6	Other local authorities	14.9
12.5	Other entities and individuals	12.8
28.1		**27.7**

21. CURRENT LIABILITIES

31 March 2015 £m		31 March 2016 £m
0.1	Unpaid benefits	1.1
10.8	Accrued expenses	17.7
10.9		**18.8**

31 March 2015 £m	Analysis of creditors	31 March 2016 £m
4.2	Other local authorities	2.1
6.7	Other entities and individuals	16.7
10.9		**18.8**

22. 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 £665.3m. 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.

Commitments to outstanding call payments due to certain credit strategies stood at £497.2m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £19.9m at 31 March 2016. These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £13.8m at 31 March 2016. These amounts are expected to be drawn down over the next few months.

23. RELATED PARTY TRANSACTIONS

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

23.1 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 m (2014/15: £4.5m) 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 £81.4m to the fund in 2015/16 (2014/15: £79.5m). All monies owing to and due from the Fund were paid in year.

23.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2016 payroll, are included within the debtors figure in note 20.

23.3 Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2015/16 regarding membership of, and transactions with such persons or their related parties and as such the following related party transactions have been declared:

George Graham, Director of the Lancashire Pension Fund acts in an un-remunerated Chair capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

George Graham was appointed as Executive Director of the Local Pensions Partnership Ltd and Local Pensions Partnership (Administration) Ltd prior to the staff transfer on the 8 April 2016.

Mike Jensen, Chief Investment Officer acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

Mike Jensen was appointed as an Executive Director of the Local Pensions Partnership (Investments) Ltd prior to the staff transfer on the 8 April 2016.

Richard Tomlinson, Investment Manager acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m).

Trevor Castledine, Deputy Chief Investment Officer acts in an un-remunerated non-executive director capacity of Heylo Housing Ltd in which the Fund has an interest (£83.6m).

Damon Lawrenson was appointed as interim Director of Financial Resources from March 2015 until March 2016. Payments totalling £7,764.54 excluding VAT were made to the company DDL Consultancy Limited in 2015/16 of which Damon was a director. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

23.4 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 Fund does not employ any staff directly. Lancashire County Council employs the staff involved in providing the duties of the administering authority for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Lancashire County Council Statement of Accounts 2015/16.

In the interests of transparency the Fund has incorporated disclosure of the remuneration awarded of senior officers employed by Lancashire County Council who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

The remuneration as charged to Lancashire County Pension Fund of senior officers of Lancashire County Council who have significant management responsibilities for Lancashire County Pension Fund.

2015/16	Employment period	Salary £	Pension contributions £	Total including pension contributions £
*Director of Lancashire Pension Fund	01/04/15 - 31/03/16	86,199	10,800	96,999
**Head of Service Pension Fund Client	01/12/15 – 31/03/16	16,316	2,167	18,483
***Director of Financial Resources (Section 151 officer)	29/02/16 – 31/03/16	401	25	426
Chief Investment Officer	01/04/15 - 31/03/16	120,150	13,230	133,380

*The Director of Lancashire Pension fund held the position for the full 12 month period. This position was terminated on 31/03/2016

**The Head of Service Pension Fund client, took up this new post on the 1st of December 2015

***The Director of Financial Resources was appointed on the 29th of February 2016. This position was previously held by an interim consultant. Payments totalling £7,764.54 excluding VAT were made to the company DDL Consultancy Limited in 2015/16. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

Senior Officers (unless stated above) took up their new posts after a council wide management restructure commencing on 1/4/15 and therefore no comparison has been done for the prior year.

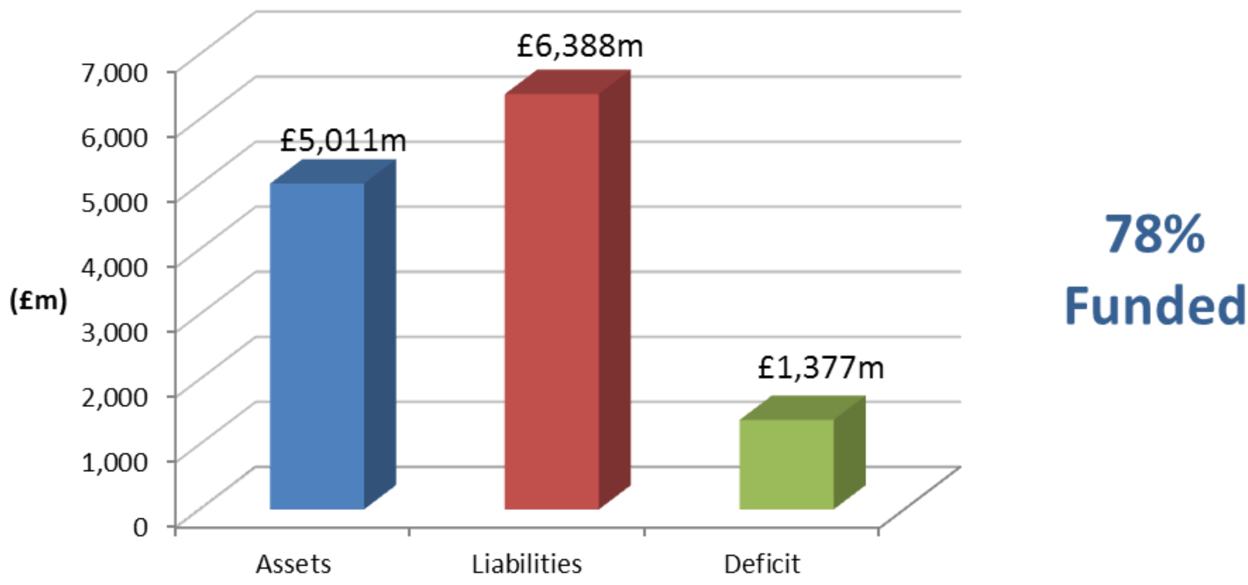
24. FUNDING ARRANGEMENTS

Accounts for the year ended 31 March 2016 - 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.

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.

25. 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 2016 (the 31 March 2015 assumptions are included for comparison):

31 March 2015		31 March 2016
3.3% per annum	Rate of return on investments (discount rate)	3.6% per annum
3.5% per annum	Rate of pay increases *	3.5% per annum*
2.0% per annum	Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £8,370m. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by approximately £570m. Adding interest over the year increases the liabilities by approximately £276m, and allowing for net benefits accrued/paid over the period increases the liabilities by approximately £30m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is £8,106m.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2016

26. EVENTS AFTER THE NET ASSETS STATEMENT DATE

On 8 April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April.

LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

Glossary of Terms and Contact Information

Eric Morecambe Statue, Morecambe

Accounting policies

Those principles, bases, conventions, rules and practices applied by the Council, which define the process by which transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or loss is to be recognised, the basis on which it is to be measured and where in the revenue account or Balance Sheet it is to be presented.

Accruals concept

The concept that income is recorded when it is earned rather than when it is received and expenditure is recorded when goods or services are received rather than when payment is made.

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 3 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.

Approved 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 charges

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads, and computer equipment

Capital grant

Grant monies received to fund expenditure on capital items (see 'capital expenditure' above).

Capital Grants Unapplied Account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the Comprehensive Income and Expenditure Statement and transferred into Capital Grants Unapplied via the Movement in Reserves Statement.

Capital receipts

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 Receipts Reserve

A usable reserve on the Balance Sheet holding recognised capital receipts. Capital receipts are credited to the Comprehensive Income and Expenditure Statement and then reversed through the Movement in Reserves Statement into the Capital Receipts Reserve. When used for financing, receipts are debited from this reserve into the Capital Adjustment Account.

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.

CIPFA (Chartered Institute of Public Finance and Accounting)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code, which defines proper accounting practice for local authorities.

Collection Fund

The Collection Fund is administered by district and borough councils to record the receipts from council tax and non-domestic rates; and payments to other preceptors including Lancashire County Council and Central Government. The accounts are kept separate from their own. The balance on the fund at the end of the year is carried forward in to 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.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- a present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Corporate and democratic core

Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

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. Details of the movements in county fund during the year are shown in the Movement in Reserve Statement.

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.

Curtailment cost (IAS 19)

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debtors

Amounts owed to the County Council which had not been paid by the date of the Balance Sheet.

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.

Employer's pension contributions

Payments to the pension scheme made by the County Council for current employees.

Expected return on pension 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.

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 purchased.

Impairment

A reduction in the value of a non-current asset below its carrying amount in the Balance Sheet (due to obsolescence, damage or an adverse change in the statutory environment).

Infrastructure assets

Highways non-current 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.

Net book value

The amount at which non current assets are included in the Balance Sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net current replacement cost

The cost of replacing or recreating the particular asset in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net expenditure

The cost of providing a service after the deduction of any 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 open market value of the asset in its existing use (or market value in the case of non-operational assets), less the costs incurred in selling the asset.

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-operational assets

Assets which are not in use.

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Assets used 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).

Property, plant and equipment

Tangible assets (i.e. assets with physical substance) held by the Council for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used for more than one period.

Provisions

An amount set aside by the Council for any liability of uncertain timing or amount that has been incurred.

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.

Related party

A person or organisation which has influence over another person or organisation.

Re-measurements – Assets (IAS 19)

The return on assets net of administration expenses and interest on income.

Re-measurements – Liabilities (IAS 19)

Re-measurement 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 Expenditure Funded from Capital under Statute (REFCUS)

Expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to Lancashire County Council.

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 Dedicated Schools Grant.

Tangible assets

Assets which have a physical form – for example, buildings, furniture and equipment.

Termination benefits

Amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Code

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council.

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.

Contact Details

I would like to thank you for showing an interest in the Council's finances and hope you find this report useful. We are always looking to improve the way we present our financial information as we feel it is important for you as a resident or business in the County to understand all of the services that we provide and how your council tax and business rates are spent during the year. If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

Corporate Finance
Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ

Agenda Item 12

Audit & Governance Committee
Meeting to be held on 26 September 2016

Electoral Division affected: All

External Audit
Lancashire County Council Pension Fund - Audit Findings Report 2015/16
(Appendix A refers)

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 the pension fund and their proposed opinion on those accounts.

Recommendation

The Committee is asked to take note of the report.

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for the Lancashire County Council Pension Fund for the 2015/16 audit. The report has been produced in line accordance with the Audit Commission's statutory Code of Audit Practice for Local Government bodies.

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

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

Implications

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
N/A		

Appendix A

The Audit Findings Report for Lancashire Pension Fund

Year ended 31 March 2016

26 September 2016

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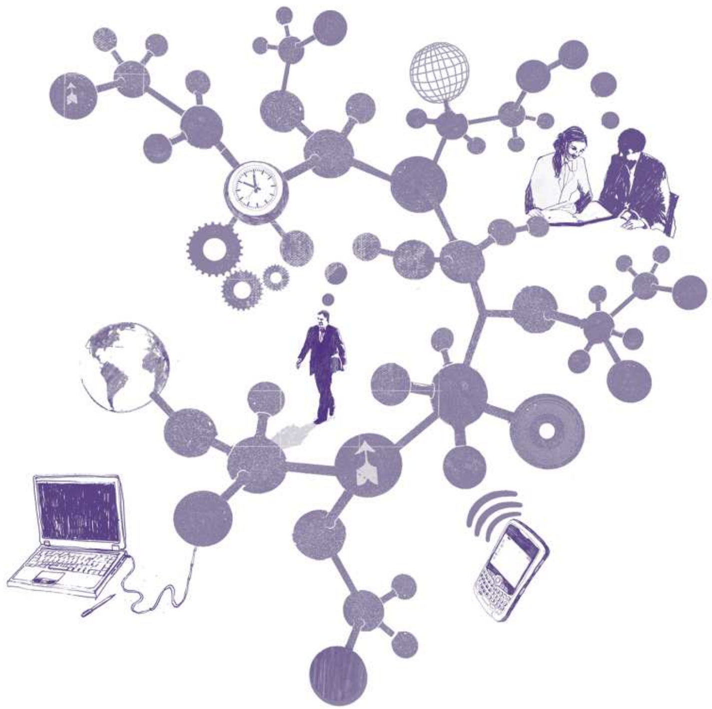

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26 September 2016

Dear Members

Audit Findings for Lancashire Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of the Lancashire County Pension Fund, the Audit and Governance Committee of Lancashire County Council), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relates 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.

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

Yours sincerely

Karen Murray

Engagement Lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Lancashire County Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Narrative Report and the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 9 May 2016.

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

- review of the final version of the financial statements
- review of the final version of the Annual Report
- completion of our final internal reviews, including specialist partner review
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A). We have also included our anticipated opinion on the Annual Report at Appendix B.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Fund's reported net assets position in the draft financial statements. The draft financial statements for the year ended 31 March 2016 recorded net assets of £6,036.2m.and the audited financial statements record the same outcome.

There were no significant issues arising from our work. The draft financial statements provided to audit were of a high quality and supported by good working papers. The finance team responded promptly and knowledgably to audit requests and queries. We have recommended a small number of minor adjustments to improve disclosure and the presentation of the financial statements, further details of which can be seen within section two of this report.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Controls

Roles and responsibilities

The Fund'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. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Director of Financial Resources and the Head of Fund.

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 2016

Section 2: Audit findings

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £58.307m (being 1% of net assets from the prior year audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2.937m. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items as key figures / disclosures in the accounts that should be reviewed in more detail to ensure they do not affect the users understanding of the financial statements.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Pension Fund and the related party.
Auditor's remuneration	This is a statutory requirement and also a requirement of ethical and auditing standards.	Any errors identified by testing will be recommended for correction.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA(UK&I)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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at Lancashire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers, and custodian ; and • the culture and ethical frameworks of local authorities, including Lancashire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.	In line with our plan we: • reviewed entity-level controls • reviewed journal controls and tested a sample of journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed any unusual significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Level 3 Investments** **Fair value measurements priced using inputs not based on observable market data not correct. - Valuation is incorrect (Valuation Net)** Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**In line with our plan we:** • carried out walkthrough tests of the system processes and controls.. • tested a sample of individual investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • reviewed the qualifications of fund managers and custodian as experts able to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.	Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.

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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
Investment income	Investment activity not valid (Occurrence/Valuation) Investment income not correct (Accuracy)	**We have undertaken the following work in relation to these risks:** • updated our understanding of processes and key controls • undertaken walkthrough of the key controls to assess whether those controls operated in line with our understanding • for investments held by fund managers, reviewed reconciliation between the custodian , fund managers, and Pension Fund following up any significant variance and gain appropriate explanations/evidence for these. • for a sample of direct property investments, rationalised income against expected rental income.	Our audit work has not identified any significant issues in relation to the risk identified.
Investment purchases and sales	Investment activity not valid (Occurrence/Valuation)	**We have undertaken the following work in relation to this risk:** • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances , • tested a sample of purchases and sales to ensure these are appropriately recorded	Our audit work has not identified any significant issues in relation to the risk identified.
Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct	Valuation is incorrect. (Valuation net)	**We have undertaken the following work in relation to this risk:** • review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances • tested a sample of these investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation • For direct property investments, agree values in total to the valuer's report and taken steps to gain reliance on the valuer as an expert .	Our audit work has not identified any significant issues in relation to the risk identified.

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Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • carried out controls testing over completeness accuracy and occurrence of contributions • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**We have undertaken the following work in relation to these risks:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over completeness, accuracy and occurrence of benefit payments. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Performed controls testing over annual/monthly reconciliations and verifications with individual members • Tested a sample of changes to member data made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

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Accounting policies, estimates and 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.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The financial statements include policies for recognition of the following: • Contributions • Investment income • Transfers in to the scheme Contributions and Investment Income are recognised on an accruals basis, whilst transfers in are recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.	Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities. Our testing has confirmed that these policies have been correctly and consistently applied.	● Green
Judgements and estimates	Key estimates and judgements include: • Pension Fund Liability – present value of future retirement benefits • Valuation of investments - unquoted equities, infrastructure and special opportunities.	Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green

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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

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have discussed the risk of fraud with the officers and members. • We have not been made aware of any incidents in the period. • No other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Fund.
5.	**Confirmation requests from third parties**	• We requested direct confirmations from your fund managers, and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). • All of these requests have been returned with positive confirmation
6.	**Disclosures**	• Our review found no material errors or omissions. However, we have requested management to make some minor amendments to further improve the clarity of the information included within the financial statements.
7.	**Matters on which we report by exception**	• We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. • We have not identified any issues we wish to report.

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. We considered and walked through the internal controls for Investment Purchases and Sales, Investment Valuations – Levels 2 and 3, Contributions, Benefits Payable, and Member Data as set out on pages 10 to 12 within this report.

The controls were found to be operating effectively and we have no matters to report..

Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Enhanced Disclosure	34	Oversight & Administration Costs	Enhanced disclosure to include narrative over External Audit fees for 2014/15 and 2015/16
2	Enhanced Disclosure	TBC	Related Party Transactions – Key Management Personnel	Additional disclosure included at Note 23.4 Key Management Personnel for the relevant proportion of payments made to the company owned by the Interim Director of Financial Resources.

Section 3: Fees, non-audit services and independence

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

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	34,169	34,169
IAS 19 work for admitted bodies auditors (PSAA regime only)	1,737	1,737
Total audit fees (excluding VAT)	**35,906**	**35,906**

There is no change in the audit fee reported in the Audit Plan. The audit fee of £1,737 relates to providing assurances to other auditors under the IAS 19 protocol which has been approved by PSAA Ltd and discussed with officers.

Fees for other services

Service	Fees £
Facilitation of self assessment of governance arrangements	4,500

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 Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake and 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 requirements of the Auditing Practices Board's Ethical Standards.

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Section 4: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing (ISA) (UK&I) 260, as well as other ISA(UK&I)s, 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code of Audit Practice.

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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendix A: Audit opinion

We anticipate we will provide the Fund with an unqualified audit report .

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

We have audited the pension fund financial statements of the Lancashire County Pension Fund("the pension fund") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

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

Respective responsibilities of the Director of Financial Resources and auditor

As explained more fully in the Statement of the Director of Financial Resources,, the Director of Financial Resources 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Financial Resources; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund 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 financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

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

4 Hardman Square
Spinningfields
Manchester
M3 3EB

Appendix B: Proposed audit opinion on the annual report

We anticipate we will provide the Fund with an unqualified audit report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LANCASHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE LANCASHIRE COUNTY PENSION FUND ANNUAL REPORT

The accompanying pension fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in Lancashire County Council's ('the authority')Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 27 September 2016

The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The Director of Financial Resources responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Financial Resources is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we 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 the Management Structure, Foreword by the Chair of the Pension Fund Committee, Governance of the Fund, Administration of the Fund, Knowledge and Skills Framework, Investment Policy and Performance and Actuarial Valuation

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

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

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected: (All Divisions);

Approval of the Lancashire County Pension Fund's Statement of Accounts 2015/16
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, Tel: 01772 536154, Director of Financial Resources,
Neil.Kissock@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 County Council has delegated the approval of the Council's Statement of Accounts to the Audit and Governance Committee. The 2015/16 accounts should be approved on or before the 30 September 2016.

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 Lancashire County Pension Fund's Statement of Accounts for 2015/16 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 2015/16 is 30 September 2016. 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).

Lancashire County Council

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.

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 1 July and 11 August 2016 inclusive.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire County Pension Fund's accounts for 2015/16 must be approved by 30 September 2016 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/Tel
Accounts and Audit Regulations	2015	Abigail Leech, Head of Fund, 01772 530808

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund
Fund Accounts
2015-16

www.lancashire.gov.uk

Lancashire County Council

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 Director of Financial Resources, who is also the Director of Financial Resources 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 Director of Financial Resources to the Pension Fund

The Director of Financial Resources 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 Director of Financial Resources 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 Director of Financial Resources 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 2016 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.

Neil Kissock

Director of Financial Resources

26 September 2016

Annual Governance Statement 2015/16

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2016 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 162,466 members across 261 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

In discharging this overall responsibility the Pension Fund 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 Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot, particularly in the investment context, eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the Fund's 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.

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2016.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.

A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery
- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. Following a restructure of the County Council's management the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund. These functions were transferred to the interim Head of Fund on 24 March 2016. This was as a result of establishing the Local Pensions Partnership and the Director of the Fund transferring into this new arrangement.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2015/16 were:

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pensions Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved the arrangements for the pooling of assets and sharing of services with the London Pensions Fund Authority.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The Director of Finance, Governance and Public Services as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Head of Internal Audit who is managerially accountable to the Director of Legal and Democratic Services. The Head of Internal Audit provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Head of Internal audit's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Head of Internal Audit's Annual Report for 2015/16 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2016/17

The following specific actions are proposed for completion during 2016/17.

- Working with the Fund's Actuary and engaging with the employer's throughout the valuation process to ensure that risks to the longer term sustainability of the fund and costs to employers are dealt with in a balanced and transparent manner.
- Finalise a review of the investment strategy, and in particular the Strategic Asset Allocation for the fund based on the actuarial valuation.
- A further review of the Fund's governance arrangements as the relationship with Local Pensions Partnership (LPP) becomes more established.
- A review of the effectiveness of the Local Pensions Board.
- Preparing for the injection of new committee members following the 2017 elections by designing an induction and training program.

County Councillor Kevin Ellard
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Independent auditor's statement to the members of Lancashire County Council on the Pension Fund financial statements included in the Pension Fund annual report.

The published version will include the Audit Certification on this page.

Lancashire County Pension Fund
Fund account

	Note	2015/16 £m	2014/15 £m
Dealing with members, employers and others directly involved in the Fund			
Contributions	6	238.6	238.0
Transfers in from other pension funds	7	5.5	4.8
		244.1	242.8
Benefits	8	(245.8)	(240.2)
Payments to and on account of leavers	9	(12.5)	(100.1)
Management expenses	10	(45.3)	(35.4)
		(303.6)	(375.7)
Net withdrawals from dealings with members		**(59.5)**	**(132.9)**
Returns on investments			
Investment income	11	99.1	90.7
Profit and losses on disposal of investments and changes in the market value of investments	14	165.9	684.7
Net return on investments		**265.0**	**775.4**
Net increase / (decrease) in the net assets available for benefits during the year		**205.5**	**642.5**

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Lancashire County Pension Fund

Net assets statement

as at 31 March 2016

	Note	31/03/16 £m	31/03/15 £m
Investment assets	14	6,108.0	6,383.1
Cash deposits	14	210.3	60.0
		6,318.3	6,443.1
Investment liabilities	14	(291.0)	(629.6)
Current assets	20	27.7	28.1
Current liabilities	21	(18.8)	(10.9)
Net assets of the Fund available to fund benefits at the period end		**6,036.2**	**5,830.7**

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 as at 31 March 2016 and its income and expenditure for the year then ended.

Neil Kissock

Director of Financial Resources

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 2015/16 cash inflows during the year consisted of £343.2 million and cash outflows were £303.6 million, representing a net cash inflow of £39.6 million (compared with an outflow of £42.2 million in the previous year). Benefits payable amounted to £245.8 million and were partially offset by net investment income of £99.1 million (including £13.1 million accrued dividends); contributions of £238.6 million and transfers in of £5.5 million.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

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 Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house 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

On 8th April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8th April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11th April.

LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 369 employer organisations (2014/15: 320 employer organisations) within Lancashire County Pension Fund including the county council itself, of which 261 have active members (2014/15: 218) as detailed below:

Lancashire County Pension Fund	**31/03/16**	**31/03/15**
Total number of employers	369	320
Number of employers with active members	261	218
Number of active scheme members		
County council	27,106	27,405
Other employers	29,223	26,774
Total	56,329	54,179
Number of pensioners		
County council	22,414	21,765
Other employers	22,093	21,446
Total	44,507	43,211
Number of deferred pensioners		
County council	33,253	29,148
Other employers	28,377	26,665
Total	61,630	55,813
Total membership	**162,466**	**153,203**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2016.

Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2016 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**	**Service post 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2015/16 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 25 of these accounts.

3. Accounting policies

3.1 Fund Account - revenue recognition

3.1.1 Contribution income
Normal contributions both from the members and from the employer are accounted for on an accruals basis. Member contributions are in accordance with the LGPS Regulations 2013 and employer contributions are at the percentage rate recommended by the scheme actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

3.1.2 Transfers to and from other schemes
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 Government 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.

3.1.3 Investment income

3.1.3.1 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.

3.1.3.2 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 assets statement as a current financial asset.

3.1.3.3 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 assets statement as a current financial asset.

3.1.3.4 Property–related income

Property-related income consists primarily of rental income.

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 based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 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.

3.2 Fund account – expense items

3.2.1 Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

3.2.2 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.

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs". Management expenses have now been broken down across the following three categories:

- 3.2.4 - Administrative expenses
- 3.2.5 - Oversight and governance expenses
- 3.2.6 - Investment management expenses

3.2.4 Administrative expenses

Administration expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;

- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and

- Associated project expenses.

All administrative expenses are accounted for on an accruals basis. 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.

3.2.5 Oversight and governance expenses

Oversight and governance expenses include the following costs:

- Selection, appointment and performance management and monitoring of external fund managers;
- Selection, appointment and performance management and monitoring of fund managers;
- Investment advisory services (strategic allocation, manager monitoring and selection, etc);
- Independent advisors to the pension fund;
- Operation and support of the pensions committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

3.2.6 Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets.

All investment management expenses are accounted for on an accruals basis.

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.

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2015/16, £4.7m of fees is based on such estimates (2014/15: £2.3m).

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.

3.3 Net assets statement

3.3.1 Financial assets

Financial assets, other than loans and receivables, are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

3.3.2 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.

3.3.3 Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

3.3.4 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.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, 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 International Private Equity and Venture Capital Valuation Guidelines 2012.

3.3.5 Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.3.6 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.

3.3.7 Freehold and leasehold properties
The properties were valued at open market value at 31 March 2016 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.8 Acquisition costs of investments
The acquisition costs of investments are included within the purchase price.

3.3.9 Valuation of investments
Investments are shown at their fair value as at 31 March 2016. The fair value is the current bid price for quoted securities and unitised securities.

3.3.10 Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

3.3.11 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.

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.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

3.3.12 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.

3.3.13 Cash and cash equivalents
Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

3.3.14 Financial liabilities
The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

3.3.15 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 or loss.

3.3.16 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 assets statement (note 25).

3.3.17 Additional voluntary contributions
Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The AVC providers to the Pension Fund are Equitable Life and Prudential. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

3.3.18 Securities lending
Investments lent under securities lending arrangements continue to be recognised in the net assets 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.

4. Critical judgements in applying accounting policies

4.1 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 the International Private Equity and Venture Capital Valuation Guidelines 2012.

4.2 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 24. 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 estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2016 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 the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £917.7 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,454.2m. There is a risk that these investments might be under or overstated in the accounts.

Bonds secured on affordable housing assets.	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £83.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations.	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £80.5m. 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 £380m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £165m.

6. Contributions receivable

By category	2015/16 £m	2014/15 £m
Employers	183.7	183.2
Members	54.9	54.8
	238.6	238.0

By authority	2015/16 £m	2014/15 £m
County council	104.2	102.1
Scheduled bodies	113.2	115.4
Admitted bodies	21.2	20.5
	238.6	238.0

By type	**2015/16 £m**	**2014/15 £m**
Employee's normal contributions	54.8	54.8
Employer's normal contributions	122.5	124.4
Employer's deficit recovery contributions	49.0	47.3
Employer's augmentation contributions	12.3	11.5
	238.6	238.0

Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2015/16, £0.4m is voluntary and additional regular contributions (2014/15: £0.4m).

7. Transfers in from other Pension Funds

	2015/16 £m	**2014/15 £m**
Individual transfers in from other schemes	5.5	4.8
	5.5	4.8

8. Benefits payable

By category	**2015/16 £m**	**2014/15 £m**
Pensions	200.2	192.0
Lump sum retirement benefits	40.5	41.7
Lump sum death benefits	5.1	6.5
	245.8	240.2

By authority	**2015/16 £m**	**2014/15 £m**
County council	107.2	106.3
Scheduled bodies	120.4	118.5
Admitted bodies	18.2	15.4
	245.8	240.2

9. Payments to and on account of leavers

	2015/16 £m	2014/15 £m
Refunds to members leaving service	0.7	0.2
Individual transfers	11.2	10.3
Group transfers	0.6	89.6
	12.5	100.1

10. Management expenses

	2015/16 £m	2014/15 £m
Administrative costs	4.1	3.5
Investment management expenses	32.5	29.4
Oversight and governance costs	8.7	2.5
	45.3	35.4

Oversight and governance costs rose during the year due to legal and advisory costs arising from the implementation of infrastructure opportunities in line with the Funds investment strategy as well costs associated with the Funds partnership with the LPFA for the pooling of the executive and investment assets of the two organisations.

Included in the oversight and governance costs are the external audit fees. For 15/16 and 14/15 these are £34,169

10.1 Investment management expenses

	2015/16 £m	2014/15 £m
Transaction costs	1.5	1.8
Management fees	27.9	26.4
Performance related fees	2.9	1.0
Custody fees	0.2	0.2
	32.5	29.4

The analysis of costs of managing the Fund has been prepared in accordance with CIPFA guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

11. Investment income

	2015/16 £m	2014/15 £m
Fixed interest securities	3.3	2.9
Equity dividends	41.6	40.6
Index linked securities	1.1	0.0
Pooled investment vehicles	22.3	15.0
Net rents from properties	29.2	24.3
Interest on cash deposits	0.5	0.5
Other	1.1	7.4
	99.1	90.7

12. Property income

	2015/16 £m	2014/15 £m
Rental income	32.3	29.7
Direct operating expenses	(3.1)	(5.4)
Net income	29.2	24.3

13. 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 2015/16 was £1.5m (2015/16: £2.2m)

Securities on loan at the 31st March 2016 were £76.2m (2015: £86m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £76.2m of equities (2015: £86m equities).

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 £81.6m of bonds (2015: £92m of equities).

14. Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2015 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2016 £m
Fixed interest securities	148.8	103.2	(126.8)	(2.1)	123.1
Equities	2,000.7	377.7	(347.6)	39.1	2,069.9
Index linked securities	317.9	865.0	(1,115.5)	(3.7)	63.7
Pooled investment vehicles	2,740.2	950.4	(842.7)	87.7	2,935.6
Direct property	531.4	84.4	(52.6)	44.9	608.1
	5,739.0	2,380.7	(2,485.2)	165.9	5,800.4
Derivative contracts:					
Forward currency contracts asset value	632.4				294.5
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Investment assets	6,443.1				6,318.3
Forward currency contracts liability value	(629.6)				(291.0)
Portfolio value	**5,813.5**				**6,027.3**

	Market value as at 1 April 2014 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2015 £m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	2,639.1	(2,428.3)	684.7	5,739.0
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	5,192.8				6,443.1
Forward currency contracts liability value	(21.3)				(629.6)
Portfolio value	**5,171.5**				**5,813.5**

Investments analysed by fund manager

		31/3/16 £m	%	31/3/15 £m	%
Public equity					
External managers	Baillie Gifford	733.3	12.1%	734.1	12.6%
	MFS	350.1	5.8%	334.2	5.7%
	Morgan Stanley	324.6	5.4%	283.5	4.9%
	NGAM	209.7	3.5%	230.8	4.0%
	Robeco	496.0	8.2%	448.5	7.7%
UCITS funds	AGF	234.5	3.9%	266.9	4.6%
	MFG (Magellan)	251.2	4.2%	238.1	4.1%
		2,599.4	**43.1%**	**2,536.1**	**43.6%**
Private equity					
External managers	Capital Dynamics	336.5	5.6%	269.9	4.7%
Direct	Standard Life	11.7	0.2%	7.6	0.1%
		348.2	**5.8%**	**277.5**	**4.8%**
Long-term credit investments					
Senior secured loans	Ares Institutional	56.0	0.9%	123.2	2.1%
	Babson	74.5	1.2%	72.8	1.3%
	Hayfin	73.0	1.2%	44.2	0.8%
	Highbridge	0.0	0.0%	57.1	1.0%
	Kreos	4.9	0.1%	0.0	0.0%
	Muzinich Private Debt Fund	5.9	0.1%	0.0	0.0%
	Permira Credit Solutions	47.3	0.8%	0.0	0.0%
	THL	57.0	0.9%	55.8	1.0%
	White Oak	18.4	0.3%	0.0	0.0%
Loans secured on real assets	Heylo Housing	83.6	1.4%	42.6	0.7%
	Prima	214.6	3.5%	153.5	2.6%
	Venn Commercial Real Estate	83.0	1.4%	0.0	0.0%
	Westmill	11.4	0.2%	11.7	0.2%
Emerging market debt	Bluebay	125.0	2.1%	128.8	2.2%
	HSBC	60.0	1.0%	58.2	1.0%
	Investec	83.1	1.4%	83.5	1.4%
	Pictet	134.0	2.2%	129.6	2.2%
Credit opportunities	CRC- Christofferson Robb & Co	89.2	1.5%	34.4	0.6%
	EQT	53.0	0.9%	44.3	0.8%
	MFO King Street	109.9	1.8%	54.8	1.0%
	Monarch	52.4	0.9%	53.8	0.9%
	Neuberger Berman	54.0	0.9%	58.8	1.0%
	Pimco Bravo	47.6	0.8%	28.9	0.5%
		1,537.8	**25.5%**	**1,236.0**	**21.3%**

		31/3/16 £m	%	31/3/15 £m	%
Liquid credit (cash and bonds)					
External managers	Babson	0.0	0.0%	226.9	3.9%
	ING	0.0	0.0%	181.9	3.1%
	In-house	283.8	4.7%	457.0	7.9%
		283.8	**4.7%**	**865.8**	**14.9%**
Infrastructure					
Direct	Arclight Energy	62.6	1.0%	35.9	0.6%
	Capital Dynamics Cape Byron	66.4	1.1%	65.6	1.1%
	Capital Dynamics Clean Energy	31.7	0.5%	32.9	0.6%
	Capital Dynamics Red Rose	76.0	1.3%	92.8	1.6%
	Capital Dynamics US Solar	0.7	0.0%	0.0	0.0%
	EQT Infrastructure	9.6	0.2%	13.1	0.2%
	Global Infrastructure Partners	34.3	0.6%	15.9	0.3%
	Guild Investments Ltd	70.4	1.1%	0.0	0.0%
	Highstar Capital	35.2	0.6%	33.4	0.6%
	Icon Infrastructure	34.0	0.6%	29.8	0.5%
	ISQ Global Infrastructure	7.5	0.1%	4.3	0.1%
	Madrilena Red de Gas (MRG)	135.9	2.3%	0.0	0.0%
	Stonepeak Infrastructure	5.2	0.1%	0.0	0.0%
		569.5	**9.5%**	**323.7**	**5.6%**
Property					
Direct	Knight Frank	608.1	10.1%	531.4	9.1%
Indirect	Gatefold Hayes	30.4	0.5%	12.9	0.2%
	Kames Target	14.0	0.2%	0.0	0.0%
	M&G Europe fund	36.1	0.6%	30.1	0.5%
		688.6	**11.4%**	**574.4**	**9.8%**
Portfolio Value		**6,027.3**	**100.0%**	**5,813.5**	**100.0%**

	31/03/16 £m	31/03/15 £m
Fixed interest securities		
UK corporate bonds quoted	85.3	94.2
Overseas corporate bonds quoted	37.8	54.6
	123.1	148.8

	31/03/16 £m	31/03/15 £m
Equities		
UK quoted	191.3	212.3
Overseas quoted	1,878.6	1,788.4
	2,069.9	2,000.7

	31/03/16 £m	31/03/15 £m
Index linked securities		
UK quoted	63.7	317.9
	63.7	317.9

	31/03/16 £m	31/03/15 £m
Pooled investment vehicles		
UK managed funds:		
Fixed income funds	60.0	58.2
Venture capital	369.4	278.5
Property funds	44.5	12.9
Overseas managed funds:		
Equity funds	485.7	505.0
Fixed income funds	1,097.3	1,443.8
Cash funds	0.6	0.5
Property funds	36.1	30.1
Venture capital	842.0	411.2
	2,935.6	2,740.2

	31/03/16 £m	31/03/15 £m
Properties		
UK – freehold	515.7	460.6
UK – long leasehold	92.4	70.8
	608.1	531.4

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

	31/03/16 £m	31/03/15 £m
Balance as at start of the year	531.4	450.5
Additions:		
Purchases	75.5	57.3
Construction	8.9	2.4
Disposals	(52.6)	(26.1)
Net gain/loss on fair value	44.9	47.3
Balance as at the end of the year	608.1	531.4

Operating leases

The Fund leases out property under operating leases.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2015/16 £m	*2014/15 £m
Leases expiring in the following year	29.5	28.6
Leases expiring in two to five years	87.0	98.2
Leases expiring after five years	87.6	105.8
Total	204.1	232.6

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.

*Figures for 2014/15 have been restated due to more detailed information becoming available to the Fund.

Analysis of derivatives

Objectives and policies for holding derivatives
Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward foreign currency
In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

Derivative contracts (forward currency positions)

Settlements	**Currency bought***	**Local value m**	**Currency sold***	**Local value m**	**Asset value £m**	**Liability value £m**
Up to one month	GBP	286.0	USD	(405.6)	286.0	(282.2)
Up to one month	JPY	35.5	USD	(0.3)	0.2	(0.2)
One to six months	USD	11.2	CHF	(10.9)	7.7	(8.0)
One to six months	USD	0.8	AUD	(1.1)	0.6	(0.6)
Open forward currency contracts at 31 March 2016					294.5	(291.0)
Net forward currency contracts at 31 March 2016						3.5
Prior year comparative					£m	£m
Open forward currency contracts at 31 March 2015					632.4	(629.6)
Net forward currency contracts at 31 March 2015						2.8

*Currencies are referred to above using International Standards Organisation codes. GBP – British Pound, USD – US Dollar, CHF – Swiss Franc, AUD – Australian Dollar, JPY – Japanese Yen

	31/03/16 £m	31/03/15 £m
Cash deposits		
Sterling	114.9	35.0
Foreign currency	95.4	25.0
	210.3	60.0

15. 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.

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31/03/16	Fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	123.1	-	-
Equities	2,069.9	-	-
Index linked securities	63.7	-	-
Pooled investment vehicles	2,935.6	-	-
Derivative contracts	294.5	-	-
Cash deposits	-	210.3	-
Investment accruals	13.1	-	-
Debtors	-	27.7	-
Total financial assets	**5,499.9**	**238.0**	**-**
Financial liabilities			
Derivative contracts	291.0	-	-
Creditors	-	-	18.8
Total financial liabilities	**291.0**	**-**	**18.8**

31/03/15	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	148.8	-	-
Equities	2,000.7	-	-
Index linked securities	317.9	-	-
Pooled investment vehicles	2,740.2	-	-
Derivative contracts	632.4	-	-
Cash deposits	-	60.0	-
Investment accruals	11.7	-	-
Debtors	-	28.1	-
Total financial assets	**5,851.7**	**88.1**	**-**
Financial liabilities			
Derivative contracts	629.6	-	-
Creditors	-	-	10.9
Total financial liabilities	**629.6**	**-**	**10.9**

16. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £121.0m (2014/15: £634.1m)

17. Financial instruments – valuation

17.1 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.

17.1.1 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.

17.1.2 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. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

17.1.3 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 and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided 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 following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31/03/16	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,341.1	245.6	1913.2	5,499.9
Total financial assets	**3,341.1**	**245.6**	**1,913.2**	**5,499.9**
Financial liabilities				
Financial liabilities at fair value through profit and loss	291.0	-	-	291.0
Total financial liabilities	**291.0**	**-**	**-**	**291.0**

31/03/15	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
Total financial assets	**4,047.9**	**368.8**	**1,420.5**	**5,837.2**
Financial liabilities				
Financial liabilities at fair value through profit and loss	629.6	-	-	629.6
Total financial liabilities	**629.6**	**-**	**-**	**629.6**

18. Nature and extent of risks arising from financial instruments

18.1 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.

18.2 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.

18.3 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.

18.3.1 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 2015/16 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.4%
Total equities	9.6%
Alternatives	6.4%
Total property	2.4%

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 also shown):

Asset type	31/03/16 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,233.0	6.4%	1,311.9	1,154.1
Total equities	2,902.9	9.6%	3,181.6	2,624.2
Alternatives	975.7	6.4%	1,038.1	913.3
Total property	688.8	2.4%	705.3	672.3
Total assets available to pay benefits	**5,800.4**		**6,236.9**	**5,363.9**

Asset type	31/03/15 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
Total assets available to pay benefits	**5,739.0**		**6,175.9**	**5,302.0**

18.4 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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/16	31/03/15
	£m	£m
Cash and cash equivalents	210.3	60.0
Fixed interest securities	1,280.3	1,650.8
Total	**1,490.6**	**1,710.8**

18.4.1 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 (1BPS = 0.01%). 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	
	31/03/16	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	210.3	2.1	(2.1)
Fixed interest securities	1,280.3	12.8	(12.8)
Total change in assets available	**1,490.6**	**14.9**	**(14.9)**

Asset type		Change in year in net assets available to pay benefits	
	31/03/15	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
Total change in assets available	**1,710.8**	**17.1**	**(17.1)**

18.5 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 2016 and as at the previous year end:

Currency exposure – asset type	31/03/16 £m	31/03/15 £m
Overseas bonds (including index linked)	850.9	1,498.3
Overseas equities	2,622.9	2,513.8
Overseas alternatives	868.0	191.4
Overseas property	36.1	30.1
Total overseas assets	**4,377.9**	**4,233.6**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1% (as measured by one standard deviation).

A 6.1% 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 (previous year = 6.2%).

A 6.1% 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 in year in net assets available to pay benefits	
	31/03/16 £m	+6.1% £m	-6.1% £m
Overseas bonds (including index linked)	850.9	902.8	799.0
Overseas equities	2,622.9	2,782.9	2,462.9
Overseas alternatives	868.0	920.9	815.0
Overseas property	36.1	38.3	33.9
Total change in assets available	**4,377.9**	**4,644.9**	**4,110.8**

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31/03/15 £m	+6.2% £m	-6.2% £m
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
Total change in assets available	**4,233.6**	**4,496.1**	**3,971.0**

18.6 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 instructions 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 2016 was £210.3m (31 March 2015: £60m.) This was held with the following institutions:

Summary	Rating	31/03/16	31/03/15
Bank deposit accounts		**£m**	**£m**
Northern Trust	A+	154.8	30.8
Svenska Handelsbanken	AA-	55.4	30.0
Bank current accounts			
Natwest account	BBB-	0.1	(0.8)
Total		**210.3**	**60.0**

18.7 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 2016 are due within the one year.

19. 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 2015 to 31 March 2016 for Prudential and 1 September 2014 to 31 August 2015 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.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.0	21.1	22.1
Income (incl. contributions, bonuses, interest & transfers in)	0.0	4.8	4.8
Expenditure (incl. benefits, transfers out & change in market value)	(0.2)	(3.9)	(4.1)
Value at the end of the year	**0.8**	**22.0**	**22.8**

20. Current assets

	31/03/16 £m	31/03/15 £m
Contributions due - employers	13.9	14.4
Contributions due - members	4.6	4.6
Debtors - bodies external to general government	9.2	9.1
	27.7	28.1

Analysis of debtors	31/03/16 £m	31/03/15 £m
Other local authorities	14.9	15.6
Other entities and individuals	12.8	12.5
	27.7	28.1

21. Current liabilities

	31/03/16 £m	31/03/15 £m
Unpaid benefits	1.1	0.1
Accrued expenses	17.7	10.8
	18.8	10.9

Analysis of creditors	31/03/16 £m	31/03/15 £m
Other local authorities	2.1	4.2
Other entities and individuals	16.7	6.7
	18.8	10.9

22. 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 £665.3m. 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.

Commitments to outstanding call payments due to certain credit strategies stood at £497.2m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £19.9m at 31st March 2016. These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £13.8m at 31st March 2016. These amounts are expected to be drawn down over the next few months.

23. Related Party Transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

23.1 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 m (2014/15: £4.5m) 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 £81.4m to the fund in 2015/16 (2014/15: £79.5m). All monies owing to and due from the Fund were paid in year.

23.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2016 payroll, are included within the debtors figure in note 20.

23.3 Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2015/16 regarding membership of, and transactions with such persons or their related parties and as such the following related party transactions have been declared:

George Graham, Director of the Lancashire Pension Fund acts in an un-remunerated Chair capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

George Graham was appointed as Executive Director of the Local Pensions Partnership Ltd and Local Pensions Partnership (Administration) Ltd prior to the staff transfer on the 8th April 2016.

Mike Jensen, Chief Investment Officer acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

Mike Jensen was appointed as an Executive Director of the Local Pensions Partnership (Investments) Ltd prior to the staff transfer on the 8th April 2016

Richard Tomlinson, Investment Manager acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

Trevor Castledine, Deputy Chief Investment Officer acts in an un-remunerated non-executive director capacity of Heylo Housing Ltd in which the Fund has an interest (£83.6m).

Damon Lawrenson was appointed as interim Director of Financial Resources from March 2015 until March 2016. Payments totalling £7,764.54 excluding VAT were made to the company DDL Consultancy Limited in 2015/16 of which Damon was a director. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

23.4 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 Fund does not employ any staff directly. Lancashire County Council employs the staff involved in providing the duties of the administering authority for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Lancashire County Council Statement of Accounts 2015/16.

In the interests of transparency the Fund has incorporated disclosure of the remuneration awarded of senior officers employed by Lancashire County Council who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

The remuneration as charged to Lancashire County Pension Fund of senior officers of Lancashire County Council who have significant management responsibilities for Lancashire County Pension Fund.

2015/16	**Employment period**	**Salary** £	**Pension contributions** £	**Total including pension contributions** £
*Director of Lancashire Pension Fund	1/4/15 - 31/3/16	86,199	10,800	96,999
**Head of Service Pension Fund Client	1/12/15 – 31/3/16	16,316	2,167	18,483
***Director of Financial Resources (Section 151 officer)	29/2/16 – 31/3/16	401	25	426
Chief Investment Officer	1/4/15 - 31/3/16	120,150	13,230	133,380

*The Director of Lancashire Pension fund held the position for the full 12 month period. This position was terminated on 31/03/2016
**The Head of Service Pension Fund client, took up this new post on the 1st of December 2015

***The Director of Financial Resources was appointed on the 29th of February 2016. This position was previously held by an interim consultant. Payments totalling £7,764.54 excluding VAT were made to the company DDL Consultancy Limited in 2015/16. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

Senior Officers (unless stated above) took up their new posts after a council wide management restructure commencing on 1/4/15 and therefore no comparison has been done for the prior year.

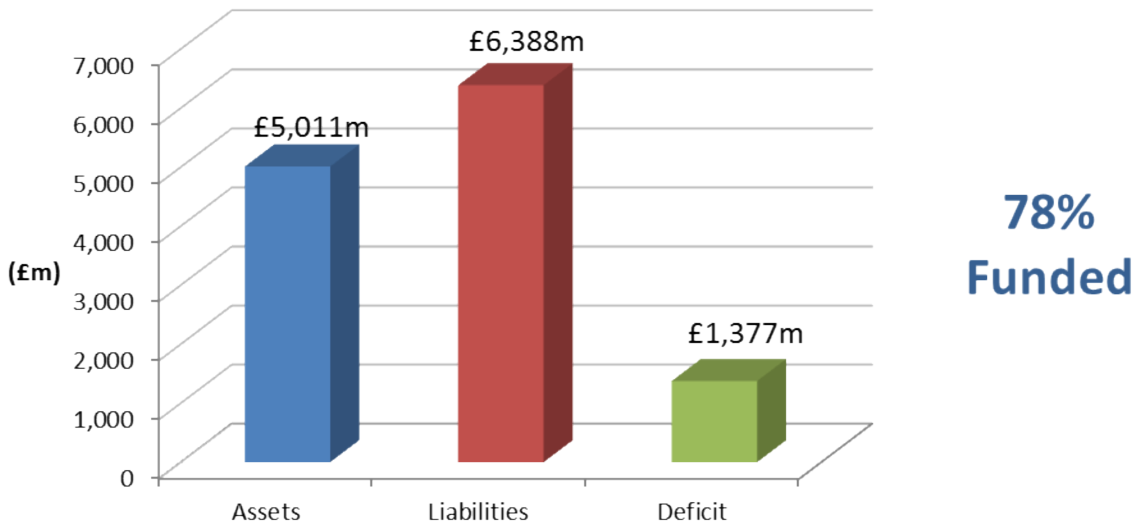
24. Funding arrangements

Accounts for the year ended 31 March 2016 - 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.

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.

25. 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 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases *	3.5% per annum	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £8,370m. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by approximately £570m. Adding interest over the year increases the liabilities by approximately £276m, and allowing for net benefits accrued/paid over the period increases the liabilities by approximately £30m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is £8,106m.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2016

26. Events after the net assets statement date

On 8th April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8th April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11th April.

LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected:
(All Divisions);

Appointment of External Auditors
Appendix 'A' refers

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

Executive Summary

The Local Audit and Accountability Act 2014 abolished the Audit Commission, paving the way for local authorities to appoint their own External Auditors.

Principal authorities as defined in the Act, which includes the County Council, must have their local auditors appointed by 31 December 2017 in order for them to begin their engagement on 1 April 2018. Local authorities can use an independent auditor panel or the Department for Communities and Local Government appointed sector led body to select their External Auditors.

Recommendation

The Committee are asked to agree to recommend to Full Council to opt-in to an approved sector led body, specifically Public Sector Audit Appointments Ltd, to act as the Appointing Person for the appointment of External Auditors for the County Council.

Background and Advice

This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

The existing appointment of Grant Thornton as the Council's External Auditors for 2016/17 and 2017/18 was managed by Public Sector Audit Appointments Ltd (PSAA). This is an independent company, established by the Local Government Association (LGA) under the transitional arrangements.

There are three options available to the Council for appointing External Auditors in the future:

Lancashire County Council

Option 1: Establish its own independent auditor panel (Part 3, section 9 and schedule 4 of the Local Audit and Accountability Act 2014). The panel must be made up of a majority or of wholly independent members and must be chaired by an independent member. It would therefore be necessary to undertake a selection process to appoint the panel, whose members may be remunerated. The panel's role would be to advise the Council on the selection of its External Auditor and therefore to oversee a procurement process.

Option 2: Establish a joint independent auditor panel to carry out the function on behalf of two or more Councils which would therefore have to agree on the selection criteria firstly for the panel's members and then for the External Auditor.

Option 3: Opt-in to an approved sector led body (SLB) to be specified by the Department for Communities and Local Government (DCLG) to act as the Appointing Person on behalf of opted-in authorities. Full Council approval would be required to opt-in to the sector led body approach as required by the Local Audit (Appointing Person) Regulations 2015. No significant further action would then be required by the Council.

Further information on the changes to arrangements for the appointment of External Auditors and the three options is attached at Appendix ‘A’.

In August 2016, the Department for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as the Appointing Person, establishing it as a sector led body. If the Council opt-in to the sector led body approach, an independent auditor panel will not be required.

The Local Government Association is supporting this sector led approach in order to secure the benefits of economies of scale and savings in terms of the administrative burden on Councils and other local government sector bodies. These benefits include:

- Purchasing power to negotiate competitive audit fees worth an estimated £30m annually.

- Savings on the costs of Invitation to Tender exercises at some 470 local government sector bodies alone.

- Savings on the costs of bid appraisal, contract specification and negotiation.

- Economies of scale to be achieved from collective procurement, enabling the firms to plan and resource audits more efficiently and effectively.

- Quality monitoring and other information sharing across contracts (subject to protections over confidentiality).

- Sensible distribution of audit appointments taking into consideration joint working between individual Councils and other public bodies, managing rotations where conflicts of interest arise.

It is anticipated that invitations from PSAA to opt-in to the sector led approach will be issued around autumn 2016. The sector led body will negotiate contracts and appoint External Auditors on behalf of local authorities who have opted in. The sooner that councils opt-in to the sector led approach, the sooner certainty will be provided about the volume of work included in the Invitation to Tender and enable best possible prices to be secured.

The Council have until December 2017 to make an appointment, but if options one or two are selected time must be allowed for the establishment and then selection of an auditor panel (with or without negotiation with any other councils) and then for the panel to oversee a procurement process. In practical terms if these options are preferred, action will be required by the Council almost immediately. Similarly, if the sector led approach is to be adopted confirmation is required by late autumn 2016, but no further significant action will then be required by the Council.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Financial

The current External Audit fee levels are likely to increase when the current contracts end in 2018. The impact of any increase will be built in to the updated Medium Term Financial Strategy.

If option 1 or 2 outlined in the report were selected to establish a local or joint Auditor Panel the costs would need to be estimated and funded from the Council's budget for 2016/17 and 2017/18. This would include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members' fees and allowances.

By selecting option 3 and opting-in to a national sector led body, this provides maximum opportunity to limit the extent of any increases in audit fee levels.

There is not expected to be a fee to join the sector-led arrangements. According to PSAA, the audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. It is considered that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities are able to avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.

Legal

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Risk management

There is no immediate risk to the Council. However there is a risk that an External Auditor is not appropriately appointed on time if action is not taken to pursue one of these options quickly. Early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

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

Paper	Date	Contact/Tel
Local Audit and Accountability Act	2014	Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

Background

The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of External Auditors and the setting of audit fees for all local government and NHS bodies in England. In October 2015 the Secretary of State Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the 2017/18 audit period.

The Council's current External Auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for Communities & Local Government.

The Council's current external audit fees for the audit of the 2015/16 accounts is £112,995.

When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

Options for local appointment of External Auditors

There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 - To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances

The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 - Opt-in to a Sector Led Body

In response to the consultation on the new arrangement the Local Government Association has successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body appointed by the Secretary of State under the Act. A Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.

By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon.

The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The Local Government Association has supported such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

Individual elected members will have less opportunity for direct involvement in the appointment process other than through the Local Government Association and/or stakeholder representative groups.

In order for the Sector Led Body to be viable and to be placed in the strongest possible negotiating position the Sector Led Body will need Councils to indicate their intention to opt-in before final contract prices are known.

Agenda Item 15

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected: (All Divisions);

2016/17 Treasury Management Activity Report - April to July 2016
(Appendix 'A' refers)

Contact for further information:
Neil Kissock, Director of Financial Resources, 01772 536154
Neil.Kissock@lancashire.gov.uk

Executive Summary

The report set out in Appendix 'A' is a review of the County Council's treasury management activities in 2016/17, April to July 2016. 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 so far during 2016/17,
- Borrowing activity,
- Investment activity,
- Actual results measured against 2016/17 Prudential indicators and Treasury Management Indicators.

Recommendation

The Committee is recommended to note the review of treasury management activities in 2016/17 for the period 1 April to 31 July 2016.

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 Director of Financial Resources and the content of these reports is used as a basis for this report to the Committee.

Lancashire County Council

This report outlines a review of the borrowing and lending activity during the period 1 April to 31 July 2016 and sets this activity against the current economic background including risk management strategies to protect the capital value of the County Council's investments.

Consultations

Arlingclose Ltd provides advice on treasury management.

Implications:

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/Tel
CIPFA TM Code of Practice	2011	Paul Dobson 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Treasury Management Activity - First Report 2016-17

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 2016 and 31st July 2016.

2. Economic Context in the period

The economic situation between April and July was one of great volatility being dominated by concerns about world economic growth and the EU referendum vote. Uncertainty around the level of economic growth arose largely from the slowdown in China and the knock on effect this had on both trading partners and commodity prices. The uncertainty of the outcome of the referendum vote resulted in pronounced volatility in exchange rates, gilts, corporate bonds and equities as the result became increasingly uncertain.

Once the vote was known there was an immediate market reaction. Between 23rd June and 1st July the sterling exchange rate index fell by 9% and short-term volatility of sterling against the dollar increased significantly. Worldwide, markets reacted very negatively with a big initial fall in equity prices. Government bond yields also fell sharply by 20-30 bases points across all maturities (i.e. prices rose) as investors sought safe haven from riskier assets.

As a result of the vote many economists reduced their forecast of economic growth for the UK. Some were even predicting that the economy would go into recession. The Bank of England sought to reassure markets and investors. Governor Mark Carney's speeches on 24th and 30th June in response to the referendum result stressed that the Bank was ready to support money market liquidity and raised the likelihood of a cut in policy rates 'in the summer' as they looked to balance the risk of lower growth with the likelihood of increased inflation as a result of a lower exchange rate.

2.1 Interest Rate Environment

Short term interest rates continue to be at historically very low levels. During the period the Bank of England maintained the base rate at 0.5%. However, as referred to above the prospects of lower economic growth did give the expectation of lower interest rates. The Bank of England did subsequently reduce the base rate to 0.25% in August 2016.

2.2 Implications for Lancashire County Council Treasury Strategy

Since 2010 the County Council have used short term market borrowing to fund capital expenditure so taking advantage of historically low interest rates. This policy has proved to be very effective in an environment where rates have stayed low for much longer than expected and continue to do so and was continued in the first period of the financial year. However, prospects for interest rate increases are continuously monitored. Although it is not anticipated that the interest rates will rise they are at very low levels including those for long term borrowing. Therefore the opportunity of fixing some of the debt for a longer period will be kept under consideration.

3. Current Treasury Management Policy

Full Council approved the 2016/17 treasury management strategy in February 2016. The County Council's stated Treasury Management objectives are:

a) To ensure the security of the principal sums invested which represent the County Council's various reserves and balances,
b) To ensure that the County Council has access to cash resources as and when required,
c) To minimise the cost of the borrowing required to finance the County Council's capital investment programme, and
d) To maximise investment returns commensurate with the County Council's policy of minimising risks to the security of capital and its liquidity position.

3.1 Investment Activity

Investments at the 31st July are £614.55m consisting of £128.31m in bank and Local Authority deposits and £486.24m in bonds. In total investments have increased by £37.15m over the period which is partly the result of receiving grants in the period in advance of need. The table below shows the investment activity between 1st April 2016 and 31st July 2016.

Bank and Local Authority Deposits	**Call/MMF £m**	**Fixed £m**	**Structured £m**	**Total £m**
Balance 1 April 2016	**10.71**	**56.50**	**0.00**	**67.21**
Maturities	-29.11	0.00	0.00	-29.11
New Investments	90.21	0.00	0.00	90.21
Balance 31 July 2016	**71.81**	**56.50**	**0.00**	**128.31**
Bonds	**LA Bonds £m**	**Gilts £m**	**Others £m**	**Total £m**
Balance 1 April 2016	**36.29**	**234.20**	**239.70**	**510.19**
Maturities	-0.65	-1,550.76	-368.27	-1,919.68
New Investments	0.20	1,399.27	496.26	1,895.73
Balance 31 July 2016	**35.83**	**82.71**	**367.70**	**486.24**

Within the period, there has been a reduction of £151m in the amount of Gilts being held as a consequence of the volatility in the market. To compensate for this there has been an increase in Bank and Local Authority deposits of £61m and other bonds of £128m.

The current rate of return on the investment portfolio measured by Arlingclose Ltd treasury consultants is 1.01% which compares favourably with the benchmark 7 day LIBID which averages 0.45% over the same period.

3.2 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 2016 and 31st July 2016.

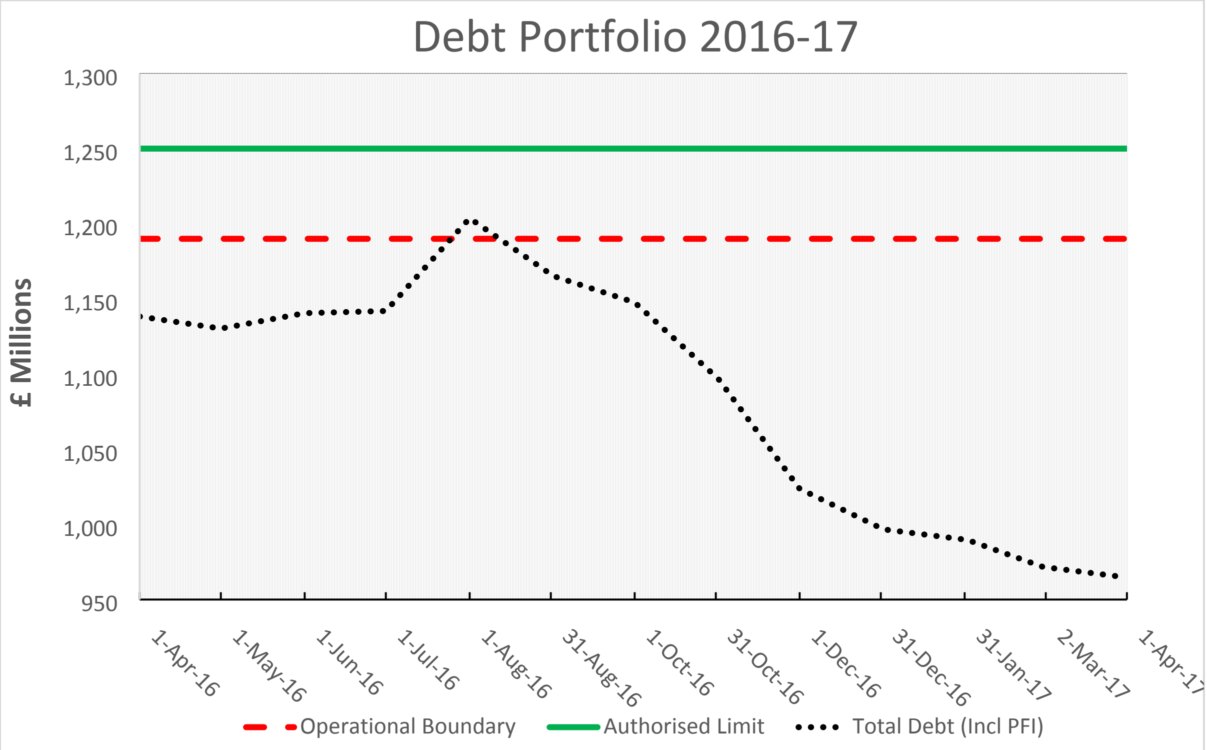
Borrowing	**PWLB Fixed £m**	**PWLB Variable £m**	**Long Term Market Loan £m**	**Other Local Authorities (incl PCC*) £m**	**Lancashire Call Accounts £m**	**Total £m**
Balance 1 April 2016	**213.10**	**125.75**	**51.78**	**522.40**	**62.38**	**975.42**
New Borrowing	0.00	0.00	0.00	207.50	180.78	388.28
Maturities	0.00	0.00	0.00	-177.90	-143.35	-321.25
Balance 31 July 2016	**213.10**	**125.75**	**51.78**	**552.00**	**99.81**	**1,042.45**
Public Finance Initiative (PFI) Liability	-	-	-	-	-	167.00
Total Borrowing & PFI						**1,209.45**

* Police & Crime Commissioners

The outstanding borrowing has increased by £67.03m in the period. This increase is partly due to the increase in shared investment scheme balances. There has also been an increase in borrowing with other local authorities principally to cover short term loans which will be due to mature.

Total borrowing now stands at £1.209bn including the financing of £167m of assets through remaining PFI schemes.

The graph below shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. The debt shown from 1st August 2016 represents the debt position if no maturing debt was replaced rather than an estimate of the expected position.



The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.

The Operational Boundary is 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 and as such it is expected that the boundary could be breached but not on a regular basis.

Apart from a few days in late July, total debt during the year has remained below the Operational Boundary. The reason for this breach was due to an increase in shared investment scheme balances held on their behalf, however this has now been remedied.

The current interest rate payable on debt measured by Arlingclose Ltd treasury consultants is 1.83%. The most recent benchmarking figure available of the average rate for all Arlingclose clients (as measured on 31st March 2016) is 3.94%.

4. Budget Monitoring Position

The net financing charges budget for 2016/17 is forecasted to be £3.5m lower than budget at the end of the financial year. The main reasons for this are:

- Sale of bonds due to market movements during recent months. This enabled some core Gilt bonds and other traded bonds to be sold resulting in a net gain of £10m.
- This net gain has been offset by the lost interest receivable, as a result of selling these Core and Traded bonds

This position is kept under regular review taking account both of ongoing performance and also market movements. The forecast is provided to the Director of Financial Resources on a monthly basis.

5. Prudential Indicators 2016/17

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 County Council are within the Prudential Indicators as detailed in Annex 1.

6. Credit Rating issued by Moody's

The County Council's credit rating is reviewed by Moody's on a yearly basis. This review was completed in the period and the rating currently remains unchanged at Aa2, which is a high credit rating. The rating is in place for the Council to issue its own bonds at an appropriate time.

7. Economic Outlook

The economic uncertainty is set to continue. The Bank of England Monetary Policy Committee voted unanimously to reduce the base rate from 0.5% to 0.25% in August. They did this anticipating that the UK is facing a period of heightened uncertainty and an expected weakening in the housing market. The best collective judgement of the Committee was that the economy was likely to see little growth in the second half of this year.

The County Council's treasury management consultants Arlingclose Ltd are predicting that in the short-term the economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum will continue through the second half of 2016. Their central forecast for the base rate is that it is to remain at 0.25% for the rest of the year. However if there is to be any movement they predict that it will be a further reduction with the rate moving to zero.

Consequently, the Treasury Management Strategy set in February 2016 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 indicator limits.

Annex 1

Prudential Indicators

1. Adoption of CIPFA Treasury Management 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** The Authorised Limit is a prudent estimate of debt which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.	**2016/17**	**31st July Actual**
	£m	**£m**
Borrowing	1,250	1,042
Other long term liabilities (PFI schemes)	200	167
TOTAL	**1,450**	**1,209**

3. Operational boundary for external debt The Operational Boundary is 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.	**2016/17**	**31st July Actual**
	£m	**£m**
Borrowing	1,190	1042
Other long term liabilities (PFI schemes)	180	167
TOTAL	**1,370**	**1,209**

4. Capital Financing Requirement to Gross Debt The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.	**2016/17**	**31st July Actual**
	£m	**£m**
Capital Financing Requirement	871	871
Estimated gross debt	1,010	1,042
Debt to Capital Financing Requirements	117%	120%

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 financial requirement calculation.

The County Council confirms that it has complied with its Prudential Indicators for 2016/17 for the reported period. The Prudential Indicators were approved in February 2016 as part of the County Council's Treasury Management Strategy Statement.

Treasury Management Indicators

1. Interest Rate exposure The limit measures the County Council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.	**Upper Limit**	**Actual**
	£m	**£m**
Net Interest Payable – Fixed Rate	50.40	10.3
Net Interest Payable – Variable Rate	5.00	2.5
1 year impact of a 1% rise	10.00	0.5

2. Maturity structure of debt The limit on the maturity structure of debt helps control refinancing risk.	**Upper Limit %**	**Actual %**
Under 12 months	75	31
12 months and within 2 years	75	22
2 years and within 5 years	75	20
5 years and within 10 years	75	7
10 years and above	100	20

3. Investments over 364 days The limit on the level of long term investments helps to control liquidity, although the majority of these investments are held in available for sale securities.	**Upper Limit**	**Actual**
	£m	**£m**
Authorised Limit	900	493
Operating Limit	600	493

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

Audit and Governance Committee
Meeting to be held on Monday, 26 September 2016

Electoral Division affected: (All Divisions);

The County Council's Treasury Management Strategy 2016/17
(Appendix 'A' refers)

Contact for further information:
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Executive Summary

Recent economic uncertainty following the referendum vote to leave the European Union has resulted in the credit agencies downgrading the UK sovereign rating. In view of the recent change and in anticipation of any future reductions the County Council's Treasury Management Policy has been reviewed.

The economic position and low interest rates also requires further consideration for the fixing of long term debt and this report covers the options including the potential use of the Municipal Bond Agency (MBA). This report allows further opportunity to consider the risks associated with the MBA in response to a resolution from County Council.

Recommendation

The Committee is recommended to:

- Approve the changes to the Treasury Management Strategy, as set out in the report, to allow for changes in the UK sovereign credit rating following the referendum vote to leave the European Union; and

- Recommend Full Council to agree that the County Council enters into the UK MBA framework agreement as set out in the report.

Background and Advice

The Council's investment priorities are:

(a) The security of capital, and
(b) The liquidity of its investments

To meet the investment priorities the County Council requires very high credit ratings for an organisation to be considered as a suitable counterparty. Although the County Council does not rely solely on the credit ratings in making its investment decisions they do form an important part of the decision making process and the Strategy approved by the County Council in February included the following:

For short term lending of up to 1 year that the short term ratings from the ratings agencies be used and that a counter-party must have a minimum of:

Moody's P1 S&P A1 Fitch F1

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

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

Long term AA3/AA-, and
Short term P1/F1+/A1+

For longer term investments (5yrs and above) in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

Long term AA2/AA
Short term P1/A1+/F1+

The minimum sovereign rating for investment is AA-.

Following the referendum vote to leave the European Union the rating agencies have reviewed the United Kingdom's sovereign ratings. Fitch has downgraded the United Kingdom’s sovereign rating by one notch to AA from AA+, and Standard & Poor’s has downgraded their corresponding rating by two notches to AA from AAA, following the referendum vote to leave the European Union. The outlook from both agencies is negative. Moody's have placed the UK on negative outlook.

Although the current ratings still fall within the current strategy it is not impossible that there will be further downgrades which would result in investments in the UK government Gilts, Treasury Bonds and bodies guaranteed by the UK Government falling outside the Treasury Management policy. This is not a desirable, or given the level of investment in Gilts, a sustainable position. Even if there is a further reduction in the credit rating of the UK the UK Government still represents a safe investment. The government has never defaulted on its payments and as an ultimate solution the Government could prevent insolvency by *printing money*. Therefore it is proposed that the AA- minimum sovereign rating is not applied to the UK. However, given that this is theoretically increasing risk within the portfolio it is proposed that limits on the holdings by maturity is introduced as follows:

	£m
Maximum 1 year to maturity	500
Maximum maturity up to 5 years	300
Maximum maturity up to 10 years	250
Over 10 years	250

Within the Treasury Management policy is provision for investments to be made with UK local authorities (including Transport for London). The limits are £100m for an individual transaction, £500m for the category as a whole and investment could be for up to 50 years. Currently, the strategy is based on local authorities having the same credit worthiness as the UK government on the assumption that government would provide support for any authority which ran into financial difficulties. Given the current financial uncertainty and potential changes to local government funding with central government grant being phased out this assumption needs to be reviewed. Where local authorities do have individual credit ratings these have recently been reduced. For example on 30 June Standard and Poor issued the following ratings:

Greater London Authority
Long-term rating Downgraded to AA from AA+
Short-term rating Affirmed at A-1+
Outlook Revised to negative from stable

Royal Borough of Kensington & Chelsea
Long-term rating Downgraded to AA from AAA
Short-term rating Affirmed at A-1+
Outlook Remains negative

Transport for London
Long-term rating Downgraded to AA from AA+
Short-term rating Affirmed at A-1+
Outlook Revised to negative from stable

Consideration has been given to reducing the risk associated with the County Council's investment with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to four years, subject to this meeting their approved strategy. For periods longer than four years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

	Maximum individual investment (£m)	Maximum total investment (£m)	Maximum period
Up to 4 years	20	250	4 years
Over 4 years	20	100	10 years

The County Council will continue to invest in corporate bonds in line with its existing credit policy. These are liquid assets and are covered by corporate bond regulations and therefore are still seen as low risk.

Long Term Debt

The County Council has for the past several years undertaken a policy of taking short term debt to take advantage of the low interest rate environment. Therefore at 31 March 2016 the County Council had debt of some £719m which is due to mature within 5 years and which will need to be renewed to fund the Council's investment programme. Of this £392m is due to mature within 12 months.

Although it is expected that the interest rates will remain low for a further period the rates are at historically very low levels. Therefore to protect the County Council against future rate increases consideration should now be given to fix some of the debt on a long term basis. Traditionally, this would have been via a loan from the PWLB but it is anticipated that this is not the most cost effective method of securing the loan. It is possible that the monies can be raised on the market at a suitable rate but the Treasury Management policy also included approval in principle for:

- Preparations for borrowing through the Municipal Bond Agency
- the establishment of a Lancashire County Council Euro Medium Term Note (EMTN) programme to facilitate access to secure long term debt

These alternatives are re-considered here to determine if they are still appropriate forms of borrowing.

PWLB

The PWLB's function is to lend money from the National Loans Fund to local authorities and it is not anticipated that this function will not remain in the future. However, the PWLB rates are not the cheapest available and once a loan has been taken the early repayment charges can be prohibitive. They are therefore seen by the County Council as a lender of last resort. However, if circumstances are such that they provide the best option, the County Council will use this facility.

Market borrowing

The County Council can borrow from the market. There are sometimes opportunities to borrow from insurance companies or other pension funds. The level of borrowing at rates and timeframes which are considered desirable may however not always be available.

Lancashire County Council Euro Medium Term Note (EMTN)

A potential source of finance is the issuance of bonds. The standard mechanism for accessing public and private debt markets, through bond issuance, is through the creation of a "Euro Medium Term Note" (EMTN) programme. In July 2014 Cabinet approved the establishment and operation of a Lancashire County Council Euro Medium Term Note programme, which included the establishment of a company to facilitate the funding. A company has been established but to date it has not been seen as appropriate to pursue a bond issuance. To be effective it is estimated that the issuance would need to be a minimum of £250m.

In general to obtain the most advantageous rates a high credit rating is required. Currently the County Council is rated AA2 by Moody's but is on a negative outlook. As discussed above there is a potential for a further reduction in the UK's credit rating which is likely to result in the County Council's rating being reduced. In this instance, and in light of the reported financial position of the County Council the benefits of a bond issuance are uncertain. There could also be significant costs given the administration involved in taking this option forward. The financial markets are likely to take the view that the repayment of the bond would be a first call on future Council funding.

Municipal Bond Agency

The Municipal Bond Agency has been established to give local authorities access to borrowing at cheaper rates than those given by the PWLB. To have access to the borrowing facility the County Council must sign up to a framework agreement issued by the Agency. A report on the Bond Agency was submitted to the County Council on 21 July 2016 which is attached as Appendix 'A'. County Council resolved that the "Audit and Governance Committee be requested to examine the potential risks of the County Council entering into the Framework Agreement and the possible mitigation of those risks at its meeting on 26 September 2016 and a further report be presented to Full Council on 13 October 2016".

The key area of risk is the guarantees given by any local authority using the Agency. Firstly, all borrowers guarantee to make contribution loans to the Agency if it estimates it will be unable to repay bond investors for any reason. This may be because another local authority has failed to make a scheduled payment of interest or principal on a loan, or because the agency is insolvent, or simply because the agency has poor cash flow management and is unable to borrow elsewhere.

Another key risk is the joint and several nature of the guarantee (JSG) given by local authorities. This guarantee is given by all local authority borrowers directly to the bond investors, guaranteeing to make good any shortfall in payments from the agency to the investors when using the Agency. In effect this means that if the County Council took part in one of the bond issuances it would be guaranteeing the loan of other local authorities and therefore the County Council would potentially be liable if another authority defaulted. This guarantee could potentially extend for 75 years or more. One of the risks faced by the County Council is that over this time period the legislative framework and the role of the PWLB as a lender of last resort may differ from the position now.

Clearly, there is a risk involved with the Framework Agreement. The issue is whether or not the level of risk undertaken in entering the agreement is acceptable. The Bond Agency has taken steps to mitigate the risk and within the agreement it is required:

- to carry out certain processes, e.g. credit check, and not to lend money to local authorities which it believes do not pass the credit assessment;

- to maintain a level of diversification, which ensures that the MBA does not become overly concentrated in lending to a particular authority;

- it sets out the timelines for payment to ensure that the MBA has funds in place on a timely basis for payments of interest and principal;

- it includes requirement for notification in the event that an authority will have difficulty in meeting its payment obligations

The risk of a local authority defaulting on its debts must be considered. To date no local authority has defaulted on a loan. In addition, the major credit agencies consider that local authorities are highly regulated by the DCLG and the risk of lenders to local authorities not getting the principal and interest back is low. This must be caveated that these opinions are based on the current system and cannot predict future changes.

The UK MBA is obliged under the Framework Agreement to pursue any defaulting local authority for full recovery, using whatever means available.

In particular the UK MBA may:

- Declare such local authority's liabilities to the UK MBA to be immediately due and payable;
- Sue for, commence or join any legal or arbitration proceedings against the defaulting local authority;
- Exercise any rights of set off; or
- Apply to the High Court to have a receiver appointed under Section 13(5) of the Local Government Act 2013.

Should a default occur the contribution to cover the default would be in proportion to the non-defaulting loans. Therefore if the County Council agreed to use the MBA it could limit the amount it was to borrow from the MBA thereby potentially reducing its risk. Indeed, the MBA will have its own limits to ensure that proportionately it has not lent too much to a particular authority. This will limit both the risk to the MBA and to other authorities in case of default. Consequently, if it is agreed to enter the Framework Agreement it is not likely that the County Council would be looking to use it as a sole source of financing the debt that is maturing.

It is proposed that the County Council enters into the MBA framework agreement, with the terms of any loan being subject to the approval of the Council's S151 Officer and the Deputy Leader of the County Council, taking into consideration the potential liability being incurred from the guarantees, relative to the other borrowing options available to the Council at the time.

In order to protect the County Council against future interest rate increases, there are a limited number of options to secure the fixing of debt on a longer-term basis as set out in the report. The current economic uncertainty and financial position of the County Council significantly increases the risks around the EMTN. Signing up to the MBA framework agreement would allow the opportunity for this to be considered alongside the other more immediately accessible borrowing options available to the Council.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

If the Council does not sign up to the UK MBA framework agreement, the opportunity to secure long term borrowing below the PWLB rate may not be available under desirable terms.

Financial

It is not possible to say with any certainty what rates would be provided when the loans are taken. However, the expectation is that a direct EMTN issuance would be in the region of 0.25% lower than the PWLB rate. It is anticipated that the Bond Agency would also have rates around 0.25% lower than PWLB.

As an illustration, on a £50m loan over a loan period of 30 years, this would mean the saving would be £0.125m per annum and £3.750m in total over the length of the loan period.

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

Paper	Date	Contact/Tel
Borrowing from the Municipal Bond Agency	21 July 2016	Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A

Appendix A

Meeting of the Full Council
Meeting to be held on Thursday, 21 July 2016

Report submitted by: Head of Corporate Finance

Part A

Electoral Division affected:
(All Divisions);

Borrowing from the Municipal Bond Agency
Appendix A and B refer

Contact for further information:
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Executive Summary

Following changes introduced by the Government in 2010/11 the cost of the Council borrowing money increased. In response, the Council, as part of a Local Government Association initiative has contributed to the setting up of the Municipal Bond Agency, which is intended to reduce costs.

This report makes recommendations to specifically authorise borrowing from the Municipal Bond Agency (MBA). In order to do so, the Council will need to enter into the Agency's Framework Agreement. The Agreement includes an accession document confirming that the council has the necessary approvals to sign the Agreement and a joint and several guarantee to those lending money to the Agency in respect of the borrowing of all other local authorities from the Agency. Entering into the Framework Agreement enables the Council to access funding from the Agency as and when required which will be at a lower rate than PWLB finance.

In particular the report explains the process by which the MBA is expected to raise money and lend to local authorities. The report goes on to explain why it is considered extremely unlikely that the guarantee will be called but in the event it was, explains in general terms what is expected to happen to restore the position. The report explains how this structure is expected to produce cheaper borrowing for local authorities which outweighs the risks associated with the legal arrangements.

Recommendation

The Full Council is recommended to:

1. Note the risks of entry into the Framework Agreement and Guarantee and of

Lancashire County Council

undertaking borrowing from the UK Municipal Bonds Agency.

2. Approve entry into the Framework Agreement (a guide to the framework agreement is at Appendix A).

3. Subject to the above, authorise the Cabinet Member with responsibility for finance to approve any specific borrowing to be undertaken.

4. Subject to the above, delegate authority to the Council's Section 151 Officer and Monitoring Officer to execute all the necessary contractual arrangements.

5. Note that these officers will be required to provide the confirmation at Appendix B that the Council's governance has been completed in relation to entering the Framework Agreement.

Background and Advice

The UK Municipal Bonds Agency (MBA) was established by the Local Government Association (LGA) and 56 local authorities, including Lancashire County Council, for the purpose of enabling local authorities to borrow on better rates of interest than would otherwise be available to the local authority and to provide an alternative to the Public Works Loan Board (PWLB).

The Council became a shareholder in the MBA during 2014-15, following approval at Cabinet on 15 July 2014 to invest £250k equity.

Given the Council's significant borrowing requirement to finance the capital programme over the medium term, it was considered in the Council's interest that the MBA was established so as to reduce financing costs in the years ahead.

In order to be able to borrow from the MBA a local authority must accept the terms of the Framework Agreement and grant joint and several guarantee. This means that a local authority will be guaranteeing all the existing finance obligations of the MBA and any future obligations which are entered into.

This report describes the risks of entering into the Framework Agreement and providing the Guarantee, and the safeguards and protections that are in place to mitigate the Guarantee from being exercised. It also sets out the legal powers relied upon to enter into these contracts.

UK MUNICIPAL BONDS AGENCY – OVERVIEW OF THE MBA

Background to MBA

The Local Government Association (LGA) established the UK MBA in June 2014 with the primary objective of reducing UK local authority financing costs, through becoming the most efficient and cost effective provider of finance.

The MBA will borrow money from a variety of third parties, including local authorities, and on-lend, on a matched funding basis to UK local authorities.
In March 2014 a revised Business Case was published by the LGA containing details as to how a municipal bonds agency would expect to issue bonds on behalf of local authorities in an efficient and cost effective manner and at lower rates than from existing facilities such as the Public Works Loan Board (PWLB).

In order to achieve the most competitive pricing and beat PWLB rates, the MBA will have to be viewed as a strong counterparty and have a strong credit rating, achieved through (amongst others), the following mechanisms:

- A joint and several guarantee granted by each of the borrowing local authorities covering the full amounts owed by the MBA under any financing document which is covered by the guarantee;

- Contribution arrangements, whereby if a local authority defaults on one of it payments to the MBA, the MBA shall require each other local authority that is party to the Framework Agreement to put in funds to cover the shortfall; and

- A very conservative risk profile.

In giving the joint and several guarantees, local authorities will be relying on the MBA to ensure appropriate standards of credit worthiness in relation to each of the local authorities and liquidity management.

MBA's Client Base

The MBA will only lend to UK local authorities who can give a joint and several guarantee. This client base is currently limited to 353 principal English local authorities, which have the general power of competence pursuant to section 1(1) of the Localism Act 2011 (the "General Power of Competence") including the power to give a joint and several guarantee, and which satisfy the terms of the Framework Agreement in relation to accession of local authorities.

The ability to give joint and several guarantees may in due course be extended to other local authorities, e.g. combined authorities or Scottish or Welsh authorities. In the event that this occurs, they will be eligible to borrow from the MBA, subject to appropriate credit checks.

The MBA would, in due course, like all local authority borrowers to become shareholders in the MBA. This ensures a stronger alignment of interest between local authority borrowers and shareholders and is viewed positively by ratings agencies and the markets. Accordingly, the MBA will charge a higher interest rate to local authority borrowers who are not shareholders, albeit one which remains competitive.

Borrowing from the MBA

In order to borrow from the MBA, a local authority will need to enter in to the Framework Agreement with the MBA.

The Framework Agreement detail how the MBA expects to interact with local authority borrowers, including detailing how the joint and several guarantee and contribution arrangements will work and documenting the loan standard terms and condition.

Expected MBA Lending Timeline

The lead up to the initial bond issue will require a degree of coordination as local authorities who wish to borrow from the MBA go through these approval processes and the volume of demand for financing builds.

Once a local authority has signed the required documentation, the MBA will carry out its credit assessments prior to entering into any loan with a local authority. Once the MBA has sufficient borrowing demand built up the process of issuing a bond will commence.

The MBA has completed all the necessary internal steps to be able to issue a bond fund borrowing requirements at short notice. Nevertheless, the MBA will only issue a bond when market conditions are appropriate, and accordingly will look for flexibility within a 2 to 4 week window, once local authorities have committed to borrow.

Pricing of the MBA’s loans

The MBA operates a transparent pricing structure. The MBA will charge a margin over its underlying borrowing costs to borrowing local authorities. This margin is currently set at:

- 10 basis points (0.10%) for shareholders; and
- 15 basis point (0.15%) for non-shareholders.

The MBA may adjust these margins for new borrowing transactions at its discretion, but will not increase them. It is expected that over time these margins will reduce.

In addition the MBA will pass on any transaction costs to local authority borrowers. These costs will include: rating agency fees, bank syndicate fees and legal costs. These will not exceed 50 basis points (0.50%) on the total amount borrowed.

Prepayment

Any loans from the MBA will be funded by money borrowed by the MBA from the markets, institutions or local authorities. Prepayment rights will track through between the local authority loans and the MBA financing arrangements. For bond issues, voluntary prepayment is calculated in a similar way as PWLB premature repayment.

Approach to credit assessment of local authorities

Prior to approving any loans, the MBA will carry out a credit review on the local authority.

The MBA has developed proprietary credit scoring models based on similar methodologies to the main ratings agencies. In order to access funding from the MBA, a local authority would need to be able to achieve a single A credit rating on a stand alone basis (rating agencies would typically “notch up” a local authority to account for implied Government support”).

In addition to credit scoring, the MBA will ensure appropriate diversification of its lending portfolio, through the contractual concentration limits agreed in the Framework Agreement.

Key elements of the Framework Agreement

A guide to the framework agreement is at Appendix A. The Framework Agreement is primarily designed to mitigate the risk of a call on the joint and several guarantee, and lays out contractually how the MBA will interact with local authorities.

The joint and several guarantee will be provided by local authority borrowers, in favour of the underlying providers of finance. The guarantee is required to be unconditional and irrevocable. Accordingly, from the point in time at which the guarantee is executed, a local authority is guaranteeing all the financing obligations of the MBA. Should a local authority give notice to withdraw from the guarantee, including repaying all outstanding borrowings, it will continue to guarantee the borrowing of the MBA which are outstanding at that point in time.

The Framework Agreement mitigates the risk of a call on the joint and several guarantee. It does this in a number of ways:

- It required the MBA to carry out certain processes, e.g. credit check, and not to lend money to local authorities which it believes do not pass the credit assessment;

- It required a level of diversification, which ensures that the MBA does not become overly concentrated in lending to a particular authority;

- It sets out the timelines for payment to ensure that the MBA has funds in place on a timely basis for payments of interest and principal;

- It includes requirement for notification in the event that an authority will have difficulty in meeting its payment obligations.

In addition the MBA will maintain standby liquidity facilities, which are intended to be sized at an amount sufficient to avoid default on an interest payment.

In the event that an authority does not meet its obligation to the MBA on a timely basis, the MBA is required to ask authorities to make contribution (contribution arrangements) to meet the shortfall in proportion to their borrowings, in the form of a contribution loan, to avoid the guarantee being called in.

In the event that a contribution is made, the MBA is required to pursue recovery of the debt, from the defaulting authority, on a timely basis.

Default by a local authority

No principal local authority has default on any loan (from the PWLB, a bank or any other lending institution).

The statutory and prudential framework under which local authorities operate is amongst the strongest in the world.

Any lender to a local authority has protection, under statute, by way of a first charge on the revenue of that authority.

In addition, the reputational damage which would be suffered by a defaulting local authority would be significant.

MBA Credit Rating

The MBA has a private credit rating, which it will make public at the appropriate time. The range of local authority borrowers/guarantors may impact the credit rating.

Governance of the MBA

The MBA is a public limited company and as such is directed by its Board. In due course, it is expected that the Board will include 7 non-executive and 3 executives.

In addition, the Board will have the following 2 sub-committees, chaired by independent non-executives:

- Risk, Compliance and Audit Committee; and
- Nomination and Remuneration Committee.

RISKS AND SAFEGUARDS OF ENTRY INTO FRAMEWORK AGREEMENT

Given the participating local authority's exposure to the contribution arrangements and/or the Guarantee when borrowing from the MBA, it is important to understand that entry in to the Framework Agreement and borrowing from the MBA is therefore very different in nature to borrowing from the Public Works Loan Board, under a bilateral loan facility or through a bond issue in the capital markets.

There are inherent risks associated with the proposed structure for any local authority entering into the Framework Agreement, not least the joint and several nature of the Guarantees that participating local authorities are required to provide before borrowing from the MBA. These are:

- The risk to a participating local authority is that its Guarantee may be called independently of any other Guarantee and for the full amount owing by the MBA under the financing document which is covered by such Guarantee (and, therefore, such participating local authority is potentially liable to pay out amounts to the MBA that vastly exceed the amounts borrowed).

- Participating local authorities should also note that, even after a participating local authority has terminated its Guarantee, it will continue to guarantee the "Guaranteed Liabilities" entered into by the MBA before the date of termination of the Guarantee. The effect of this is that a participating local authority's liability under its Guarantee may potentially continue in existence for many years after termination.

However, the risks associated with the Guarantees are mitigated by the contribution arrangements mechanism. The Framework Agreement is therefore designed such that the real exposure for participating local authorities, from a practical perspective, should be under the contribution arrangements rather than the Guarantees, and the exposure of each participating local authority would be calculated by reference to the amount borrowed by it as a proportion of all non defaulting participating local authorities borrowing under the structure.

Even though the participating local authorities are entitled to expect that the MBA will operate in accordance with its obligations under the Framework Agreement, participating local authorities are nevertheless inevitably exposed to the risk that the MBA fails to observe its obligation under the Framework Agreement. This may include failure to sustain and police robust due diligence and credit assessments on acceding local authorities (therefore making it more likely that the participating local authority will need to contribute over and above their borrowings whether through the contribution arrangement or the Guarantee). It is also possible that the MBA itself may default on its underlying bilateral borrowing from counterparties or under bond issues by not managing its cash flows in a prudent manner or that the MBA may fail to operate the contribution arrangements in a manner as envisaged in the Framework Agreement, in which case, each participating local authority is exposed to a call on it guarantee without the protection that the contribution arrangements provide.

However, the Framework Agreement does contain provision to mitigate the risks identified above, in summary by:

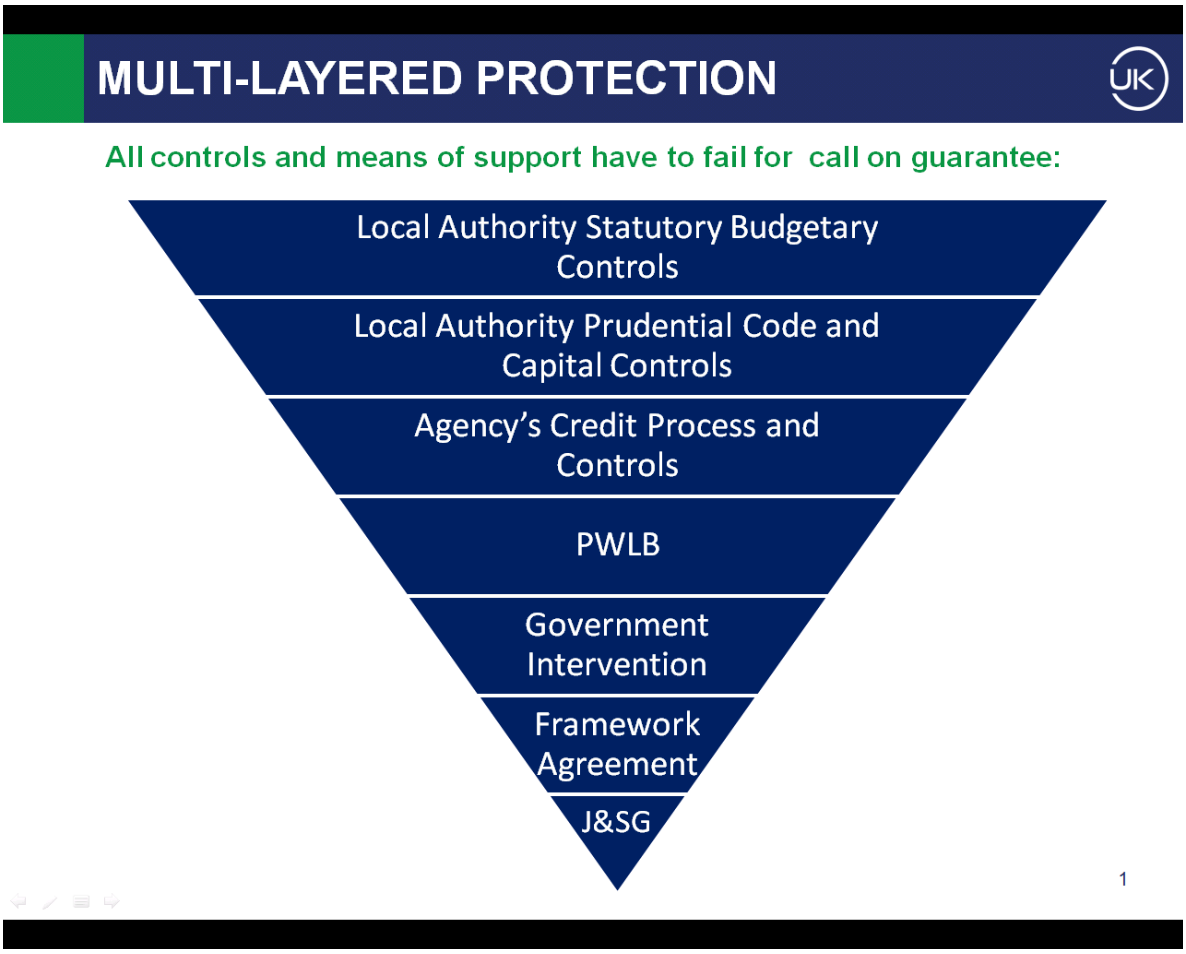
- The contractual obligations upon the MBA to undertake credit assessments of each LA;

- The limit on the amount each participating local authority may borrow from time to time
- The matched transactions basis on which the MBA itself will borrow money
- The power for participating local authorities to collectively instruct MBA not to undertake further borrowing.

In addition to the above, the statutory and prudential framework under which local authorities operate (set out in summary below), should provide some reassurance to the financial standing of the local government sector:

- Compliance with the prudential framework established by Part 1 of the Local Government Act 2003 and related regulations, including the Prudential Code for Capital Finance in Local Authorities published by CIPFA
- Requirement to set a balanced budget in accordance with Section 31A and Section 42A of the Local Government Finance Act 1992
- The Chief Finance Officer's report on robustness of budget estimates and adequacy of reserves under section 25 of the Local Government Act 2003.
- Requirement to publish audited accounts by a statutory deadline
- External audit opinion in respect of a local authority's accounts.

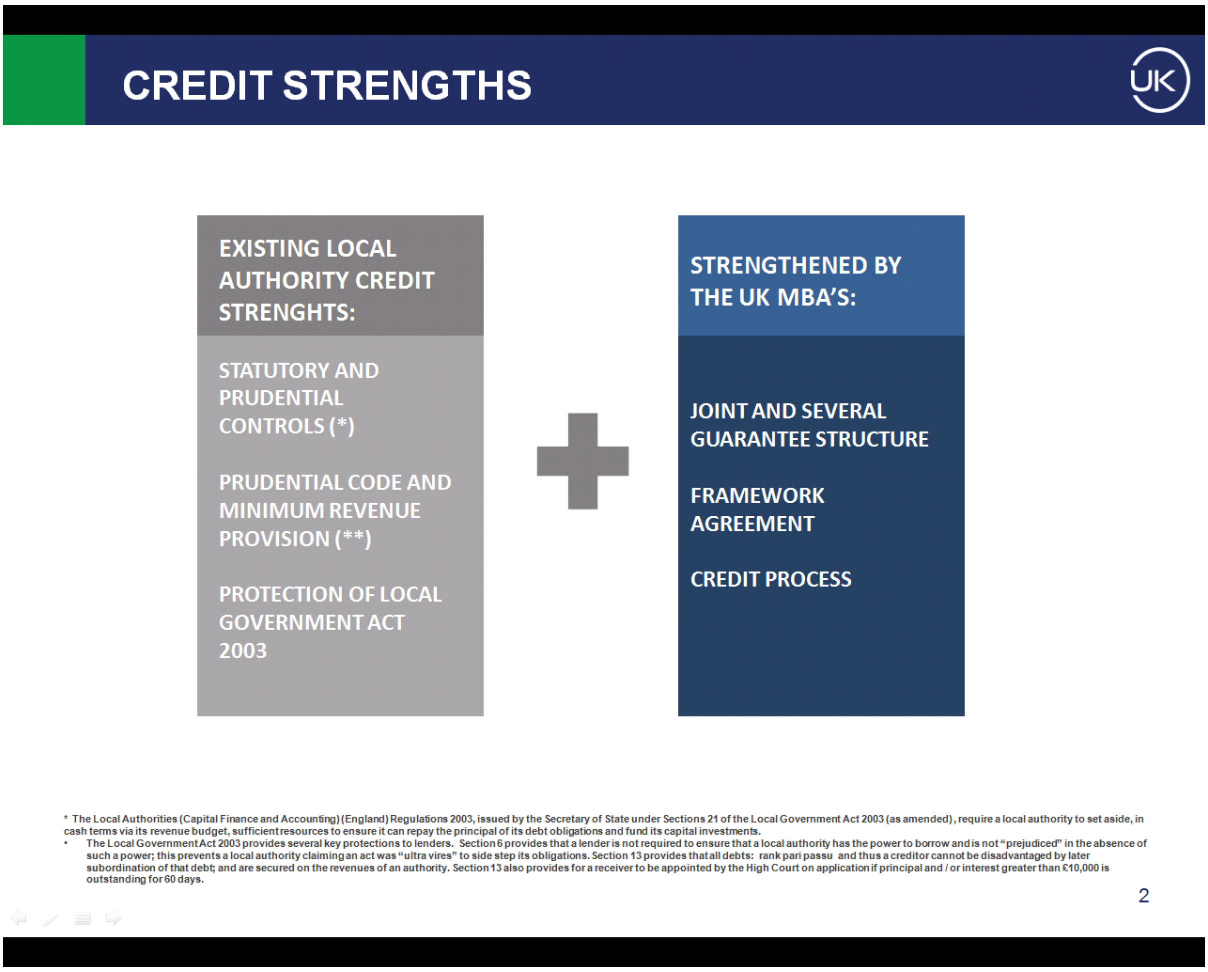
The slides and diagrams below (provided by the MBA) describe the layers of controls and safeguards in place that have to fail before the call on the guarantee is exercised.



The local authorities (Capital Finance and Accounting) (England) Regulations 2003, issued by the Secretary of State under Sections 21 of the Local Government Act 2003 (as amended), require a local authority to set aside, in cash terms via its revenue budget, sufficient resources to ensure it can repay the principal of its debt obligations and fund its capital investments.

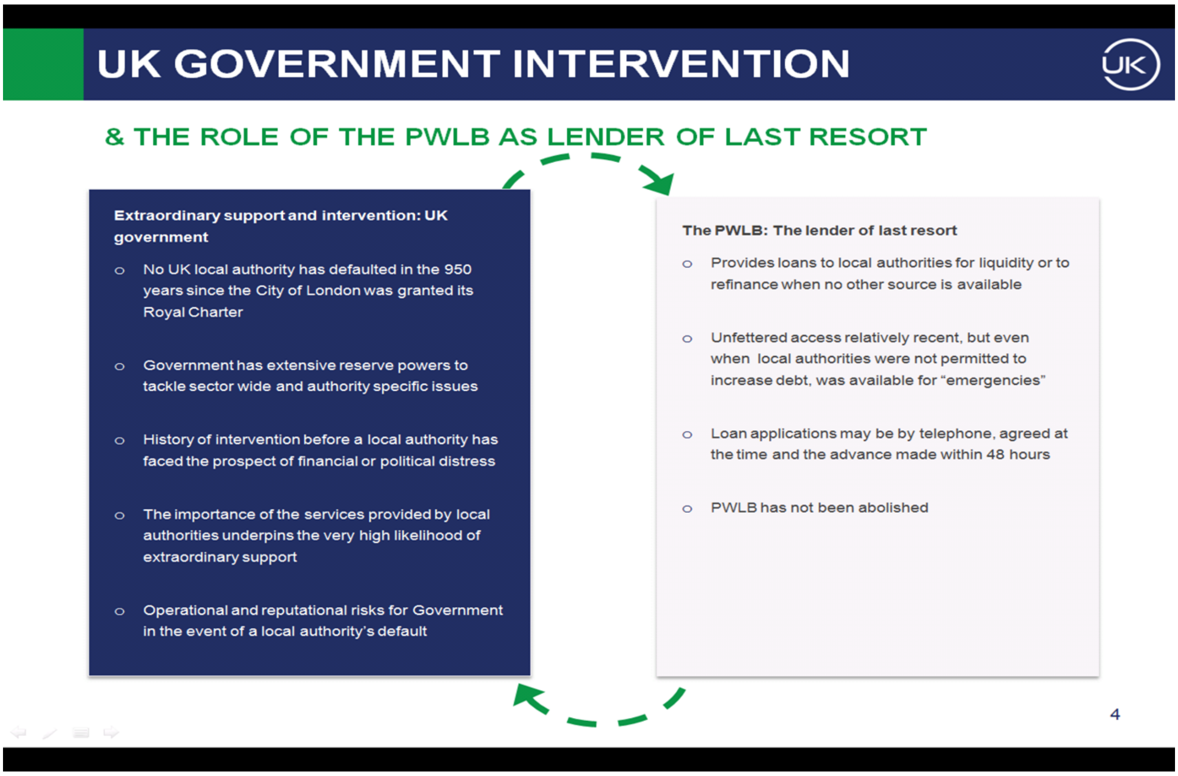
The Local Government Act 2003 provides several key protections to lenders. Section 6 provides that a lender is not required to ensure that a local authority has the power to borrow and is not “prejudiced” in the absence of such a power; this prevents a local authority claiming an act was “ultra vires” to side step its obligations. Section 13 provides that all debts: rank pari passu and thus a creditor cannot be disadvantaged by later subordination of that debt; and are secured on the revenues of an authority. Section 13 also provides for a receiver to be appointed by the High Court on application if principal and / or interest greater than £10,000 is outstanding for 60 days.

The slide below describes that the existing local authority credit strengths are strengthened by the MBA’s Framework Agreement, Guarantee and Credit Process.



This slide describes the strong legislative framework that local authorities operate within which should provide some reassurances to institutions providing loans to local authorities, through the MBA, as well as local authorities signing providing guarantee.

The PWLB remains the lender of last resort and may be used by local authorities for liquidity purposes or to refinance loans at short notice.



Conclusion

In providing a guarantee in order to be able to borrow via the MBA, the risks that arise must be considered. Exposure to the contribution arrangements and the joint and several guarantee means that entering into the Framework Agreement and borrowing via the Agency is different in nature to borrowing from the Public Works Loan Board, under a bilateral loan facility or through a bond issue in the capital markets.

There are inherent risks associated with the proposed structure, not least the joint and several nature of the guarantee. These are:

- The risk that the Council's guarantee may be called independently of any other Guarantee and for the full amount owing by the Agency under the financing document that is covered by the guarantee (and, therefore, the Council would be potentially liable to pay out amounts to the MBA that exceed the amounts borrowed).

- Even if the Council has terminated its Guarantee, it will continue to guarantee the "Guaranteed Liabilities" entered into by the Agency before the termination date (until such time as those liabilities have expired, as the underlying loan has been repaid). The effect of this is that the Council's liability under its Guarantee may potentially continue in existence for many years (several decades) after termination.

However, the risks associated with the joint and several guarantee are mitigated by the contribution arrangements. The Framework Agreement is such that the Council's exposure, from a practical perspective, is the requirement to make contributions in the event of a default by another borrower and this exposure is proportional because it is calculated by reference to the amount borrowed by the Council as a proportion of all non-defaulting loans made by the Agency.

The risk of a default by a local authority is considered to be low with the ability of the Agency to recover sums owed to it in the event of a default set out in this report.

There is a risk that the Agency does not observe its obligations under the Framework Agreement, but the Council is entitled to expect that the Agency will operate in accordance with its obligations under the Framework Agreement when considering whether or not to enter into the Framework Agreement. The LGA and local authorities control the Agency via their shareholdings so could intervene if the Agency did not abide by the Framework Agreement.

<u>Benefits</u>

The prime advantage to the Council is the prospect of lower borrowing costs and the possibility to obtain types of loans that are not available from the PWLB. Cheaper capital finance will reduce pressure on the Council's finances. This advantage offsets the low risk that a local authority defaults and the Agency is unable to recover the debts owed to it in order to repay the Council any contributions it is required to make.

When the Agreement comes into effect

The Framework Agreement only comes into effect if the Council does borrow from the Agency. If the Council does not borrow, there is no risk to the Council arising from the contribution arrangements or joint and several guarantee. The Council is not obligated to borrow via the Agency and even if it chooses to legally commit to borrowing via a bond issue, it will not be required to take a loan that is not cheaper than the PWLB, so the bond will not be issued. Therefore, the financial risk to the Council of the Agency either failing to deliver a saving or the Council not borrowing having signed the Framework Agreement is effectively eliminated.

Wider Observations about LA Borrowing Risk

All borrowing of the MBA will be done for and on behalf of local authorities. The major credit reference agencies have considered local authorities as a sector.

Moody's has observed:

LAs are highly regulated by the Department of Communities and Local Government, and ultimately the national government. A number of measures are in place to ensure LAs deliver fiscal discipline, including the requirement to put forward balanced budgets, have council tax rates approved annually, and to implement the Prudential Code for Capital Finance in Local Authorities, which limits the levels of borrowing. There are currently no signs of this regulatory framework or the associated oversight weakening. In addition, the Secretary of State has additional powers of intervention if a council is on the verge of financial distress, if needed.

And Standard & Poors have observed:

"If a council were to default we consider the legislation to be favorable to creditors, and we would expect high recovery rates. The Local Government Act 2003, for example, mandates that all money borrowed by a local authority, together with any interest on the money borrowed, "shall be charged indifferently on all the revenues of the authority." In the event of a default, the High Court may confer on a receiver any powers which the local authority has in relation to collecting, receiving, or recovering the revenues of the local authority. Given the potential implications of a default, particularly in terms of loss of control over revenue and therefore service delivery, councillors and their officers have a strong disincentive against willingly defaulting on their financial obligations.

…Broadly speaking, we consider that the sector has a strong technical capacity to deliver spending reductions.

… the sector has shown a strong track record of monitoring and controlling expenditure. Council officers typically provide monthly financial reports to their councillors, and the U.K. Department for Communities and Local Government (DCLG) monitors quarterly financial returns. We understand that DCLG continues to play an active role in responding to councils that are under financial stress. Although the decision to close the Audit Commission has reduced the extent of local authority

reporting, we still consider that, from a credit perspective, the U.K. local authority sector benefits from a high degree of transparency and effective monitoring and financial controls."

In essence both agencies are saying that lenders to the local government sector should have a high level of confidence in getting debt repaid and interest payments in line with expectations. Effectively the guarantee provides additional assurance and in the event that contributions were required the MBA would be in a position to recover them through the High Court, relying on the charge borrowings place on revenues.

The risk associated with the guarantee is therefore considered low, and the risk associated with any loan does not really depend upon the lender; it is a market risk which we already have, though as indicated above the MBA is expected to be able to lend more cheaply than the PWLB.

However, given the specific risks and guarantees around this borrowing it is concluded that subject to the Council's approval to enter into the Framework Agreement, borrowing from the MBA is not undertaken without the express approval of the Council's Cabinet Member with responsibility for finance in relation to each loan undertaken.

Additionally, in order to access borrowing from the UK MBA, local authorities will need to be able to demonstrate that those signing the guarantee and related documents have the appropriate authorisation. This protects both the UK MBA and other participating local authorities. To facilitate this, the UK MBA requires a certificate of approval (Appendix B) to be signed by both the S151 officer and the monitoring officer, which identifies the chain of authority from the local authority to the relevant signatories and demonstrates that the local authority has appropriate approval to enter into the Framework Agreement and the relevant guarantee.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Financial

Due to the changing environment within financial markets following the EU referendum outcome, any decision to borrow from the MBA will need to consider the market conditions at the time of any bond issue.

Legal

Legal advice as to the powers required by participating local authorities was sought from external lawyers who were satisfied that there were no vires issues.

Risk management

As set out in this report

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

Paper	Date	Contact/Tel
Financing the County Council's Borrowing Requirement	15 July 2014	Mike Jensen, (01772) 538724

Reason for inclusion in Part II, if appropriate

N/A

Guide to the Framework Agreement

This Appendix A (*Guide to the Framework Agreement*) is intended to be a summary only, providing ease of accessibility to, and not a substitute for, the detail of the Framework Agreement. This summary is entirely subject to the terms of the Framework Agreement, which should be read in full and shall at all times take precedence (including in the event of a dispute).

Joint and several guarantee

The joint and several guarantee (“the guarantee”) is irrevocable and unconditional.

The guarantee will become effective when it is executed (which the UK MBA envisages will be at the point in time at which the UK MBA first provides financing to the respective local authority). At that point in time, the local authority will be guaranteeing all existing finance obligations of the UK MBA and any future finance obligations which are entered into prior to the local authority giving notice to terminate the guarantee.

A local authority can only give notice to terminate the guarantee when it has no outstanding loans from the UK MBA. The irrevocable nature of the guarantee means that, at that point in time, it will continue to guarantee the finance obligations which are in place when notice to withdraw is given. However, it will not be guaranteeing any future financing obligations of the UK MBA.

Contribution arrangements and mechanism

In order to mitigate the risk of a call on the guarantee, contribution arrangement mechanics have been built into the Framework Agreement.

Contribution arrangements enable the UK MBA, in the event of a failure by a local authority to meet a payment obligation within the time frames set out under the Framework Agreement, to call proportional contributions from other borrowing authorities. These timeframes, which are specified in section 3.3 of the Framework Agreement, can be summarised as follows:

1. Payment of interest must be made to the UK MBA by 11am on the fifth business day preceding the due date of such amount under the loan made by the UK MBA to the relevant local authority. For payments of principal and unless otherwise agreed between the UK MBA and the relevant local authority, it is the tenth business day.

2. If any of these payments have not been made and the UK MBA is unable to obtain sufficient funds by other means by 11am the following day in the case of interest or 2 days after the required date of payment (unless otherwise agreed between the UK MBA and the relevant local authority) in the case of principal, bearing in mind that the UK MBA is obliged to send follow up demands, the UK MBA shall (by 5pm on such day) issue a contribution notice to each non-defaulting local authority (a "**Contribution Notice"**).

3. Each Contribution Notice will request each non-defaulting local authority to provide contributions calculated by reference to the proportion of the shortfall equal to its borrowings as a proportion of the borrowings of all non-defaulting local authorities from the UK MBA. Some non-defaulting local authorities'

contributions will therefore be zero (where such non-defaulting local authority has no outstanding borrowings from the UK MBA).

4. Contributions must be made by 11am on the date specified in the relevant Contribution Notice which shall be at least 2 business days after the date of the Contribution Notice in the case of interest or 4 business days after the date of the Contribution Notice (unless otherwise agreed between the UK MBA and the relevant local authority) in the case of principal.

5. Should any local authority fail to pay any contribution due under a Contribution Notice, the UK MBA shall issue notices to the other non-defaulting local authorities (a "**Further Contribution Notice**"), requiring a further contribution by 11 am the following business day in the case of interest or 2 business days after the date of such Further Contribution Notice in the case of principal. The UK MBA may, however, elect not to carry out this process if it has obtained the required funds by other means.

The UK MBA may also by agreement with any non-defaulting local authorities issue notices to such local authorities requiring them to pay in aggregate an amount equal to the shortfall less the contributions that have been made (an "**Individual Authority Contribution Notice**").As indicated at 3 above, contributions by a non-defaulting local authority are calculated by reference to the proportion of the shortfall equal to that local authority's borrowings as a proportion of the borrowings of all non-defaulting local authorities from the UK MBA. For example, if the UK MBA had £110million outstanding loans equally to 11 authorities and one defaulted on a £10million repayment, then each of the remaining 10 would be asked to make a £1million contribution.

Any contributions are in the form of loans to the UK MBA, upon which interest would be payable. The UK MBA is obliged, under the Framework Agreement, to pursue any defaulting authority on a timely basis for full repayment of any outstanding defaulted amounts, and shall use recoveries to repay local authorities which have made any payments under the guarantees or made contribution loans.

Further details of the timelines for payment of interest and principal and related timings for Contribution Notices are contained in the Framework Agreement. The UK MBA may use other liquidity facilities to cover a default, but, if it is unable to do so, Contribution Notices will be sent.

For worked examples of the contribution arrangements, see page [11] of this Appendix A.

Prepayment

Prepayment of a loan from the UK MBA to a local authority (the "**Loan**") may occur under the following circumstances:

Illegality Prepayment

If, in any applicable jurisdiction, it becomes unlawful for the UK MBA to perform any of its obligations as contemplated by the loan agreement or to fund or maintain the Loan:

1. the UK MBA shall promptly notify the relevant local authority upon becoming aware of that event whereupon the facility will be immediately cancelled; and

2. the relevant local authority shall repay the Loan on the interest payment date (as specified in the relevant loan confirmation) immediately following the date on which the UK MBA has notified such local authority, or if earlier, the date specified by the UK MBA in the notice delivered to such local authority, together with interest accrued (if any).

Mandatory prepayment of funding arrangements

If the UK MBA is required to prepay any funding which the UK MBA entered into in order to fund the making of the Loan, the UK MBA shall promptly notify the relevant local authority of such requirement and such local authority shall repay the Loan on the interest payment date (as specified in the relevant loan confirmation) immediately following the date on which the UK MBA has notified such local authority, or if earlier, the date specified by the UK MBA in the notice delivered to such local authority, together with interest accrued (if any).

Voluntary Prepayment for Tax

If a local authority is required to pay any additional amounts pursuant to clause 9 (Tax Gross Up) of the loan standard terms, the local authority may elect to prepay the Loan in whole on any interest payment date (as specified in the relevant loan confirmation) at the prepayment amount specified in the loan confirmation on such local authority giving not less than 60 days' notice to the UK MBA (which notice shall be irrevocable and shall oblige such local authority to prepay the Loan in whole plus accrued interest (if any) to such date).

Change of Status

If at any time a local authority ceases to be treated as a “local authority” within the meaning of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 or equivalent legislation due to legislative amendment (a “**Change of Status**”), the UK MBA may by notice to the local authority require it to prepay the Loan on the interest payment date (as specified in the relevant loan confirmation) immediately following the date of such notice, together with interest accrued (if any).

Voluntary Prepayment

Unless otherwise specified in the relevant loan confirmation, the Loan may be prepaid at the option of the relevant local authority in whole or in part on any voluntary prepayment date at the prepayment amount (both as specified in the relevant loan confirmation) on such local authority giving not less than 60 days' notice to the UK MBA, or such other period(s) as may be specified in the relevant loan confirmation (which notice shall be irrevocable and shall oblige such local authority to prepay the Loan in whole or, as the case may be, in part, as specified in such notice on the relevant voluntary prepayment date at the prepayment amount plus accrued interest (if any) to such date), provided that the Loan may not be voluntarily prepaid prior to the date falling 12 months after the utilisation date or following the date falling 12 months prior to the final repayment date (both as specified in the relevant loan confirmation).

No other prepayment

No local authority shall, without the prior written consent of the UK MBA, be entitled to prepay the Loan otherwise than as provided in clauses 6.1 to 6.5 of the loan standard terms.

Default by a local authority

Default by a local authority is likely to result in material reputational damage to that authority. The UK MBA is required to notify participating local authorities of the relevant default.

In addition, the Framework Agreement requires the UK MBA to promptly take action to recover any defaulted amounts, which may involve an application to the High Court.

Any costs related to pursuit of a default, including administration costs and interest on contributions, would be a cost to the defaulting local authority, which the UK MBA would pursue. The UK MBA has no authorisation, from participating authorities or shareholders, to negotiate forgiveness of either the outstanding debts or costs.

An event of default is primarily a failure by that local authority to meet a payment, when due, but will also include (amongst other things):

- the appointment of a receiver by the High Court under Section 13(5) of the Local Government Act 2013 in respect of that local authority; and
- the dissolution of that local authority, other than in the creation of a statutory successor.

In order to access borrowing from the UK MBA, local authorities will need to be able to demonstrate that those signing the guarantee and related documents have the appropriate authorisation. This protects both the UK MBA and other participating local authorities. To facilitate this, the UK MBA requires a certificate of approval to be signed by both the S151 officer and the monitoring officer, which identifies the chain of authority from the local authority to the relevant signatories and demonstrates that the local authority has appropriate approval to enter into the Framework Agreement and the relevant guarantee.

Concentration limits

Concentration limits restrict the UK MBA's ability to become over-exposed to a single local authority, thus ensuring that, in the event of a default, contributions to that default will be spread amongst a wide group of local authorities. These concentration limits are detailed in section 5.2 of the Framework Agreement. It should be noted that concentration limits are tested at the point in time that a local authority borrows, i.e. if local authorities merge to become combined authorities, those limits may be breached. However, as per section 5.2 of the Framework Agreement, in the event of any reorganisation of local authorities, the UK MBA may propose amendments to the concentration limits for approval by 85% of participating authorities.

Matched Financing Arrangements

The UK MBA shall only borrow funds (i) intended to be on-lent to the local authorities (and in any event amounts borrowed by the UK MBA shall at no time be more than 105% of the total outstanding loans it has made to local authorities), where the interest rates on the on-loans will be at least equal to the rate paid by the UK MBA, or (ii) to meet payment obligations in the event of a default by any local authority.

Power of LAs to restrict UK MBA borrowing

Participating local authorities may instruct the UK MBA not to enter into any further borrowing commitments, either under any finance documents or through the issuance of bonds, provided that the number of such local authorities is more than 50% of the number of all participating local authorities and the outstanding loans of such local authorities amount to more than 50% by value of the total outstanding loans. This shall not restrict the ability of the UK MBA to borrow further amounts under any finance document (including under any liquidity facility) or contribution loan to meet a payment obligation under a finance document.

This may occur, for example, if local authorities become concerned about the credit standards of the UK MBA or there is a fundamental change in the statutory or prudential framework.

Loan standard terms

Loan standard terms protect both the UK MBA and the local authorities borrowing from the UK MBA. Any amendments to the standard terms must be agreed between both the UK MBA and the relevant borrowing local authority. Each loan agreement with a local authority will consist of the standard terms as supplemented by a loan confirmation specifying specific details for that particular loan.

Increased Costs

Where the UK MBA has made a Loan to a local authority, the relevant local authority shall, within three business days of a demand by the UK MBA, pay for the account of the UK MBA the amount of any Increased Costs (as described below) incurred by the UK MBA as a result of:

- the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation after the date of the loan agreement; or
- compliance with any law or regulation made after the date of the loan agreement.

Increased Costs include: (i) a reduction in the rate of return from the Loan or on the UK MBA's overall capital, (ii) an additional or increased cost, or (iii) a reduction of any amount due and payable under the loan agreement, in each case which is incurred or suffered by the UK MBA to the extent that it is attributable to the UK MBA having entered into a commitment or funding or performing its obligations under the loan agreement.

The obligation on the relevant local authority to pay any Increased Costs does not apply to the extent that such Increased Cost is:

- attributable to a deduction or withholding for or on account of UK taxes required by law to be made by the relevant local authority; or

- attributable to the wilful breach by the UK MBA of any law or regulation.

Confidential information

Much of the information which the UK MBA uses is available from public sources. Nevertheless on occasions, as part of the UK MBA’s credit assessments, the UK MBA may receive information which is not available publicly.

The UK MBA shall assume that any information that it has received which is not in the public domain is the confidential information of the provider. This does not include information which is required to be disclosed to the UK MBA under section 6.2 of the Framework Agreement (see "*Information Requirements*" below, where the UK MBA may disclose the information to legitimately interested parties, at its discretion).

Similarly, the UK MBA will be providing local authorities with confidential information. For example, the UK MBA views its credit assessments, along with the underlying models, as being confidential. Any confidential information provided to an authority by the UK MBA will be identified as such.

The UK MBA needs to comply with the Market Abuse Directive in relation to the treatment of material price sensitive information. For such information, the UK MBA needs to ensure it is held confidential until it is appropriately communicated to the market. In addition to the credit assessments, such information may include details of authorities granting, or terminating, their guarantee.

Information Requirements

A local authority is required to notify the UK MBA, in writing, where there are indications that such local authority's financial or operational performance may give rise to concerns over its ability to meet its obligations under any lending arrangements. In particular, the local authority shall notify the UK MBA:

- if it is unable to pay its debts as they fall due;
- of any report issued in respect of it under Section 114 of the Local Government Finance Act 1988 (or any replacement or equivalent provision);
- of any failure to comply with the prudential framework established by Part 1 of the Local Government Act 2003 and related regulations, including the Prudential Code for Capital Finance in Local Authorities published by CIPFA, as amended or reissued from time to time;
- of any failure to set a balanced budget in accordance with Section 31A and Section 42A of the Local Government Finance Act 1992;
- if the chief finance officer's report on robustness of budget estimates and adequacy of reserves under section 25 of the Local Government Act 2003 states either that the estimates are not robust and/or the reserves are inadequate, and such local authority passes that budget without action to remedy those deficiencies;
- if external auditors issue a qualified audit opinion in respect of such local authority's accounts;
- if such local authority is or will be unable to publish audited accounts by the statutory deadline;
- of any Change of Status of such local authority;
- promptly upon becoming aware that any representation or statement made or deemed to be made by it in the Framework Agreement, any loan agreement or any other document delivered by or on behalf of it in relation to such documents was incorrect or misleading when made or deemed to be made;

- promptly upon becoming aware of them, the status and description of any dispute, litigation, arbitration, expert determination or administrative proceedings which are current, threatened or pending against such local authority, which is reasonably likely to be adversely determined, and which, if adversely determined either individually or taken as a whole, are reasonably likely to have a material adverse effect on the status or governance of the local authority, its assets, its operations, its condition (financial or otherwise), its prospects, or its ability to comply with the finance documents;

- promptly upon becoming aware of them, any event or circumstance which such local authority reasonably believes might have a material adverse effect on the status or governance of the local authority, its assets, its operations, its condition (financial or otherwise), its prospects, or its ability to comply with the finance documents; or

- promptly on request, such additional information as may be reasonably requested by the UK MBA from time to time,

and, in each case, the local authority shall set out in such notice reasonable details associated therewith, the effects of such an event or occurrence and any actions being undertaken to mitigate or remedy such event or occurrence.

Modification

Any modification to the Framework Agreement requires an agreement between the UK MBA and (unless otherwise specifically provided in the Framework Agreement) local authorities being more than 85% of the number of all participating local authorities and where the value of outstanding loans of such local authorities is greater than 85% of the total outstanding loans, provided that no modification to the Framework Agreement which imposes additional obligations on a particular local authority will be made without the consent of that local authority.

Resignation of LAs and termination of guarantees

A local authority may terminate its joint and several guarantee by giving written notice to the UK MBA. In order to terminate the joint and several guarantee, the local authority must have repaid all its outstanding loans from the UK MBA.

If a local authority terminates its joint and several guarantee, it shall no longer be eligible to borrow from the UK MBA, unless it repeats the accession process.

Upon termination, a local authority will continue to guarantee the UK MBA's borrowings which were in place at the time of termination until they are fully repaid.

Enforcement and application of proceeds

The UK MBA is obliged under the Framework Agreement to pursue any defaulting authority for full recovery, using whatever means available.

In particular, the UK MBA may:

- declare such local authority's liabilities to the UK MBA to be immediately due and payable;
- sue for, commence or join any legal or arbitration proceedings against the defaulting local authority;
- exercise any rights of set off; or

- apply to the High Court to have a receiver appointed under Section 13(5) of the Local Government Act 2013.

If the UK MBA does not take steps to recover any defaulted amounts within 90 days of the relevant failure to pay, the UK MBA shall take such action as is reasonably required by the majority of local authorities (where the majority in such case will be met if the number of such local authorities is more than 50% of the number of all participating local authorities and the value of outstanding loans of such local authorities is greater than 50% of the total outstanding loans).

Any amounts recovered by the UK MBA shall be applied in the following order of priority:

- in discharging any amounts owing to the UK MBA's creditors;
- in payment to the local authorities which have made a payment under their guarantee; and
- in payment to the local authorities which have made a contribution, with prioritisation based on the basis for the contributions, i.e. Individual Authority Contribution Notice, Further Contribution Notice and Contribution Notice.

Any amounts payable to local authorities shall be pro-rata to the total amounts of contributions in the relevant category made by such local authorities.

Worked examples

In the following worked examples assume the following:

- Minimum diversification: The UK MBA's total loan book is split between local authorities in such a manner as will meet its minimum requirements in terms of the total number of authorities and the amounts owing by any individual authority.
- Single name limit: The maximum amount which can be owed by any individual authority within a total loan book banding.

Single bond in issue, £250:

Summary of exposures: 2 authorities owe £37.5 million (Authority A & B), 7 authorities owe £25million.

If authority A fails to pay a principal repayment, the following contributions will be required:

Authority B £6.6 million, remaining authorities £4.4million

Should Authority B fail to pay the contribution, the remaining authorities will be asked to contribute an additional £0.9million, i.e. a total contribution of £5.4 million

Portfolio of loans at £1 Billion

Summary of exposures: 2 authorities owe £125 million (Authority A & B), 7 authorities owe £107million

If authority A fails to pay a principal repayment, the following contributions will be required:

Authority B £17.9 million, remaining authorities £15.3million

Should Authority B fail to pay the contribution, the remaining authorities will be asked to contribute an additional £2.6million, i.e. a total of £17.9 million

Portfolio of loans at £2 Billion

Summary of exposures: 2 authorities owe £250 million (Authority A & B), 7 authorities owe £210million

If authority A fails to pay a principal repayment, the following contributions will be required:

Authority B £36.3million, remaining authorities £30.5million

Should Authority B fail to pay the contribution, the remaining authorities will be asked to contribute an additional £5.2million, i.e. a total of £35.7million

Note: These examples are illustrative. The UK MBA would expect the level of diversification, as the portfolio expands, to increase rather than effectively remain static.

Standard confirmation of LA's authority to borrow from UK MBA and execute a Guarantee

To: UK Municipal Bonds Agency PLC
[*Address*]

Date: [●]

Dear Sirs,

Certificate of Approval - UK Municipal Bonds Agency PLC (the **Company**)

With reference to the Framework Agreement [to be entered into / dated [*insert date*]] between the Company and various UK local authorities and as annexed hereto as Annex 1 (the **Framework Agreement**) and the form of guarantee attached as Schedule 2 to the Framework Agreement (the **Guarantee**), we hereby confirm that:

(i) the Authority has the necessary power to enable it to enter into the Framework Agreement and the Guarantee, and perform its obligations thereunder;

(ii) the Authority has approved the entering into of the Framework Agreement and the Guarantee; and

(iii) all necessary authorisations have been obtained, and all appropriate and applicable decision-making procedures have been followed and completed, to enable it to enter into this Agreement and the Guarantee.

[Attached hereto / Available at the weblinks specified below] are copies of documentation required to evidence the chain of authority from the council to the relevant signatories on behalf of such Authority, as follows:

[Annex 2 / [insert weblink]] - [*Set out all delegations of power from constitutional documents to signatory of the documents, referring to specific sections of documents where relevant. Such documents may include standing orders, Annual Treasury Management Strategy, delegations to committees, and should include minutes of meetings specifically approving the Framework Agreement and the Guarantee*]

Signed by: [*name*]

Chief Finance Officer (appointed pursuant to s151 of the Local Government Act 1972)

....

Signed by: [*name*]

Monitoring Officer (appointed pursuant to section 5 of the Local Government and Housing Act 1992, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000)

....