Lancashire County Council

Audit, Risk and Governance Committee

Monday, 30th July, 2018 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.	**Constitution, Membership and Terms of Reference 2018/19**	(Pages 1 - 6)
4.	**Minutes of the Meeting held on 30 April 2018** To be confirmed, and signed by the Chair.	(Pages 7 - 14)
5.	**Approval of the County Council and County Pension Fund Letters of Representation 2017/18**	(Pages 15 - 24)
6.	**External Audit - Lancashire County Council Audit Findings Report 2017/18** Report to follow.	
7.	**External Audit - Lancashire County Pension Fund Audit Findings Report 2017/18**	(Pages 25 - 48)
8.	**Internal Audit Progress Report**	(Pages 49 - 72)
9.	**Annual Governance Statement 2017/18**	(Pages 73 - 88)
10.	**Approval of the Council's Statement of Accounts 2017/18**	(Pages 89 - 326)
11.	**Review of Treasury Management Activity 2017/18**	(Pages 327 - 338)

Lancashire County Council

12.	**Grant Thornton Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2018/19**	(Pages 339 - 344)
13.	**Corporate Risk & Opportunity Register Q1**	(Pages 345 - 360)
14.	**Chairman's Annual Report 2017/18**	(Pages 361 - 386)
15.	**Committee Work Plan 2018/19**	(Pages 387 - 390)

16. Update on the Review of Neighbourhood Wellbeing Initiative Grants

Verbal Update

17. Urgent Business

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

18. Date of Next Meeting

The next meeting of the Committee will be held on Monday 29 October 2018 at 2.00pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected: None;

Constitution, Membership and Terms of Reference 2018/19
(Appendix 'A' refers)

Contact for further information:
Dave Gorman, Tel: (01772) 534261, Senior Democratic Services Officer,
dave.gorman@lancashire.gov.uk

Executive Summary

The Constitution, Membership and Terms of Reference of the Committee for 2018/19.

Recommendation

The Committee is asked to:

(i) Note the appointment of County Councillors Alan Schofield and Edward Nash as Chair and Deputy Chair respectively of the Audit, Risk and Governance Committee for the 2018/19 municipal year;
(ii) Note the membership of the Audit, Risk and Governance Committee for the 2018/19 municipal year, as set out in the report, and the terms of reference of the committee as set out at Appendix 'A'.

Background and Advice

The Full Council, at its annual meeting on 24 May 2018, agreed that the Audit, Risk and Governance Committee shall comprise eight County Councillors (on the basis of five Conservative members and three Labour members).

The following County Councillors have subsequently been nominated to serve on the Audit, Risk and Governance Committee for the 2018/19 municipal year:

County Councillors (8):

J Berry	A Schofield
T Martin	J Shedwick
E Nash	A Vincent
M Parkinson	P Williamson

Lancashire County Council

The Full Council appointed County Councillors Alan Schofield and Edward Nash as Chair and Deputy Chair respectively of the Audit, Risk and Governance Committee for the 2018/19 municipal year.

A copy of the Committee's terms of reference are attached at Appendix 'A'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Terms of Reference

Audit, Risk and Governance Committee

Statement of purpose

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

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

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

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

Governance

The committee will:

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

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

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

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

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

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

Risk management and control

The committee will:

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

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

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

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

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

Internal audit

The committee will:

16 Approve the internal audit charter.

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

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

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

20 Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

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

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

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

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

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

22 Consider summaries of specific internal audit reports as requested.

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

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

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

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

External audit

The committee will:

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

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

29 Consider specific reports as agreed with the external auditor.

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

31 Commission additional work from the external auditor as necessary.

Financial reporting

The committee will:

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

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

Accountability arrangements

The committee will:

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

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

Treasury management

The committee will:

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

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

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

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

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

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 30th April, 2018 at 2.00 pm in Committee Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

E Nash	E Lewis
P Williamson	M Parkinson
A Vincent	J Shedwick
J Berry	

1. Apologies

There were no apologies.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 29 January 2018

Resolved: - That the minutes of the meeting of the Audit, Risk and Governance Committee held on 29 January 2018 be confirmed and signed by the Chair.

4. Internal Audit Progress Report

The Committee considered a report setting out progress and the outcomes of the work for the period to 31 March 2018.

The Committee raised a number of issues around the referencing of background papers in reports; the relationship between Deloitte and Local Pensions Partnerships Ltd (LPPL); residual risk and the link between the work of the Internal Audit Service and Overview and Scrutiny.

In response to the above, it was recognised that background papers should always be properly referenced in all reports. The Chair, as the County Council's representative on the Board of LPPL, would discuss the relationship of Deloitte, as the internal auditor to LPPL, with the Council, with the Chair of LPPL's Audit Committee and report back at the next meeting.

It was noted that County Councillors were not routinely asked if they had any issues relating to specific areas of audit work and the question was raised how members are informed of the matters arising from internal audit work. It was suggested that consideration could be given to how areas of work identified by

the Internal Audit Service might be included in the work plans of the relevant Overview and Scrutiny Committees and officers agreed that proposals would be brought back to the Committee in due course.

Resolved: - That the report, now presented, be noted.

5. Internal Audit Annual Report 2017/18

The Committee considered a report summarising the work undertaken by the Internal Audit Service during 2017/18 and the key themes which have arisen in relation to internal control, governance and risk management across the county council.

Whilst providing limited assurance overall, the report recognised the work being undertaken across the county council to improve the design and effectiveness of the county council's frameworks of governance, risk management and control.

The Committee raised a number of issues around the impact of the management restructure and the involvement of the Internal Audit Service in the current review of governance being led by the Political Governance Working Group.

In response to the above, it was clarified that the report addressed 2017/18 and that recommendations from the Political Governance Working Group would be made in due course to Full Council and would therefore affect 2018/19 and future years. Any changes around governance and, for example, the county council's standing orders, would once implemented, be reviewed for effectiveness in due course.

Resolved: - That the report, now presented, be noted.

6. Grant Thornton's Request for Information from the Chair of the Committee

The Committee considered a report setting out a proposed response to the request for information from Grant Thornton, the county council's external auditors, for information from the Committee Chair.

The Committee raised a number of issues around whether consideration had been given to using a revised materiality figure given the county council's current financial situation; the value of participating in the National Fraud Initiative; and the engagement of staff.

In response to the above, it was clarified that the materiality figure was 1.5% of gross expenditure but that it was a gauge for the external audit process, and did not apply to all matters. The county council's corporate management team was working on a new value set and looking at ways of increasing staff engagement and empowerment which would include regular staff surveys.

The Chair clarified that the 90% funded figure referred to for the Pension Fund was the figure at 31 March 2016 and that it was Local Pensions Partnership Investments Ltd, i.e. a subsidiary of Local Pensions Partnership Ltd, which was regulated by the Financial Conduct Authority rather than the parent company itself.

Resolved: - That, subject to the amendments identified, approval be given to the Chair of the Committee to provide the information set out at Appendix 'B' to the report, now presented, as the formal response to Grant Thornton.

7. Grant Thornton's Request for Information from Management

The Committee considered a report setting out a proposed response to the request for information from Grant Thornton, the county council's external auditors, for information from management.

In response to a query from a Committee member it was clarified that the county council maintained a list of external solicitors and advisors which were used in those circumstances where specific expertise was required.

Resolved: - That approval be given to the management response set out at Appendix 'B' to the report, now presented, as the formal response to Grant Thornton.

8. The Council's Annual Governance Statement 2017/18 and Code of Corporate Governance

The Committee considered a report setting out a draft Annual Governance Statement for 2017/18 and an updated Code of Corporate Governance.

The Committee raised a number of issues around the assurance provided seeming to be more robust than that in the other reports on the agenda; and the inclusion of reports received from the Local Government Ombudsman during the year.

In response to the above, it was reported that a new management process of assurance had been introduced whereby each Director was required to provide the interim Chief Executive with a level of assurance for the services they had responsibility for. Two reports from the Local Government Ombudsman had been considered by Full Council in the 2017/18 municipal year and details would be included.

As a number of amendments to the Annual Governance Statement had been identified, it was agreed that a final version should be presented to the Committee for consideration at its next meeting on 30 July but that a draft, taking account of the amendments, be published with the Statement of Accounts from May 2018.

Resolved: - That:

(i) Subject to the amendments identified, the Annual Governance Statement as set out at Appendix 'A', now presented, be approved for publication as a draft with the 2017/18 Statement of Accounts from May 2018 and that a final draft be brought back to the Committee at its meeting on 30 July 2018;

(ii) It be noted that the Annual Governance Statement will be signed by the Interim Chief Executive and Leader of Council, and published on the Council's website following the final approval of the Statement of Accounts;

(iii) Subject to the amendments identified, the updated Code of Corporate Governance, now presented, be recommended to Full Council for approval.

9. External Audit - Audit Progress Report and Sector Update 2017/18

The Committee considered a report from Grant Thornton, the county council's external auditors, setting out progress to date with the audit of the 2017/18 Statement of Accounts and the Value for Money conclusion.

It was noted that there were no specific issues to bring to the Committee's attention at this point and that the work was on track to enable the outcome to be reported to the Committee at its meeting on 30 July 2018.

In response to a query from a Committee member it was clarified that, with regard to the Teachers' Pension Return, the appointment of auditors was an annual appointment separate from the main contract with Grant Thornton as the county council's external auditors.

Resolved: - That the External Audit Progress Report and Sector Update for 2017/18, as set out at Appendix 'A' to the report, now presented, be noted.

10. External Audit - Lancashire County Council Audit Plan 2017/18

The Committee considered a report from Grant Thornton, the county council's external auditors, setting out the nature and scope of the work that the external auditor would carry out, in respect of Lancashire County Council, to discharge its statutory responsibilities, compliant with the Local Audit and Accountability Act 2014 and the Code of Audit Practice for Local Government.

The Committee raised a number of questions around the valuation of property, plant, equipment and investment property; and the inclusion of Lancashire County Developments Ltd in the audit when other county council companies were excluded.

It was reported that, as regards the valuation, the audit was looking at whether the valuation of such assets was fair and that, as well as undertaking this work itself, Grant Thornton would seek external professional advice if required.

Resolved: - That the External Audit Plan for the audit of Lancashire County Council for 2017/18, and the fees therein, as set out in the report, now presented, be approved.

11. External Audit - Lancashire County Pension Fund Audit Plan 2017/18

The Committee considered a report from Grant Thornton, the county council's external auditors, setting out the nature and scope of the work that the external auditor would carry out, in respect of the Lancashire County Pension Fund, to discharge its statutory responsibilities, compliant with the Local Audit and Accountability Act 2014 and the Code of Audit Practice for Local Government.

It was reported that, as regards the Pension Fund, the materiality was set at £72m, i.e. 1% of net assets.

The Committee raised a number of questions around the relationship between the auditors and Local Pensions Partnership Ltd. It was confirmed that the auditor had direct access to Local Pensions Partnership Ltd.

Resolved: - That the External Audit Plan for the audit of the Lancashire County Pension Fund for 2017/18, and the fees therein, as set out in the report, now presented, be approved.

12. Internal Audit Annual Plan 2018/19

The Committee considered a report setting out details of the Internal Audit Annual Plan 2018/19. The report explained the work that would support the overall opinion for the year on the county council's framework of governance, risk management and control.

In response to a query from a Committee member it was clarified that, whilst this was an annual plan, work would be undertaken to identify the audit work required over a longer cycle and on service areas that are not currently subject to internal review, whilst improvement work continues.

Resolved: - That the Internal Audit Plan 2018/19 as set out at Appendices 'A' and 'B' to the report, now presented, be approved.

13. Urgent Business

There was no urgent business to be considered.

14. Date of Next Meeting

It was noted that the next meeting of the Committee would take place at 2.00pm on Monday 30 July 2018 at County Hall, Preston.

The Chair also reminded Committee members that a briefing on the 2017/18 Statement of Accounts would be held on Monday 2 July 2018 at 2pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall.

15. Exclusion of Press and Public

Resolved: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part I of Schedule 12A to the Local Government Act 1972. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

16. Whistleblowing, Special Investigations and Counter Fraud Annual Report 2017/18

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interests in disclosing the information).

The Committee considered a report setting out details of the annual report on whistleblowing, special investigations and counter fraud for 2017/18.

Resolved: - That the report, now presented, be noted;

17. Update on Overpayment of Salaries

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interests in disclosing the information).

The Committee considered a report setting out an update on the overpayment of salaries.

Resolved: - That:

(i) The report, now presented, be noted;
(ii) Updates on progress to reduce overpayment of salaries be reported to the Committee by the Head of Internal Audit as part of the regular Internal Audit progress reports considered by the Committee.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected: (All Divisions);

Approval of the County Council and County Pension Fund Letters of Representation 2017/18
(Appendices 'A' and 'B' refer)

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

Executive Summary

The council's external auditors, Grant Thornton, are required to obtain written representations from those charged with governance and management of the council on matters material to the financial statements where other appropriate audit evidence cannot reasonably be expected to exist.

The council's management representation letter is attached at Appendix 'A' and the county's pension fund management representation letter is attached at Appendix 'B'.

Recommendation

The committee is requested to:

(i) Consider the management representation letters at Appendix 'A' and Appendix 'B' and note the outstanding information to be added at the conclusion of the external audit;
(ii) Agree that they be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee prior to being made available to the external auditor.

Background and Advice

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

The council's management representation letter is attached at Appendix 'A' and the county's pension fund management representation letter is attached at Appendix 'B'.

Lancashire County Council

Following agreement by the committee, the management representation letters must be signed on behalf of the council by the Chief Financial Officer and by the Chair of the Audit, Risk and Governance Committee and made available to the external auditors, to form part of the audit evidence, before the audit report is issued.

Audit findings

At the time of writing this report the external auditors have not concluded their audit, and therefore the Audit Findings Reports have not yet been received. In the event that the Audit Findings Reports are received the council will consider the misstatements, and misclassification and disclosure change schedules included in the Audit Findings Reports.

A schedule will be provided at the committee of those changes that have been made to the accounts following the publication of the committee agenda. A schedule will also be provided of those items brought to our attention that have not been adjusted for, and the reason why the adjustment has not been made. The letters of representation will be updated with these schedules for approval at the committee.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The management representation letters for 2017/18 are required by the council's external auditors, Grant Thornton, as part of the audit of the council's statement of accounts.

Failure to provide adequate assurance from management may result in an adverse audit opinion.

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

www.lancashire.gov.uk

Lancashire County Council

Mr Michael Thomas
Director
Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

Fax:
Email:

Your ref:
Our ref:
Date: 30 July 2018

Dear Mr Thomas

Lancashire County Council Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Lancashire County Council and its subsidiary undertaking, Lancashire County Developments Limited, for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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:

Group Financial Statements

i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented 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 identified non-compliance with requirements of any 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 Except as disclosed in the group and parent Council financial statements:

a there are no unrecorded liabilities, actual or contingent

b none of the assets of the group and 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.

vii 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.

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

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

x The group and parent Council financial statements are free of material misstatements, including omissions.

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

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

xiii 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

xiv 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 Council from whom you determined it necessary to obtain audit evidence.

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

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

xvii 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.

xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the group and parent Council financial statements.

xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

xx 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.

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

xxii 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.

Annual Governance Statement

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

Narrative Report

xxvii The disclosures within the Narrative Report fairly reflect our understanding of the group and 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, Risk and Governance Committee at its meeting on 30 July 2018.

Signed on behalf of the Council

Angie Ridgwell, Chief Executive and Director of Resources	County Councillor Alan Schofield Chair of the Audit, Risk and Governance Committee
30 July 2018	30 July 2018

www.lancashire.gov.uk

Lancashire County Council

Mr Michael Thomas
Director
Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

Fax:
Email:

Your ref:
Our ref:
Date: 30 July 2018

Dear Mr Thomas

Lancashire County Pension Fund Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of the Lancashire County Pension Fund ("the Fund") for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

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

Financial Statements

i We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. 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.

vi 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.

vii Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent

b none of the assets of the Council has been assigned, pledged or mortgaged

c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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

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

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

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

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

xiii 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.

Information Provided

xiv We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Fund 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 Fund from whom you determined it necessary to obtain audit evidence.

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

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

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 We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

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

xx 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.

xxi 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.

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

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

xxiv 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 Council's Audit, Risk and Governance Committee at its meeting on 30 July 2018.

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

Angie Ridgwell, Chief Executive and Director of Resources	County Councillor Alan Schofield Chair of Audit, Risk and Governance Committee
30 July 2018	30 July 2018

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

External Audit - Lancashire County Pension Fund Audit Findings Report 2017/18
(Appendix 'A' refers)

Contact for further information:
Mike Thomas, Tel: 0161 214 6368, Director, Grant Thornton UK LLP,
mike.thomas@uk.gt.com

Executive Summary

The external auditor is required to report to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work. The report at Appendix 'A' covers the overall findings of the external auditor in relation to the audit of the annual accounts of the pension fund, and their proposed opinion on those accounts.

Recommendation

The Audit, Risk and Governance Committee is recommended to note the report.

Background and Advice

Attached at Appendix 'A' is the external auditor's annual audit findings report for the Lancashire County Pension Fund for the 2017/18 audit. The report has been produced in accordance with the statutory National Audit Office (NAO) Code of Audit Practice for Local Government bodies.

Mike Thomas, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

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

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

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

Grant Thornton

Audit Findings

Year ending 31 March 2018

Lancashire County Pension Fund

19 July 2018

Appendix 'A'

Contents

Your key Grant Thornton team members are:

Mike Thomas
Director
T: 0161 214 6368 or 07880 456173
E: mike.thomas@uk.gt.com

Richard McGahon
Senior Manager
T: 0141 223 0889 or 07880 456156
E: richard.a.mcgahon@uk.gt.com

Mark Stansfield
Executive
T: 0161 234 6356
E: Mark.Stansfield@uk.gt.com

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	Our audit work was completed on site during June and July. Our findings are summarised on pages 14 to 17. We have identified one material adjustments to the financial statements that have resulted in a £137 million adjustment to the Fund's reported financial position. The Pension Fund has also made some disclosure adjustments to management expenses and providing more detail in respect of the amounts managed by LPPI. Audit adjustments are detailed in Appendix A. We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 30 July 2018. These outstanding items include: - reviewing responses in respect of the queries raised on Level 2 investments, completing our work on the membership data and our final sample testing of journals; - review of the final set of financial statements; - review of the final version of the annual report; - completion of our internal review procedures; - obtaining and reviewing the management representation letter; and - updating our post balance sheet events review to the date of signing the opinion.

Acknowledgements
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.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 30 July 2018, as detailed in Appendix C. These outstanding items include:

- reviewing responses in respect of the queries raised on Level 2 investments, completing our work on the membership data and our final sample testing of journals;
- review of the final set of financial statements;
- review of the final version of the annual report;
- completion of our internal review procedures;
- obtaining and reviewing the management representation letter; and
- updating our post balance sheet events review to the date of signing the opinion.

Our approach to materiality

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

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for the Pension Fund.. We have set a separate materiality for disclosure of senior officers remuneration.

	Pension Fund Amount (£)
Materiality for the financial statements	£72,093,000 (1% of net assets)
Performance materiality	£54,070,000 (75% of materiality)
Trivial matters	£3,604,000 (5% of overall materiality)

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 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) 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including Lancashire County Council as the Administering Authority of Lancashire County Pension Fund, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**We have:** • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our work has not identified any evidence of management override of controls. Our sample testing of journals is ongoing but has not identified any issues to date.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**The valuation of Level 3 investments is incorrect** Under ISA (UK) 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.	**We have:** • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • considered the competence, expertise and objectivity of any management experts used; • reviewed the qualifications of the custodian as an expert to value Level 3 investments at year end. Our audit work has not identified any issues in respect of the risks relating to the valuation of Level 3 investments at year end. In our audit plan we outlined that we would test a sample of Level 3 investments, however, all Level 3 investments are valued by LPPI Global Equities Fund and their value has been confirmed by the Custodian. We have therefore relied upon our consideration and assessment of the Custodian as an expert to value Level 3 investments.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
4	**Contributions** Contributions from employers and employees represents a significant percentage (67%) of the Fund's revenue.	**We have:** • evaluated the Fund's accounting policy for recognition of contributions for appropriateness; • gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls; • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; • rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained. Our work has not identified any significant issues in relation to the risk identified.
5	**Pension Benefits Payable** Pension benefits payable represents a significant percentage (80%) of the Fund's expenditure.	**We have:** • evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls; • tested a sample of individual pensions in payment by reference to member files; • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. Our work has not identified any significant issues in relation to the risk identified.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
6	**The valuation of Level 2 investments is incorrect** While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	**We have:** • gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances; • for direct property investments agreed values in total to valuer's report and undertook steps to gain reliance on the valuer as an expert. We are currently finalising our work on Level 2 investments. We raised a small number of queries where the amounts in the Pension Fund accounts, based upon the valuation by the Custodian were significantly different to the valuation provided by the fund manager or valuer. The Pension Fund team has provided us with responses and we are currently reviewing them.

Going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process	
The Pension Fund has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists. They have considered the Funds funding position and any communications with the relevant Department and Secretary of State.	• The Pension Fund's use of the going the concern basis of accounting is appropriate; • The Pension Fund's assessment of going concern was communicated to us in the Chair of the Audit, Risk and Governance Committee's letter to us dated 30 April 2018; • Sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reports a funding level of 90%.
Work performed	
Reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty identified; • Sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reports a funding level of 90%; • The Pension Fund continues to operate as usual with contributions and investment income being received and benefits being paid.
Concluding comments	
The Pension Fund's use of going concern basis of accounting is appropriate.	• Our opinion is unmodified in respect of the going concern conclusion.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary
1	Significant events or transactions that occurred during the year	In April 2017 the Pension Fund received £137.0 million in upfront payments from employers for deficit funding contributions and service rate contributions for 2018/19 and 2019/20. The Fund was accounting for these as receipts in advance and showed a current and long term liability. Our view is that for the Pension Fund accounts it is revenue recognition that is the important consideration. These payments would meet the definition of income for the Pension Fund as there is no prospect of this cash being paid back These amounts are due to the Pension Fund in 2017/18 and are an asset of the Pension Fund in 2017/18, which the Pension Fund has invested in 2017/18 to generate income in the Pension Fund accounts. Therefore these should be accounted for as income in the Pension Fund accounts in 2017/18. The accounts have been amended.
2	Business conditions affecting the Pension Fund, and business plans and strategies that may affect the risks of material misstatement	No issues to report.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	No issues to report.
4	Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	We were re-appointed as auditors of Lancashire County Pension Fund for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and this will be presented to the Audit, Risk and Governance Committee on 30 July 2018.
5	Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No issues to report.
6	Other matters that are significant to the oversight of the financial reporting process	No issues to report.

Accounting policies, judgements and estimates

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Note 3 – Accounting policies for recognition of income as follows: • Contribution income – recognised on an accruals basis, receipts in advance are accounted for as accrued income • Transfers to and from other schemes – recognised on a cash basis with the exception of bulk transfers, which are accounted for on an accruals basis. • Investment income: - interest income – recognised on accruals basis - dividend income – recognised when shares are quoted - distribution from pooled funds – recognised at date of issue • property related income - rental income recognised on straight line basis lease period • movement in net market value of investments – recognise realised and unrealised profits over financial year.	Our review confirmed that your accounting policies in respect of revenue recognition were in line with our expectations except for the upfront payment of contributions for deficit funding and service rate contributions. You were accounting for these as receipts in advance and showed a current and long term liability. Our view is that for the Pension Fund accounts it is revenue recognition that is the important consideration. These payments would meet the definition of income for the Pension Fund as there is no prospect of this cash being paid back These amounts are due to the Pension Fund in 2017/18 and are an asset of the Pension Fund in 2017/18, which the Pension Fund has invested in 2017/18 to generate income in the Pension Fund accounts. Therefore these should be accounted for as income in the Pension Fund accounts in 2017/18. Accounting policy has been updated and accounts amended.	RED
Judgements and estimates	Key estimates and judgements include: – valuation of level 3 investments (unquoted private equity and infrastructure investments) – pension fund liability – actual present value retirement benefits	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 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
Other critical policies	We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years.	Our review of accounting policies for the Pension Fund has not highlighted any issues which we wish to bring to your attention.	GREEN

Assessment

- Marginal accounting policy which could potentially be open to challenge by 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, Risk and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2	**Matters in relation to related parties**	We are not aware of any related parties or 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 Pension Fund, which is included within the Audit, Risk and Governance Committee.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to Fund Managers, the Custodian, valuers and your bank for your cash balances (outside of the cash held by your fund managers). We are still awaiting responses to some of our requests.
6	**Disclosures**	We did not identify any material omissions in the financial statements.
7	**Significant difficulties**	We did not identify any issues with accounts closedown, production of draft accounts or quality of the working papers.
8	**Matters on which we report by exception**	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our ‘consistency’ opinion on the Pension Funds Annual Report (see Appendix D).

Independence and ethics

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

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

Service		
Audit related	**£**	**Description and Impact**
• IAS 19 Assurance to other auditors	1,737	The IAS 19 Assurances fees relate to our responsibilities in providing written assurance (on controls over information provided by the Pension Fund to the actuary) to PSAA appointed auditors of admitted bodies. The provision of these assurances does not impact on our assessment that that we are independent and are able to express an objective opinion on the financial statements.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund / Administering Authority's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Audit Adjustments

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

Impact of adjusted misstatements
All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1	In the draft accounts of the Pension Fund it had accounted for the upfront payments from employers for deficit funding contributions and service rate contributions as a receipt in advance. In doing so it showed a current liability and long term liability of £68.5 million each. The Pension Fund's basis for accounting this way was on a matching principle and to be consistent with the accounting used by Lancashire County Council, the administering authority. Our view is that the income received upfront by the Pension Fund, whether it is to fund the pension deficit or normal contributions, should be treated the same. In both circumstances the employer organisation is making these payments in advance to obtain a discount, but can only do so, as the actuary's schedule of rates and adjustments certificate allows it by certifying it due. Our view is that for the Pension Fund accounts it is revenue recognition that is the important consideration. These payments would meet the definition of income for the Pension Fund as there is no prospect of this cash being paid back These amounts are due to the Pension Fund in 2017/18 and are an asset of the Pension Fund in 2017/18, which the Pension Fund has invested in 2017/18 to generate income in the Pension Fund accounts. Therefore the £137 million should be accounted for as income in the Pension Fund accounts in 2017/18. The required amendments are:			
	Pension Fund Account – Contributions	137,000		137,000
	Net Asset Statement – Current Liabilities		(68,500)	
	Net Asset Statement – Long Term Liabilities		(68,500)	
	Overall impact	**£137,000**	**£137,000**	**£137,000**

Audit Adjustments (continued)

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Notes to the Financial Statements – 1. Pension Fund operation and membership	The narrative has been amended to provide details of the employers upfront contributions paid in April 2017 but in respect of 2018/19 and 2019/20.	✓
Accounting Policies – 3.1 – Fund Account – Revenue Recognition	The accounting policy has been updated to reflect the fact that upfront payment of employer deficit funding is should not be accounted for as accrued income.	✓
Note 10 – Management expenses	Investment management expenses have been amended for 2017/18, and re-stated for 2016/17, so that additional fees are no longer netted off investment values. This re-statement has a corresponding impact on the change in market value of investments but with no overall impact on the net assets of the scheme. The amounts involved are: • Investment management expenses 2016/17 – amended from £42.7 million to 63.5 million • Investment management expenses 2017/18 – amended from £52.3 million to 54.1 million Investment management expenses are broken down in note 10.1 with the main changes being: • Fund value based management fees for 2016/17 re-stated from £31.8 million to £42.7 million. The similar figure for 2017/18 amended from £45.3 million to £41.8 million • Performance related fees for 2016/17 re-stated from £7.1 million to 17.5 million. The similar figure for 2017/18 amended from £6.3 million to £11.5 million.	✓

Audit Adjustments (continued)

Disclosure omission	Detail	Adjusted?
Note 13 – Reconciliation of movement in investments and derivatives	In the draft accounts the amounts for investments managed by LPPI were previous shown as one figure split across the different types of investments including: • Private equity - £531.0 million • Long term credit investments - £1,071.1 million • Liquid credit (cash and bonds) - £183.8 million • Global Equity Fund - £3,214.4 million • Infrastructure - £727.4 million In the amended accounts the amounts in each type of investment managed by LPPI have been broken down into the individual named companies to comply with CIPFA guidance.	✓
Note 20 – Current and long term liabilities	Current and long term liabilities have been amended to reflect the fact that £137.0 million of employers payment upfront normal and deficit funding contributions, shown as due in 2018/19 and 2019/20, should have been accounted for as income to the Pension Fund in 2017/18. The amendments were: • Current Liabilities – contributions received in advance – amended from £68.5 million to nil; • Current Liabilities – Analysis of creditors – Other local authorities – amended from £70.4 million to £1.9 million; • Long term Liabilities – Analysis of creditors – Other local authorities – amended from £68.5 million to nil.	✓

Audit Adjustments (continued)

Impact of unadjusted misstatements

There are no such unadjusted items as a result of our audit

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the 2016/17 financial statements.

Fees

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

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£34,169	£34,169
Total audit fees (excluding VAT)	**£34,169**	**£34,169**

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

Non Audit Fees

Fees for other services	Fees
Audit related services:	
• IAS 19 Assurance to other auditors	£1,737 *
	£1,737

* The IAS19 fee is for our responsibilities in providing written assurances (on controls over information provided by the Pension Fund to the actuary) to PSAA appointed auditors of admitted bodies has yet to be approved by PSAA for 2017/18.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

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

Opinion

We have audited the pension fund financial statements of Lancashire County Council (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit, Risks and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

To be signed

Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

To be dated

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report on the Annual Report

Independent auditor's report to the members of Lancashire County Council on the consistency of the pension fund financial statements included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of Lancashire County Council (the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net assets statement and the notes to the financial statements, including a summary of significant accounting policies, of Lancashire County Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

Pension Fund Annual Report - Pension fund financial statements

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 and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

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 audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated XX XXXXX.

Director of Finance responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority 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 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 2017/18.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

To be signed

Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

To be dated

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
(Appendix 'A' refers)

Contact for further information:
Ruth Lowry, Tel: (01772) 534898, Head of Internal Audit,
ruth.lowry@lancashire.gov.uk

Executive Summary

This report sets out further information supporting the Internal Audit Annual Report considered by the committee at its last meeting. It provides an update regarding the assurance now arising from the work undertaken during 2017/18, and short summaries of the audits completed between 31 March and 30 June 2018 including the first of the audits under the 2018/19 plan.

It also explains the work now being undertaken to follow up the actions agreed by the council's management to mitigate the risks identified through the audit process. New performance indicators measuring completion of actions by their due dates, and any significant unmitigated risks will be monitored by the Cabinet Committee on Performance Improvement, but the Audit, Risk and Governance Committee may also be interested to understand these.

Recommendation

The committee is asked to consider and note the report.

Background and Advice

This report sets out for the committee the internal audit work performed under the audit plan for 2017/18 approved in June 2017. The work completed for 2017/18 to the end of June 2018 supports the overall opinion in the annual internal audit report.

Consultations

Each of the directors and heads of service who have sponsored the audit work reported here has been consulted.

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

This report supports the Audit, Risk and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the Council's governance, risk management and internal control framework.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate:

N/A

Matters arising from internal audit work completed between 31 March and 30 June 2018

1 Introduction

1.1 This report highlights the issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It sets out the issues arising from the work undertaken during the period to 30 June 2018 by the Internal Audit Service under the audit plans for 2017/18 and 2018/19.

2 The assurance now available to the committee for 2017/18

2.1 A summary of all the assurance we have provided during the year to the end of June 2018 is set out in the table below, including each internal audit assignment directed to providing controls assurance. The headline figures for 2017/18 reported at the last meeting of this committee the 2016/17 position are included for comparison. This now completes the audit plan for 2017/18, and the audits still being finalised have been added to the plan for 2018/19.

2017/18 assignments relating to:	**Total**	**Assurance**			
		Full	**Substantial**	**Limited**	**None**
Governance and democratic oversight	2	1		1	
Business effectiveness	5	2	3		
Service delivery	25		16	9	
Service support	2		2		
Business processes	17	2	13	2	
2017/18 assignments: total	**51**	**5**	**34**	**12**	**0**
	100%	10%	67%	23%	-
Status of 2017/18 assignments: total as at 30 March 2018	31	3	21	7	0
	100%	10%	67%	23%	-
2016/17 assignments: total	31	3	24	4	0
	100%	10%	77%	13%	0

2.2 As can be clearly seen, a further 20 audits have now been reported and the overall balance of assurances remains consistent with the position reported at the end of March. This reinforces the overall opinion given for the council as a whole in the annual report for 2017/18 and although limited assurance was given for the council overall, the results of the audit work conducted during the year are very positive.

2.3 As reported in March 2018, there are a number of areas of the council's business where management has identified the need to continue to make service and control improvements and these were therefore excluded from the scope of audit work for 2017/18. Some of these are significant and have therefore also affected the assurance provided overall but the plans being implemented by managers across the organisation are building the foundations for better control.

2.4 The full list of audits completed under the plan for 2017/18, and the assurance provided for each, are shown in annex 1 to this report.

2.5 Summaries of the findings from each of the audit engagements completed between 31 March and 30 June 2018 are included in annex 2 to this report.

Lancashire Pension Fund

2.6 Deloitte has completed one of the two remaining audits of Local Pensions Partnership Ltd (LPPL), on the oversight of business and transformation change (phase 2), and provided their opinion that controls over this are effective with scope for improvement. Deloitte expects to take the final audit of 2017/18, on investment operations, to LPPL's Audit Committee in November 2018.

2.7 Note that Deloitte disclaims any liability to the council for any reliance it may place on this work but have agreed that their conclusions may be reported to the Audit, Risk and Governance Committee.

2.8 At its last meeting the committee was concerned that seven of the eight reports completed by Deloitte gave the opinions that controls were "effective with scope for improvement". LPPL's management team has responded to these concerns as follows:

"LPP embarked on an ambitious Year 1 audit plan which focused on high risk areas to the business. This included reviewing governance, financial controls, benefit administration, and general IT controls. As a newly formed business it was important that LPP's internal auditors reviewed the foundations of the business and provided valuable input in how to move forward.

"During 2017-18 Deloitte completed 9 out of 10 scheduled audits. The final audit is in progress with management responses undergoing LPP internal review. Of the 9 completed audits, 8 received a rating of "Effective with scope for improvement" and 1 received an "effective" rating. LPP's management agreed with all of the ratings and felt that it reflected the start-up nature of the business.

"77% of all recommendations have been implemented or are on track to be implemented by the original due date, with the remaining 23% overdue but with a remedial plan for implementation. Only 3 remaining recommendations are categorised as "high" and are on track to be completed by 30th September 2018."

3 Completion of the audit plan for 2017/18

3.1 The audit plan for 2017/18 included 68 engagements that would be expected to result in assurance. Of these, 51 (75%) have been completed, four removed from the plan completely and seven deferred into 2018/19, and seven were still ongoing at the time this report was published. These will be added to the plan for 2018/19 and reported to the next meeting of the committee.

3.2 Six follow-up engagements were undertaken, which do not normally result in a revised audit opinion but confirm whether action has been taken as intended by managers. Other follow-up work was embedded within the 51 main audit engagements and reported with these to our auditees. In 2017/18 we did not separately report our follow-up work and findings, but will do so during 2018/19.

4 Follow up work

4.1 The Internal Audit Service routinely follows up the action taken by managers to address the risks identified through the audit process to confirm whether or not action has been taken. However it normally does so only once all, or the majority, of the deadlines for completion have passed. The Cabinet Committee for Performance Improvement (CCPI) has now adopted a new performance indicator on the corporate performance dashboard: the 'proportion of the actions identified through audit work that were completed within the agreed timescale in the period'. The service has therefore begun to collate managers' assessments of whether action has been completed by the due date as that date passes and this data will become the first stage of our follow-up work as well as informing the corporate dashboard.

4.2 Every manager responsible for an action arising from an audit that was due to be completed before the end of June 2018 was contacted during June. At this point not all the data from managers is available for all the actions due to have been completed but the initial statistics are as follows:

Numbers of actions agreed following audit work during 2016/17 and 2017/18	Risk rating			
	Total	High	Medium	Low
Complete	114	10	53	51
Incomplete	21	1	14	6
Superseded	22	4	8	10
Awaiting response re status	70	7	34	29
Total	227	22	109	96

4.3 Work will continue to develop this process and the data obtained, ensuring that managers are aware that a status report will be required every quarter. Updates will be provided to future meetings of the committee and it is intended that this indicator will be provided at the end of every quarter throughout the year.

4.4 Since managers will now be held more closely to account for completion of the actions to address unmitigated risks to their service's objectives, at a time when their capacity to operate any additional controls is reducing, they are likely to be more discriminating about what action they agree to take and their deadlines for completion. It is also increasingly likely that any unmitigated risks are accepted and the council's risk appetite increases. This is a valid response but one that, ultimately, both the committee and CCPI will be interested to understand. A further performance indicator will therefore be reported: the 'number of risks accepted'.

4.5 This indicator will be further developed but, at this point, two risks assessed as being of 'medium' impact to the services involved have been identified as acceptably unmitigated. These relate to the confirmation of transport providers' licenses and insurance, and the use of the corporate contract for agency staff in Children's Services.

5 Audit work for 2018/19

5.1 Work has begun on a number of audits, but only one has reached a point at which our findings may be reported. We have completed work on a sample of schools' self-assessments submitted to the council under the Schools Financial Value Standard and have provided moderate assurance under the revised categorisation of assurance we have adopted for 2018/19. An explanation of the assurance provided in both 2017/18 and 2018/19 is provided in annex 3.

The assurance provided for each audit completed under the internal audit plan for 2017/18

1.1 A brief summary of the assurance provided for each of the audits relating to 2017/18 and completed by 30 June 2018 is provided in the table below. More information about the matters arising from each of the audits completed since March 2018 is set out in annex 2, and the progress reports taken to the committee's meetings in September 2017, January and April 2018 provide summaries of the findings of each of the audits completed during the year.

Control area	Assurance
Governance and democratic oversight	
Decision-making within the corporate governance framework by elected members under delegated powers	Full
Decision-making within the corporate governance framework by officers under delegated powers.	Limited
Business effectiveness	
Preparation and use of the corporate risk register.	Full
Oversight of the Lancashire Pension Fund: the council's governance framework.	Substantial
Oversight of the Lancashire Pension Fund: custodianship of assets.	Substantial
Accounting for the Pension Fund through the council's general ledger.	Full
Oversight and alignment of the council's establishment and staffing budget.	Substantial
Service delivery: adult services	
Complex case forums decision making process (formerly 'panel decision making processes').	Limited
Case management: occupational therapy services.	Substantial
Direct payments to service users and their carers.	Substantial
Direct payment financial reviews.	Substantial
Service user financial assessments.	Substantial
Mental health safeguarding.	Limited
Service delivery: children's services	
Safeguarding through recruitment: selection and vetting procedures.	Substantial
Information security within parts of Children's Services. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Substantial
Personal budgets for service users and direct payments to their carers.	Limited
Transition from children's to adult services.	Limited
Service delivery: community services	

Control area	Assurance
Safeguarding in the provision of transport for children.	Substantial
Contract monitoring: landfill waste.	Substantial
Operation of the Highways Asset Management System (HAMS). (This audit addressed only the adequacy of the operational system's overall design and early operation, not its effectiveness.)	Limited
Pre planning application advice service.	Limited
Registrar's income.	Substantial
Service delivery: Customer Access Service	
Customer Access Service management assurance processes.	Substantial
Blue badge applications.	Substantial
Service delivery: public health and wellbeing services	
Commissioning and oversight of public health service provision.	Substantial
Making Safeguarding Personal.	Limited
Planning to address emergencies and civil contingencies: central planning and planning within services.	Substantial
Service delivery: schools' financial management	
Financial and governance controls within the county's schools.	Substantial
Recovery of costs/ available income from partner organisations.	Limited
Review of a sample of Schools Financial Value Standard (SFVS) self-assessments submitted by schools for 2016/17.	Substantial
Service delivery: corporate commissioning	
Commissioning, design and monitoring of the capital programme.	Substantial
Health and safety of the council's properties. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Limited
Service support	
Children's Services' LCS system helpdesk.	Substantial
Apprenticeship Levy.	Substantial
Business processes	
Accounts payable: central controls.	Substantial
Accounts payable: service-based controls over payments – Caring and Responsive Transport (CART) payments to taxi operators.	Substantial
Accounts payable: service-based controls over payments – Repair and Maintenance Programme (RAMP) system payments.	Limited
Accounts receivable: service-based controls over receipts – Repair and Maintenance Programme (RAMP) system receipts.	Substantial
Accounts receivable and debt management: central controls.	Substantial
Management information and budgetary control.	Substantial

Control area	Assurance
Treasury management.	Substantial
Information governance.	Substantial
Processing of payments by BTLS using information supplied by the council.	Full
BTLS: payroll processing - payments on account and over-payments.	Full
Oracle general ledger	Substantial
Oversight of payroll payments.	Limited
VAT	Substantial
Health and Safety Compliance	Limited
Central procurement: compliance with legislation, financial regulations and standing orders.	Substantial
E-tendering. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Substantial
Purchase cards.	Substantial

The assurance available from completed audit work

1.1 The matters arising from each of the audits completed since the last report to the committee are set out in the narrative below.

Decision-making within the corporate governance framework by elected members under delegated powers (Full assurance)

1.2 All executive decisions (key and non-key) are made collectively by Cabinet at scheduled monthly meetings, except when a decision is urgent and cannot wait until a meeting of the Cabinet. Urgent decisions are taken by the leader or, in their absence, the deputy leader, and the relevant cabinet member(s). Deadlines are clearly set for the submission of reports requiring decisions, through the online report management system.

1.3 There are several areas of good practice and the system is generally operating as intended.

Decision-making within the corporate governance framework by officers under delegated powers (Limited assurance)

1.4 The scheme of delegation to heads of service enables heads of service to take any decision relating to their service area not specifically reserved to the Council, a committee, the executive or by virtue of legislation or regulations solely to a statutorily appointed officer. Heads of service may allocate responsibility for exercising powers to other officers on their behalf as required but these officers may not further delegate the responsibility given to them.

1.5 The scheme of delegation rightly states that heads of service must maintain adequate records of the decisions they take. However, this aspect of the scheme's operation is of concern to the officers involved in administering it, and our work has confirmed their concerns. A meeting has been arranged to discuss this and agree an action plan.

Oversight of the Lancashire Pension Fund: custodianship of assets (Substantial assurance)

1.6 The Local Pensions Partnership Ltd (LPPL) was formed by the county council and the London Pensions Fund Authority to carry out certain pension functions, such as investment activity and administration, on behalf of the two authorities. To minimise operational investment risk, financial assets are held by a regulated, external custodian who keeps a register of holdings, collects income and distributes monies.

1.7 The custodianship contract expires on 31 July 2018 and the Lancashire Pension Fund is currently procuring a new contract. The custodian previously held significant assets on behalf of the Lancashire Pension Fund but in 2016/17 the global equity portfolio was transitioned into a single pooled vehicle and assets are now owned by LPPL under its own custodian, BNY Mellon. As the Lancashire Pension Fund now holds fewer assets the custodian role will focus more on accounting and performance reporting in future.

1.8 The data provided by the current custodian is appropriately reviewed and is reported consistently, reconciliations are undertaken and variances are identified and resolved.

Accounting for the Pension Fund through the council's general ledger (Full assurance)

1.9 Lancashire County Council is the administering body for the Lancashire County Pension Fund (LCPF) and as such is responsible for its financial accounting arrangements.

1.10 We have provided full assurance that the controls in place to account for the Pension Fund on the council's general ledger are effectively operated. We considered access to the Oracle Financials system, the management of accounting codes on the ledger, posting and reconciliation of feeder files and sub-ledgers, authorisation of journal entries to the system, clearance of suspense accounts and system controls to prevent, correct or report imbalances, errors and invalid postings.

1.11 We also confirmed that each of the actions agreed during our previous audit in 2016/17 have been implemented.

Oversight and alignment of the council's establishment and staffing budget (Substantial assurance)

1.12 The Financial Establishment Team works with the Human Resources Service to jointly control the council's establishment and staffing budgets, to facilitate effective financial decision-making. Effective processes operate to ensure that the establishment and budgets are accurate, complete and reconcile to Oracle HR, and we confirmed that this was the case as at [when?].

1.13 Business cases to recruit to a service's establishment, or to amend it, were previously submitted to Management Team for approval but since 1 January 2018 these decisions have been taken by the head of financial management (operations) and the head of human resources in weekly meetings. In March 2018 it was agreed directors and heads of service will submit business cases to fill vacancies or amend their establishment only if they are beyond the agreed staff budget and/or establishment.

Case management: occupational therapy services (Substantial assurance)

1.14 The council provides care and support to help people achieve the outcomes that matter to them, enabling them to live as independently as possible and remain at home. Occupational therapists have a key role in preventing, delaying and reducing the need for care, which not only benefits service users but also provides an opportunity to reduce the overall cost of services required. Services range from providing a hand rail to major adaptations to a service user's home such as installing a stair lift or a wet room (through the Disabled Facilities Grant) or providing specialist clinical equipment via the loan store.

1.15 The Community Occupational Therapy Service has been subject to significant change in recent years and the appointment of two temporary Occupational Therapy Team Managers has been instrumental in improving the way the service is managed. This includes the development of a screening tool to prioritise referrals and ensure that high-need service users are dealt with quickly, which has also been used to data-cleanse the backlog of referrals and to log referrals consistently across the county. A weekly case progression and allocation meeting has been introduced for each geographical area.

1.16 Referrals had been assigned and an assessment completed on a timely basis for a majority of the cases we examined. The exceptions were generally where the service user had been referred for adaptations under the Disabled Facilities Grant or placed on the occupational therapy waiting list primarily for a bathing assessment. Telecare and/ or equipment was provided to the service users in the interim where applicable.

1.17 There are some significant time lapses in entering case notes onto LAS, and a disparity in the extent of case notes entered onto the system. Additionally there is little indication that service users are being contacted to advise them when there is going to be a delay in their assessment or in obtaining the necessary package of care.

1.18 Senior managers have recognised that the council's current training provision is geared towards the needs of social workers rather than occupational therapists, who have different training requirements. A Training Needs Analysis Group is addressing this and a record created of all mandatory training required by occupational therapists. Mandatory training for social care support officers is currently provided by an external trainer under the Trusted Assessor course but no regular refresher training is available to ensure the core skills required for the role are maintained.

Mental health safeguarding (Limited assurance)

1.19 After a review of the approach to mental health safeguarding by the Lancashire Safeguarding Adults Board in 2017, a new enquiry pathway was introduced to record adult safeguarding concerns for individuals in receipt of NHS mental health services (or those who had received services within the last six months) and who meet the criteria of the Care Act 2014 Section 42 Duty of Enquiry.

1.20 The safeguarding adult enquiry pathway introduced in December 2017 for these clients has been documented, and a spreadsheet has been developed to record details of safeguarding enquiries and to track the progress of each enquiry including referrals to community mental health teams and outcomes.

1.21 Whilst most alerts and enquiries are initiated promptly following receipt of the alert, there are inadequacies and inconsistencies in the way information is recorded, both in the LAS safeguarding module and on the case tracker spreadsheet used by Lancashire Care Foundation Trust to manage and monitor case progress. Although details of the current status or outcome of an enquiry can be obtained from the client's LAS safeguarding record, numerous professionals are often involved and it is not always clear whose responsibility it is to undertake specific tasks and progress an enquiry. Safeguarding action plans have been developed in all cases, although the way safeguarding action plans are progressed following the initial strategy meeting is unclear and there is no adequate audit trail between the initial strategy meeting and the ultimate case outcome.

1.22 Management will take action to strengthen controls in some areas, including providing guidance to workers using the pathway process, improving the quality and content of information documented from initial recording of a case to its outcome, and improving the speed of information-sharing between different teams and individuals.

Transition from children's to adults' services (Limited assurance)

1.23 Transition to adulthood is a key milestone for all young people. Across the county the Transitions Service supports approximately 900 young people between 14 and 25 years of age who have complex needs and are highly likely to meet criteria for adult social care support. The service delivers statutory services for children and young adults including those with special educational needs and disabilities.

1.24 Although the Transitions Service maintains a five year forecast of transitions cases, this does not support timely planning as it does not set out what stage of the process the young person is at, or what action will be required and when. The service is often not involved until a young person's seventeenth year and support plans are frequently not in place until after their eighteenth birthday, and as a result the most cost efficient packages of care are not always provided.

1.25 Concerns have also been raised by senior managers in both Children's and Adult Services about the lack of the engagement of all stakeholders, and carers and parents have complained about the council's ineffective communication. Although some information is available on the public-facing internet this is limited in scope and does not clearly communicate the transition process.

1.26 Although a policy and guidance are in place, different versions of the same documents are recorded on the Children's and Adults Services intranet webpages and it is unclear whether they both comply with all current policy and legislation. The policy and guidance are unclear on the roles and responsibilities of those responsible for transitions work and the lack of clarity has led to key tasks not being completed.

1.27 For example duplicate payments have been made where payments to young people or their carers have not been ended on Liquidlogic Children's System (LCS) when they have also later been set up on Liquidlogic Adult System (LAS). Locality board meetings held to discuss transition cases do not always take place and are inconsistently recorded.

Contract monitoring: landfill waste (Substantial assurance)

1.28 A contract is in place with Suez (formerly SITA) for the receipt of municipal waste at the Whinney Hill landfill site for the period 1 April 2010 to 31 March 2025 and the Waste Management service is responsible for managing and monitoring compliance with the contract. The contract clearly defines responsibilities, service provider obligations, and governance mechanisms.

1.29 Effective processes are in place to monitor compliance with the contract, validate invoices, and ensure any issues are raised with Suez and addressed. There has been some slippage in the regularity of the required formal progress meetings with Suez, whilst management of the household waste recycling centres has been brought back in house, but these are due to return to the expected schedule during 2018/19. The contracts and partnerships manager liaises frequently in any case with Suez and ensures that any issues are promptly addressed.

Pre planning application advice service: highways and flood risk

(Limited assurance)

1.30 The highways and flood risk management pre-application advice service was launched in September 2017 to support developers by providing advice on the implications for highways and flood management on proposed developments before full planning applications are submitted. It is expected to improve the quality of planning submissions and therefore the likelihood of a successful and speedy outcome for developers. The service is offered at cost based on the size and nature of the proposed developments, and is intended to recover its costs.

1.31 The service is still very new and take-up by developers has not yet reached the level anticipated: only one pre-application had progressed to the statutory planning application stage at the time of our work. Work to promote the services is already taking place but the service's managers have agreed an action plan to increase uptake by developers and facilitate monitoring of the benefits realised. It will take some time before the intended benefits are delivered and can be assessed.

1.32 Processes, procedures and supporting guidance have been produced and are generally being followed. Additional guidance is necessary to establish the basis of charging when the scale or complexity of a development changes and to cover the circumstances in which additional fees are to be charged.

Commissioning and oversight of public health service provision.

(Substantial assurance)

1.33 Local authorities' statutory responsibilities for public health services are set out in the Health and Social Care Act 2012 which requires local authorities to improve and protect public health. Other regulations, including those made under the NHS Act 2006, make provision for the exercise by local authorities of mandatory public health functions. These include services in relation to substance misuse, sexual health, health checks, active lives and healthy weight and health visiting. Lancashire's allocation of public health grant money for 2017/18 was approximately £70 million, 80% of which is used for mandated services.

1.34 The general duty to improve public health includes the provision of facilities for the prevention or treatment of illness and alongside the mandated functions are a range of discretionary services, the commissioning of which should be guided by joint strategic needs assessments and the Public Health Outcomes Framework. Whilst information from joint strategic needs assessments and other sources is obtained, this is primarily for the purpose of compiling data packs for prospective tenderers. It is not currently used as a basis for identifying the most efficient and effective portfolio of discretionary services that should be delivered nor to consider whether the overall grant is being spent on mandated services according to the greatest need or benefit.

Planning to address emergencies and civil contingencies: central planning and planning within services (Substantial assurance)

1.35 The Civil Contingencies Act sets out a single framework for civil protection in the UK. Part 1 of the act focuses on local arrangements, establishing a statutory framework of roles and responsibilities for local responders. The council is a 'category 1' responder and therefore central to responses to most emergencies and subject to the full set of civil protection duties defined by the CCA. These

duties include the assessment of risk, maintaining emergency response plans, business continuity management, communicating with the public, and advising and assisting business and voluntary sectors.

1.36 The council's Emergency Planning, Resilience and Response Framework defines its plans and these involve working closely with the emergency services, other local authorities, voluntary agencies and industry.

1.37 There are adequate and effective arrangements in place to respond to emergencies, ensure continuity of business and comply with the CCA. In particular, risks are identified and assessed on an ongoing basis; emergency response plans are developed and updated; and the council is a fully active member of the Lancashire Resilience Forum and engages with other organisations. Its Corporate Emergency Response Plan defines its standard response should an emergency occur, public communication arrangements are appropriately documented and published, and a training prospectus has been published to provide key officers and members with access to appropriate training.

1.38 The actions agreed in 2016/17 have largely been completed, but the service has been unable to devise hazard-specific response plans as intended and now plans to do so.

Financial and governance controls within the county's schools

(Substantial assurance)

1.39 The council's Scheme for Financing Schools in Lancashire sets out how the individual school budget is distributed to maintained schools, using an agreed formula. The budget share is delegated to the schools' governing bodies which, subject to the scheme's provisions, may spend for it any purposes of their school. The council may suspend the right to a delegated budget if the scheme's provisions are breached or if the budget share is not managed satisfactorily. In managing delegated budgets schools must comply with the council's financial control and monitoring requirements.

1.40 Overall, the schools sampled have effective procedures in place to support budget management. All have appropriate arrangements for setting annual budgets that comply with the scheme, and regular monitoring is undertaken by the relevant committee and full governing body (although minutes do not always sufficiently record governor challenge, discussion and decisions), supported by termly monitoring reports which identify and explain variances. School improvement plans link to budgets where actions need to be funded. Schools are responding appropriately to avoid deficits and those schools in deficit have agreed a recovery plan with the council.

Recovery of costs/ available income from partner organisations

(Limited assurance)

1.41 The council's Adult Services Directorate agrees care packages with NHS clinical commissioning groups (CCGs) and arranges for them to be delivered internally or through external providers. The council pays the providers and recovers contributions from the CCGs for jointly-funded care packages.

1.42 In January 2017 a new team was established in Exchequer Services to recharge and recover NHS contributions, and this team is successfully recovering recent

contributions with a collection rate of 98%: older debt is more problematic. There is no evidence of agreement for some historical care packages, and changes to some packages have not been properly recorded as 'care package line items' (CPLIs), resulting in incorrect billing. In addition, £300,000 of duplicate payments have been made to providers by the NHS, and the council is in talks with them to agree recovery.

1.43 Effective controls have been in place since March 2017 to identify healthcare packages where an NHS contribution has been agreed, and four additional officers joined the team in April 2018. Further, the Care Navigation team now inputs all CPLIs, so that accurate and consistent recording is more likely.

1.44 However as at 1 March 2018 £1.4 million of NHS contributions were outstanding, and only £282,000 related to 2017/18: a review of unpaid debt is planned. Similar controls have not yet been adopted though to address jointly-funded care packages for mental health services, which transferred to the council in May 2018.

Commissioning, design and monitoring of the capital programme

(Substantial assurance)

1.45 A Capital Board, whose membership includes directors from across the council and representatives from the finance and commissioning teams, is responsible for ensuring that: the draft capital programme is developed in line with corporate priorities, statutory responsibilities and financial regulations; capital projects are managed and delivered in accordance with agreed timescales and financial allocations; and changes to the capital programme are identified and reported in a timely manner.

1.46 Cabinet scrutinises and the Council approves a four year capital investment programme annually. The Cabinet also considers quarterly capital monitoring reports, and approves additions and changes to the capital programme.

1.47 There are effective processes in place to develop the capital programme, including the evaluation and funding of proposed projects, co-ordinated by the Capital Board and supported by the Finance and Commissioning teams. The financial aspects of development and delivery are also overseen by the Board, but although there is a focus on financial performance measures, non-financial key performance indicators should also be used to monitor delivery of the programme.

1.48 Since July 2016, the Programme and Project Management System (PPMS) has been used to manage the capital programme. This is designed to provide a 'single, unified and fit for purpose tool' to standardise the management of projects and improve project control and reporting. The data held in PPMS should be key to this but it is not being regularly updated by officers and is therefore incomplete and inaccurate. Without reliable, complete and accurate data officers and members are unable to properly assess the delivery of the programme.

1.49 The Capital Board's terms of reference as well as good practice require the development of a capital programme risk register. We understand that this is being developed, but there is little reference to it in the board's minutes and it does not yet exist.

Children's Services LCS Helpdesk (Substantial assurance)

1.50 The Core Systems' Support Team operates the online LCS Helpdesk function which provides day-to-day support for LCS account holders who have system issues or enquiries. The team uses the Redmine software to record all the calls they receive, which include requests for instructions on using the system, data amendments, permissions changes and service improvement, functionality faults and sharing best practice. In the ten months from April 2017 to February 2018 the Helpdesk recorded 9,829 calls.

1.51 We confirmed that calls are generally responded to within one day unless more time is needed due to the complexity of the issue, and on average they are closed after 2.6 days. There is an effective process to identify, record and address issues with the operation of LCS. A board has been established to represent the operational services, providing a forum to review and improve system issues, concerns and best practice.

1.52 Access to the LCS system access is generally well controlled, although we found a number of individuals with live access rights that are no longer required but which the LCS Support Team had not been asked to remove. The Support Team normally requires confirmation that staff have completed an e-learning course before granting access to LCS, although there are exceptions. Procedures, policies, process maps, guidance and knowledge based articles are easily accessible on the intranet, although some guidance and links need updating.

Apprenticeship Levy (Substantial assurance)

1.53 From April 2017 the Government introduced the Apprenticeship Levy with the aim of funding three million apprenticeships in the UK by 2020. All employers with a total payroll greater than £3 million pay 0.5% of the value of their gross monthly pay bill to HMRC. In return, the organisation receives credit in a Digital Apprenticeship Service (DAS) account operated by the Education Skills Funding Agency to pay for staff training through apprenticeships.

1.54 The Council's SL&D Service manage and operate the DAS account, which provides the only access to this funding for the Council and for its Schools. They also work with Lancashire schools through the Lancashire Schools Forum to establish working practices to maximise the utilisation of the Schools element of the Apprenticeship Levy.

1.55 There are effective controls in place to administer the Apprenticeship Levy and to ensure that its use is in line with government requirements.

1.56 We focussed on the procedures and processes developed by the Skills, Learning & Development Service to promote the levy, provide support and advice, ensure compliance with government requirements, arrange for the provision of courses with training providers, and to monitor levy payments and credits. The work already being undertaken by the service is key to maximising the use of funds before they expire. This includes work with services across the council, schools, and training providers to promote use of the levy, develop qualifications that better meet the council's and schools' needs. However the scale of the levy credits received, and the current restrictions on their use mean that there is an inherent risk that they expire before they can be used.

Oracle general ledger (Substantial assurance)

1.57 The council operates Oracle Financials as its corporate accounting system. The general ledger system supports production of the financial accounts and inputs to it are made through interfaces from feeder files and manual journals.

1.58 A list of control accounts is maintained and reconciled by the Corporate Finance (Control) team and the reconciliation and review processes are completed by separate officers to ensure segregation of duties. Accounts are reconciled promptly and there are no longstanding queries or unreconciled amounts. An annual closure timetable is followed to support the timely and accurate production of the financial statements.

1.59 In 2016/17 management agreed to take two medium risk actions: one has been implemented. The Core Systems team agreed to review user access permissions but this has not yet been done and a review will be undertaken by the end of June 2018 with support from the Internal Audit Service.

Oversight of payroll payments (Limited assurance)

1.60 Comprehensive checks are carried out on the monthly payroll by the Financial Resources Control and Compliance Team, before it is processed for payment by BTLS and oversight of the council's payroll by the council is therefore adequate overall. The Finance team confirms each service's established staff at least annually with the heads of service as budgets are set, and issues monthly payroll reports and establishment hierarchies for heads of service to check accuracy and completeness. However, we found some lack of awareness of these reports and that management's checks are not always carried out. More detailed oversight of the payroll at the level of service areas and individual employees is less effective and has allowed overpayments to continue, in some cases for over three years.

1.61 As we have separately reported, the council's controls to ensure that data is input correctly and in a timely manner for individual payments are less effective: overpayments continue to occur, mainly due to late notification by managers of salary changes and particularly when employees leave the council.

VAT (Substantial assurance)

1.62 The council reclaims around £100 million of VAT annually and effective arrangements are in place to ensure that VAT returns are complete, accurate and submitted on time. Control accounts are reconciled and the VAT manager undertakes monthly compliance checks to validate returns and identify and investigate areas susceptible to incorrect treatment, as well as monitoring compliance with HMRC's partial exemption criteria. Officers in the VAT team are knowledgeable and experienced, and provide easily accessible, comprehensive and current guidance to officers.

1.63 VAT on invoices to the council's customers is treated correctly and processed appropriately; input tax charged by suppliers is correctly entered onto Oracle and is supported by evidence. VAT has been incorrectly processed by new staff on a small number of very low value creditor transactions, indicating some lack of awareness of proper processes but plans to re-establish staff training should help to address this.

1.64 However VAT on Barclaycard purchase card statements continues to be overstated on the Oracle general ledger. A manual adjustment process was agreed in 2016/17 until a system-based solution can be found, but this also overstates input tax and in 2017/18 the over-claim amounts to £37,000, which should be declared to HMRC.

Health and safety compliance (Limited assurance)

1.65 A health and safety management system applicable all council employees is provided by the Health, Safety and Quality Team (HSQT). Comprehensive information is available on the intranet setting out the responsibilities of individual officers in relation to health and safety and providing guidance about how to meet them. Senior managers across the council are reminded of important changes on the site and a helpdesk function is also provided, although few calls are logged.

1.66 Service-specific health and safety risks are identified and addressed within individual services. External accreditation is sought only where necessary to support services' commercial activity and only two services – Highways, and Design and Construction – are now externally accredited. The HSQT has developed an in-house audit and support programme for services, prioritised by a risk assessment, but implementation of this programme is behind its original schedule and has not yet progressed to the stage where it can provide assurance that health and safety requirements are being adhered to throughout the organisation.

1.67 Health and safety risks relating to the premises from which services are provided are addressed by a combination of services in different directorates operating independently from the HSQT. The Facilities Management Service acts as premises manager for the council's properties and it checks that premises-related health and safety requirements are being met. Where remedial work is required it is commissioned from the Design and Construction Service. The Compliance Team in the Asset Management Service then checks the work undertaken by Facilities Management.

Central procurement: compliance with legislation, financial regulations and standing orders (Substantial assurance)

1.68 A Procurement Board – the head of procurement and various service directors – is responsible for setting the council's strategic direction for procurement and for ensuring that efficient and effective procurement practices are followed.

1.69 The Procurement Service's category management teams procure goods and services, and the purchase to pay teams undertake low value sourcing activity, working within existing frameworks, contracts and catalogues, and placing orders with suppliers.

1.70 The ten procurement exercises we tested followed the council's applicable procurement rules. However from a sample of 20 purchase orders, the details of three resultant contracts had not been entered in the contracts register. The Procurement Service recognises the need to continually monitor, review and keep up to date the contract register to enable procurement exercises to be properly planned to avoid unnecessary contract extensions and achieve value for money.

1.71 Just one medium-risk action was agreed during audit work in 2016/17 and this has been implemented: the Procurement Service has worked to ensure that all suppliers have been subject to a procurement exercise before further orders are placed with them.

Audit assurance levels and classification of residual risk

The Internal Audit Service keeps its professional methodology and practice under continual review and, supported by the external quality assessment process during 2017/18, decided to adopt a more appropriate categorisation of the assurance it provides. Minor amendments were also made to the definitions of residual risk.

The definitions employed in both 2017/18 and 2018/19 are set out below.

2017/18

Assurance levels

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.

Residual risks

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

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

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

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

2018/19

Assurance levels

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Residual risks

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

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

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

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

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Annual Governance Statement 2017/18
(Appendix 'A' refers)

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

Executive Summary

The County Council is required to produce and approve an Annual Governance Statement (AGS) which will be published with its Statement of Accounts for 2017/18.

A revised draft Annual Governance Statement is presented for the Committee's consideration at Appendix 'A'.

Recommendation

The Committee is recommended to approve the Annual Governance Statement at Appendix 'A', for publication with the 2017/18 Statement of Accounts.

Background and Advice

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.

At its meeting on 30 April 2018, the Committee considered a draft AGS. As several amendments to the AGS had been suggested, it was agreed that a final version should be presented to the Committee for consideration at its next meeting on 30 July but that a draft, taking account of the amendments, be published with the Statement of Accounts from May 2018. Following the meeting, the draft AGS was

Lancashire County Council

amended accordingly and circulated to members of the committee for approval before being published as part of the draft Statement of Accounts in May 2018. A comment from the External Auditor has also been incorporated into the final draft.

The Committee is now asked to consider and approve the updated Annual Governance Statement presented at Appendix 'A' to be published with the Council's Statement of Accounts for 2017/18.

Implications:

This item has the following implications, as indicated:

Risk management

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

Legal Implications

The County Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance. The best practice guidance is recognised as the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives Framework: Delivering Good Governance in Local Government (2016).

Financial Implications

Good governance can lead to the good stewardship of public money, 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
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Annual Governance Statement 2017/18

Executive Summary

The Leader of the County Council (County Councillor Geoff Driver CBE) and Interim Chief Executive (Angie Ridgwell) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the County Council in delivering services to the communities of Lancashire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how the corporate governance arrangements have been working. To help do this both the Council's Corporate Management Team (CMT) and the Audit, Risk & Governance Committee undertake a review of the Council's governance framework and the development of the AGS.

On the 30th April 2018 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run.

The final statement is signed by the Leader of the Council and Interim Chief Executive.

Governance Issues

Overall it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these generally work well our review has identified the following issues:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Delivering the new Operational Plan: • Establish a new leadership and management team • Embed a focus on service delivery • Develop a sustainable financial strategy • Delivering economic growth and prosperity	Interim CEO/S151 Officer	 Autumn 18 First component completed by September 18 On-going Ongoing
Delivery of the Ofsted improvement plan	Executive Director - Children Services	March 19
Special Educational Needs & Disability	Executive Director - Children Services	March 19
Improving health and wellbeing	Executive Director – Adult Services	March 19
Managing major projects	Executive Director	March 19

Appendix 'A'

	- Growth Environment Transport & Community Services	
Core systems	Executive Director -Growth Environment Transport & Community Services	March 19

Progress made against the issues identified in the 2016/17 AGS is reported in this year's statement.

We propose over the coming year to address the matters identified and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and the Cabinet. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.

---------- County Councillor Geoff Driver CBE
Leader of the Council

---------- Angie Ridgwell
Interim Chief Executive/S151 Officer

Signed on behalf of Lancashire County Council

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE "*Delivering Good Governance in Local Government Framework*" (2016) (the Framework) helps fulfil this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

What is Corporate Governance?

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The Council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance "*Delivering Good Governance in Local Government*" (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the Council's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Key elements of the County Council's Governance Framework

Key elements of Lancashire County Council's governance framework are set out below:

Leader, Cabinet & Council	Decision Making	Risk & Performance Management
• The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets Council Tax and the policy framework	• Meetings are held in public and many are webcast • Decisions are recorded on the Council's website	• Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members (CCPI) • Directors complete assurance statements
Council's Leadership Team	**Scrutiny & review**	**External & Internal Audit and review**
• Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Management Team • Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs • Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct	• Scrutiny Committees review council policy and decisions • Work to deliver local public sector accountability	• External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources • Internal audit provides regular assurance on the governance, risk management and internal control framework • External inspections that provide an accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016
- a number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found on our website. This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually, and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. It sets out the requirements underpinning these principles and how the council ensures that it meets them along with the evidence base used to assess their effectiveness.

Managing Risk & Performance

Performance management is a key component of the Council's approach to achieving its outcomes. Part of this process involves identifying and where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored on the same basis and the greatest risks are elevated onto the Corporate Register.

Service risk & opportunity registers are updated regularly, and the Corporate Risk and Opportunity register is reported to Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk & Governance Committee on a quarterly basis. A recent Internal Audit review gave full assurance over the process by which the corporate register is prepared. Corporate Management T have recently reviewed and updated both the content of the register and the governance arrangements. The Corporate Risk & Opportunity register and further information about the approach to risk management can be found on our website.

Equality Impact Assessments are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established, and services prioritise budgets and spending to achieve intended outcomes. In recent years the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the county council operates. The quarterly report to Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme.

Quarterly performance monitoring reports are presented to both CMT and Cabinet Committee for Performance Improvement. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). An

Internal Audit review of the Performance Management Framework in March 2017 provided substantial assurance. Since then further work has been undertaken to develop a corporate performance dashboard that provides a snapshot of the 'health' of the organisation.

Managing our resources (Value for Money)

The Council's external auditors, in their assessment of 2017/18, regarded the following as the significant challenges that were faced by the Council during the year:

- Financial sustainability, and the
- Ofsted inspection of children's services

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and recommendations through the Corporate Management Team and the Audit, Risk and Governance Committee.

Financial Sustainability
Consultation on budget proposals were undertaken with a variety of stakeholders and partners including discussions with the Trades Unions prior to finalising the 2018/19 budget. A number of savings proposals included within the agreed 2018/19 budget were subject to specific consultation exercises, with decisions to be made at future Cabinet meetings as to their final implementation. Any changes to these proposals resulting from the consultation which reduces the level of savings achievable is planned to be covered by reserves.

The Council regularly monitors its medium term financial forecast. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels.

The forecast is necessarily underpinned by a range of estimates and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

The projections are reported to both Corporate Management Team and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The current budget strategy remains to use budget savings with the use of reserves and capital receipts to ensure funding requirements are met. Proposals to develop a sustainable financial strategy are set out in the Council's new Operational Plan (details of which are set out later in this statement).

The forecast will need to be reviewed in light of any central government funding proposals for local government, in particular the impact of a policy direction on business rate retention and a new fair funding formula.

The Financial management arrangements of the Council conform to the governance requirements of the CIPFA Statement on the *Role of the Chief Finance Officer in Local Government*.

How do we know our arrangements are working?

There are a number of ways we do this:

The role of management
The Corporate Management Team oversee the review of the Council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium Term Financial Strategy.

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2017/18 that reports on service compliance and they produce in-year quarterly service risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available improvement plans are in place.

The Monitoring Officer regularly reviews the Council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to directors and heads of service.

During the year, a review of our governance framework was undertaken by the Internal Audit service. The outcome confirmed that we comply with current best practice – with strong governance arrangements in place that are up to date and relevant to the environment we work in. The review suggested several minor improvements that are being implemented.

The Role of the Audit, Risk & Governance Committee
The Council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the Council by examining such areas as audit, risk management, internal control, counter fraud, treasury management and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment

Earlier in the year, the committee reviewed its term of reference and agreed some changes to further improve its effectiveness.

The role of the Head of Internal Audit
The Head of Internal Audit is required to provide an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. The Internal Audit Annual Report and opinion has been considered in the development of the Annual Governance Statement and any significant issues incorporated as appropriate.

Audit work has progressed throughout the year and almost 80% of the work completed by the year end has yielded substantial assurance over the design and operation of the services, systems and processes audited. However, across the last two years we have identified through our assurance framework, service areas where improvements needed to be

made. In these instances, the Council has introduced improvement plans in the context of a new Operational Plan. Whilst the overall direction of travel in these areas is positive, the evidence needed to provide substantial assurance is currently not available.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that only limited assurance can be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2017/18.

External Assurances
The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance. For example, Government recently conducted a 'spot check' audit of our Troubled Families programme. The inspectors found high quality work and were confident that we were working within the terms of the programme's Financial Framework.

Scrutiny Committees
The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

Elections
All out County Council elections were held in May 2017. No petitions (challenges) were received and the election was delivered within budget.

Information Governance
The council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer. Advanced plans are in place for the implementation of the new General Data Protection Regulations in May 2018.

Local Government & Social Care Ombudsman
During 2017/18 Full Council considered two public reports from the Local Government & Social Care Ombudsman. In both instances the Ombudsman found fault causing injustice in relation to adult social care. In both cases Full Council noted the actions already taken and endorsed further actions to remedy the complaints.

Looking back on 2017/18

A number of improvement actions were identified as part of the 2016/17 Annual Governance Statement. All of these risk areas have been the subject of detailed reports to Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

The Council's financial position
The Statement of Accounts for 2017/18 includes a narrative statement from the s151 Officer which highlights the most significant financial aspects of the year.

In 2017/18, the medium term financial forecast for the Council estimated that there would be a gap of around £144 million between forecast expenditure and income from 2021/22. This was after allowing for planned savings of £135 million which included £81 million of savings newly agreed.

The delivery of the savings programme has been identified as a key challenge for the Council and performance against the savings plans are subject to detailed and regular scrutiny by programme managers and the finance service.

The financial challenge facing the Council continues to be the key governance issue for 2018/19.

Delivery of the Ofsted improvement plan
Since the local authority was judged inadequate following an Ofsted review in September 2015, there have been six monitoring visits. The last monitoring visit took place in February 2018 and focused on the MASH (Multi-Agency Safeguarding Hub) and the interface with early help services.

Ofsted agreed with our self-assessment of the service and that significant progress has been made in the quality of service practice. They also agreed with our partnership priorities around responding to domestic abuse. Prior to this, Ofsted undertook a monitoring visit at the end of October 2017. This focused on the quality of help and support given to children in need. It was noted that the authority continued to make progress in the improvement of services for children and the quality of auditing activity had improved significantly.

Lancashire's annual conversation with Ofsted took place in January 2018 to review progress and performance. In line with the introduction of a new inspection framework there was a particular focus on the quality and impact of social work practice, how this is monitored and evaluated and the plans for the next twelve months to improve practice. An update was provided on what we are doing to improve practice and the findings of recent external reviews.

Special Educational Needs and Disability (SEND) Inspection In November 2017, Ofsted and the Quality Care Commission conducted a joint inspection of the local area of Lancashire, to judge how effectively we have implemented the special educational needs and disability (SEND) reforms, set out in the Children and Families Act 2014. The inspection identified weaknesses in the local area's practice and the council and clinical commissioning groups have been asked to write a joint written statement of action. Partners are working together to deliver a SEND action plan to address the issues identified by the inspectors. To help achieve these improvements, we have taken a number of early actions that include: • Improving governance arrangements by setting up a partnership board • Changes to the local service offer • Recruitment of Designated Clinical Officers • Consultation with families to elicit their views • Discussions to reduce school exclusions Further information about what we plan to do during 2018/19 is in the next section of this statement. **Health & Social Care Integration** Further discussions have taken place with health colleagues on an integration agenda focused on joint commissioning, the proposed outcome being an improved service offer. Since the May 2017 elections regular meetings have taken place between the Cabinet and chief executives from across the Lancashire Health economy and an agreed priority is to improve the position for individuals whose discharge from hospital is delayed.	The Local Government Association have worked with us to provide challenge and scrutiny of our savings and service redesign proposals around adult social care. **A Combined Authority for Lancashire** During 2017 the Shadow Combined Authority accepted that it was unlikely that all the constituent members would be able to secure approval to move to a fully constituted Combined Authority. It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and work collaboratively to improve economic development and public service outcomes. **Systems development & data quality** Good progress has been made on improving the quality of service data and update reports have been presented to Audit, Risk and Governance Committee throughout the year. Issues remain in some areas and action plans are in place to address them.

Governance challenges for 2018/19 and actions to be taken

The County Council's elections in May 2017 saw a change of political administration. This change has resulted in revised Council policies across several service delivery areas and the way in which political decisions are made. For example, a number of previously closed libraries have been reopened and the council is consulting on its policy on the availability of halal meat in schools. In terms of decision making, all executive decisions (except urgent decisions) are made collectively by Cabinet.

Alongside of this, there has been a senior management restructure. A new Interim Chief Executive/Section 151 officer has been appointed for 12 months until January 2019. The Deputy s151 Officer is the Director of Finance who is a member of Corporate Management Team. A new monitoring officer has also been appointed and several directors have assumed new responsibilities. All statutory posts have been appointed to. One of the three Executive Director posts is currently filled on an interim basis.

A new Operational Plan has been developed. The Plan summarises the priorities, delivery focus approach and aspirations for 2018/19. Building on past achievements the council will pursue four operational priorities over the coming year:

1. **Establish a new leadership and management team**
   Current vacancies in the leadership team are being filled. It is expected that all posts will be filled by April 2018, acknowledging that in the case of Children and Young People, this will be covered by an interim appointment until the recruitment process is completed. A new Chief Executive will be recruited by Autumn 2018. To provide visible leadership and engage the organisation, the management team will work closely together and undertake several individual and collective actions.

2. **Embed a focus on service delivery**
   The focus in 2018 is to view our services through the eyes of users and developing them to be the best they can. A 'service challenge' will be applied to each service area. This will seek to put users at the heart of the service and empower delivery staff to design the optimum solution. In all cases the objective of the service challenge will be to secure a better service at a lower cost.

3. **Develop a sustainable financial strategy**
   Like many councils, Lancashire County Council is facing significant financial pressures, and while good progress has been made in addressing the forecast financial shortfall over the medium term, further work is required to ensure the council can achieve a financially sustainable position.

   To achieve a balanced budget from 2021/22 the Council will need to address a funding gap of around £144 million. It is proposed therefore to address the budget deficit through a number of work streams, which include:

   - Service challenges
   - Commercialisation
   - Taxation & grants
   - Productivity
   - Commissioning and third sector

   Each work stream will have a nominated senior responsible officer who will be responsible for developing detailed plans and putting together a team to support them in their task.

4. Delivering economic growth & prosperity A thriving economy that improves the productivity and earning power of all residents is key if we are to deliver inclusive growth. To do this we will work collaboratively with partners on a number of fronts that include: • The Lancashire Enterprise Partnership (LEP) on its substantial growth programme. However, to realise its full potential, its 15 authorities must demonstrate strategic leadership and help to deliver transformational change • Working with a range of public sector partners to improve public service outcomes, especially around health and social care • Engaging with government to take advantage of new strategic place making initiatives • A more prominent leadership role in the Northern Powerhouse and influencing the priorities of bodies such as Transport for the North • Refreshing the Strategic Economic Plan • Agreeing a new Local Industrial Strategy with Government	**Continue to improve children's services following Ofsted inspection** The focus for improvement activity will continue to be driven through the refreshed Improvement Plan and the cycle of 12-week Improvement Plans. This will continue to be overseen by the Improvement Board. The following are the overarching outcomes for the future: • Prevention • Purposeful practice • Permanence The delivery of priorities and actions detailed in the refreshed Plan will embed improvements for vulnerable children and this will be underpinned by more detailed implementation plans for each of the following areas: • Prevention and Demand Management • Purposeful Practice • Permanence and Corporate Parenting • Workforce Strategy • Children with Special educational Needs and Disabilities • Youth Justice A new governance structure has been established to streamline the existing arrangements. It is anticipated that Ofsted will undertake a full four-week final inspection in the spring/early summer of 2018.

Improving Health and Wellbeing
Health and social care integration is seen as one of the key drivers for public sector reform whilst also providing a means by which the demand pressures experienced by Health and Social care can be managed within constrained budgets. Collaborative working must be underpinned by appropriate strategic alignment across all the relevant organisations that can lead change. However, the organisational landscape in Lancashire is complex, with six Clinical Commissioning Groups and other health economies that overlap into the County Council's responsibilities. The improved Better Care Fund (iBCF) continues to be supported by government to provide a formal platform from which some aspects of funding can be pooled and services jointly managed.

The iBCF paid to a local authority may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

The Lancashire Health and Wellbeing Board has agreed that iBCF monies will be used in line with the following overarching principles, which are consistent with the Grant conditions:

- Improving all aspects of Assessment
- Making Home 1st work
- Creating appropriate and effective 7-day services and aligned Integrated Discharge Services.

Governance arrangements for the Lancashire Health and Wellbeing Boards are also being reviewed and membership is being strengthened by making links to the housing sector, economic development and fire and rescue service. The board also convened a check and challenge session to review expenditure and delivery of the high impact changes known to be effective in reducing delays in discharges as part of its assurance process.

The council is also engaged in the development of the integrated care system across Lancashire and South Cumbria.

Respond to SEND inspection
As stated earlier in the statement, work has already begun on addressing the issues found by the inspectors. The main issues we will be working on are as follows:

- Ensuring children and families are at the heart of all we do
- Robust and comprehensive assessments of children who have SEND are carried out in a timely way
- Developing a strategic oversight of SEND across the local area
- The appointment of designated clinical officers to fulfil the designated medical officer function
- Developing what support and services are needed and put in place with children, young people and their families
- Refreshing and publicising the Lancashire local service offer
- Further development of pathways for Autistic Spectrum Disorder including diagnosis across the local area
- Collaboration with school leaders to reduce the exclusion of pupils with SEND.

The development and delivery of an improvement plan will be closely monitored by the DfE and Lancashire Improvement and Accountability Board. The Written Statement of Action was submitted in April 2018. The effective implementation of the improvement plan will be critical to achieving an improved outcome when Ofsted undertakes a further, shorter inspection of these services in due course.

Managing major projects
The county council is currently involved in several major projects such as the development of the Preston Youth Zone. Significant risks can be

associated with such projects and the Council will be implementing steps to ensure robust risk management practices are in place.

Core Systems
During 2017/18 work to improve the quality of data in core systems continued at a pace. In Children's Services the improved confidence in the quality of the data in Lancashire Children's System led to a refocusing of the 'Accuracy Working Group'. It was renamed 'Performance and Data Quality Group' and the emphasis switched from dealing with data quality problems to using data to manage Performance. Although data quality issues continue to be identified and resolved by this group they are now relatively minor.

In Adults Social Care, there has been a significant improvement in the quality of data within the systems as a result of data cleansing exercises undertaken throughout the year. An Accuracy Working Group in this service area has also been established which is looking at further improving data quality, developing exception reports and establishing processes to improve the quality of data by dealing with issues before they've caused a problem.

Concerns remain about the quality of data in other core systems, primarily the Highways Asset Management System and the Project and Portfolio Management System. Governance arrangements have been put in place to oversee progress and set targets.

Monitoring implementation

The key governance challenges facing the Council in 2018/19 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register.

The governance arrangements relating to the Register involve its review by the Corporate Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit, Risk and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a "risk score" and a residual score after mitigating actions have been applied.

Conclusion

Overall, the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work generally well, the council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the council will continue to be monitored by the Audit, Risk & Governance Committee, Cabinet and Corporate Management Team.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Approval of the Council's Statement of Accounts 2017/18
(Appendix 'A' refers)

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

Executive Summary

The council has delegated the approval of the statement of accounts to the Audit, Risk and Governance Committee.

As required by the Accounts and Audit Regulations 2015 the draft statement of accounts for 2017/18 were certified by the Chief Finance Officer and published on the council's website on 25 May 2018 with the public inspection period taking place from 25 May to 6 July 2018. A number of changes have been made to the accounts since publication in May, the more significant of which have been set out in this report.

The accounts of the Lancashire County Pension Fund are included in the council's statement of accounts as the council is the pension fund administering authority.

On 5 July 2018 the Pension Fund Committee noted the accounts of the fund and recommended them for approval to the council's Audit, Risk and Governance Committee on 30 July 2018.

At the time of writing, the accounts are still being audited by the external auditor. The final accounts are required by statute to be approved by the committee and published on the council's website by 31 July.

Recommendation

Subject to completion of the external audit, the committee is recommended to approve the 2017/18 statement of accounts, at Appendix 'A', for Lancashire County Council and Pension Fund.

Lancashire County Council

Background and Advice

The draft statement of accounts were certified by the Chief Finance Officer and published on the Council's website on 25 May 2018 ahead of the end of May deadline.

The final statement of accounts are presented at Appendix 'A' to this report. However, at the time of writing, the accounts are still being audited by the external auditor. The accounts are required by statute to be approved and published by 31 July.

Changes to the Council's statement of accounts since publication in May 2018

The following amendments have been incorporated into the final statement of accounts:

a) Minimum revenue provision

The Local Authorities (Capital Finance and Accounting) Regulations 2003 require local authorities to charge to their revenue account in each financial year a minimum amount to finance capital expenditure. This is commonly referred to as MRP, the Minimum Revenue Provision.

In the context of significant medium term financial pressures the council continues to review the efficiency and effectiveness of all aspects of spend. As part of this review, and with advice from the Local Government Association, the council has reassessed the expenditure that is required under statute relating to a prudent MRP and updated its policy for 2017/18 and 2018/19, subject to approval by Full Council on 19 July.

Based on the proposed policy, the Council has created an historic over provision of MRP of c£134 million and as a consequence of this will reduce its future annual provision until the over provision has been recovered or it is deemed appropriate to set additional monies aside. It is estimated that this could result in a reduced charge for 14 years from 2017/18. The immediate financial effect of these changes is a saving of £13.2 million in 2017/18, which forms a contribution to reserves.

b) Restatement of comprehensive income and expenditure statement

Following the council's restructuring of services in 2017/18, the 2016/17 comparator figures shown in the comprehensive income and expenditure statement have been amended to reflect the revised structure in order to aid comparability and meet the regulatory guidance.

c) Prior period adjustments

In 2017/18 the council undertook a comprehensive review of the processes associated with capital accounting and the assets held on the council's fixed asset system.

The CIPFA Code of Practice requires an authority to correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

a) restating the comparative amounts for prior period(s) presented in which the error occurred, or

b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net worth for the earliest prior period presented.

Although many of the items corrected for were not material to the accounts, their correction allows for a more accurate starting point for the 2017/18 accounts. The prior period adjustments note in the statement of accounts explains the restatement of the prior years' figures. Since publication in May, this section of the accounts includes additional details to explain the changes.

d) Other minor adjustments

During the time since the draft accounts were published, the council has taken the opportunity to make a small number of other minor adjustments to the accounts.

- reclassification of levy from cost of services to other operating income and expenditure (£0.7 million)
- transfer of disabled facilities grant payments from chief executive services to adult services (£11.5 million)
- inclusion of ICT subsidy within members expenses (£13,000)
- reclassification of financial asset between assets held at fair value and assets held at amortised cost (£0.3 million)
- the tax position for the group accounts was not available at the end of May but has now been calculated and included in the accounts

<u>Changes to the Pension Fund accounts since publication in May 2018</u>

On 5 July 2018, the Pension Fund Committee was made aware of changes to the draft accounts signed in May. As follows:

e) Contributions

Contributions for the year ended 31 March 2018 have been increased by £137.0 million to include employer contributions paid up-front in respect of the years ending 31 March 2019 and 31 March 2020. These contributions were accounted for as receipts in advance on the fund's net asset statement in the accounts signed in May 2018 but have now been released to the fund account and recognised in the year of receipt. This has a direct impact on increasing the closing net assets.

f) Management expenses

In accordance with CIPFA guidance on accounting for pension scheme management expenses, and on the basis of additional information becoming available since May

2018, the 2016/17 comparatives for management expenses have been restated and the expenses for the current year have been revised. These changes to management expenses do not have an impact on the overall net assets of the scheme.

g) Investment disclosures

In order to aid transparency of investment reporting post pooling, and in line with CIPFA guidance received at the end of May, the fund's investment disclosures have been extended to provide details of sub-fund investment managers.

Audit findings

At the time of writing this report the external auditors have not concluded their audit, and therefore may identify required changes to the accounts following publication of the committee agenda. As a consequence, further changes to the accounts may be presented for approval at the committee.

Consultations

The Accounts and Audit Regulations 2015 require the council to make available the accounts for public inspection. This enables any member of the public to inspect the accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2017/18 accounts commenced on 25 May 2018 and ended on 6 July 2018.

Implications:

This item has the following implications, as indicated:

Financial

As set out in this report.

Risk management

The council's accounts for 2017/18 must be approved and published by 31 July 2018 in order to meet the statutory deadlines.

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

Paper	Date	Contact/Tel
Accounts and Audit Regulations	2015	Khadija Saeed/ (01772) 536195

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Statement of accounts 2017/18

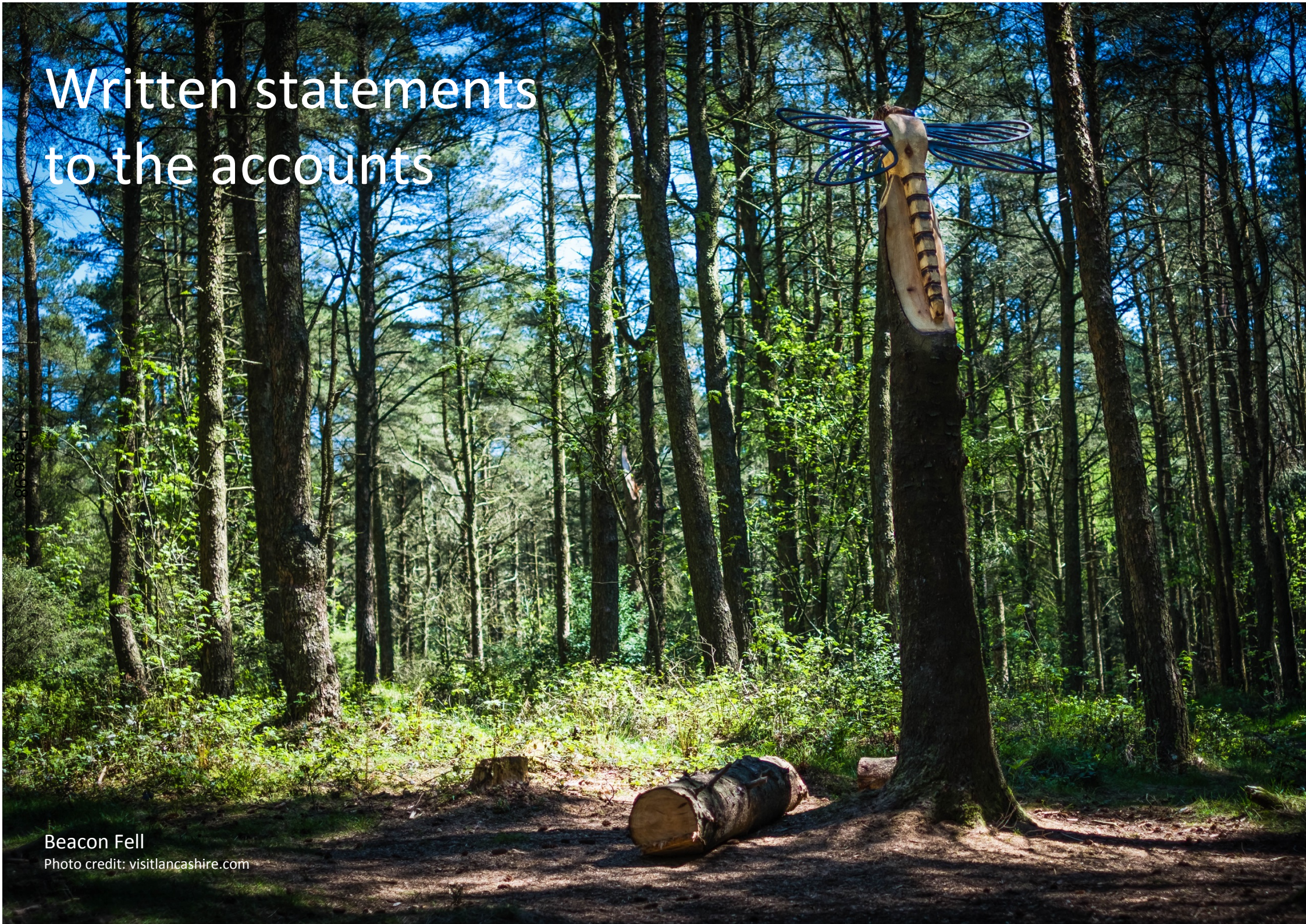
Lancashire County Council

Contents

Front cover: Halo, Rossendale

Contents

Written statements to the accounts



Beacon Fell
Photo credit: visitlancashire.com

Foreword by the Interim Chief Executive and Director of Resources

I am pleased to introduce the Statement of Accounts for the 2017/18 financial year. The financial statements set out both the single entity accounts for Lancashire County Council and the consolidated group position, incorporating its subsidiary Lancashire County Developments Limited. They also include the Lancashire County Pension Fund accounts for which Lancashire County Council is the administering authority.

In 2017/18 we have continued to deliver services valued by the communities we serve, and have been recognised for achievements in both delivering innovative services such as 'Shared Lives' and also creating the environment in which residents can prosper through the Local Enterprise Partnership.

Our new strategic plans have highlighted that the priorities of our local population are central to how we operate. However, like many councils, Lancashire County Council is facing significant financial pressures from reductions in government funding and increases in the demand for services.

The Council has a strong track record of living within its means through delivering savings and this is supported by healthy reserve balances reflecting strong financial stewardship. We have saved in excess of £200 million in the last four years but there is still more that we will need to do.

In 2018 the Council put in place a new management team who are well placed to lead the organisation successfully through the challenges ahead.

With the Council's financial performance in 2017/18 and medium term financial planning, I am confident that this gives us capacity to develop and deliver a sustainable future for the County Council.

A Ridgwell

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

The county of Lancashire

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

Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. It is one of the largest economies in the north of England with almost 52,000 businesses and a local economy valued at £29 billion.

Lancashire has a diverse heritage with a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment. Lancashire is home to the world's 4th largest aerospace cluster, with core strengths and capabilities in advanced manufacturing, energy, digital and health innovation.

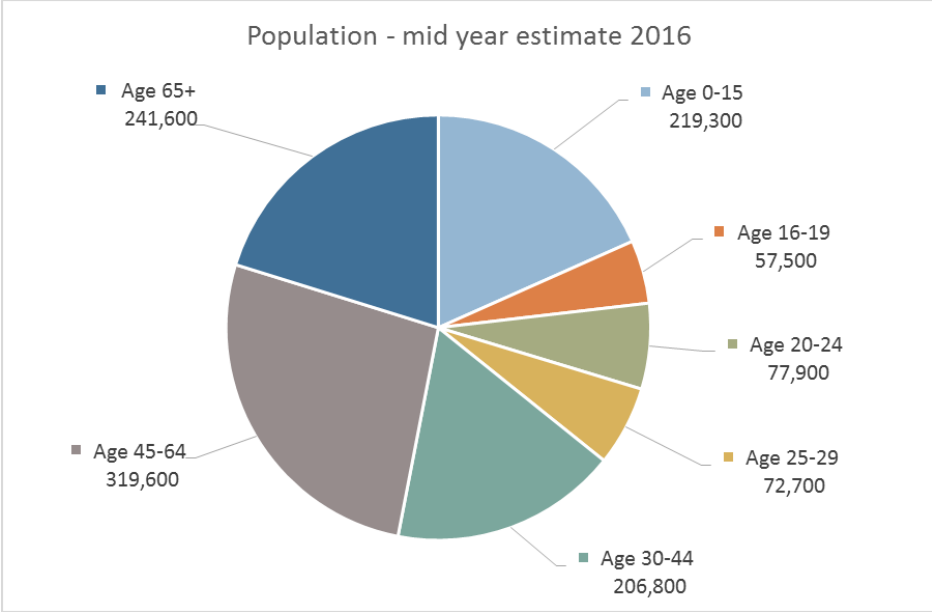
Demographic profile of Lancashire

The mid-year population estimate for Lancashire in 2016 indicated that there were 1,195,400 people living in the County. The population is projected to increase to 1.25 million by 2039[1].

Analysis by age reveals that most of the age groups between 0 and 64 years are predicted to decrease in the years to 2039. A substantial increase of c.110,000 is predicted in the over 65 age group and in the number of people aged 90 years and older[1].

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

The largest ethnic group is white (92%). The black and minority ethnic group (BME) makes up 8% of the population, the majority of this group being Asian/Asian British[2].



Source: Office for National Statistics – population mid-year estimate 2016 (revised 22 March 2018)
1 ONS 2014-based Subnational population projections
2 2011 Census

About Lancashire County Council

Lancashire County Council is the fourth largest council in the UK covering a geographic area of 2,903km^2. It provides services to residents of the 12 district areas of Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire and Wyre.
Its responsibilities include:

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

Our priorities

The priorities set the broad aspirations for the Council and are summarised below:

- Using money wisely;
- Putting local people first at all times;
- Protecting and re-opening libraries;
- Supporting economic growth and new jobs;
- Funding for extra bus services;
- Improving highways maintenance and safety;
- Caring for our most vulnerable residents;
- Keeping communities tidy and tackling floods.

In 2018 a new operational plan highlighted some key objectives that will support the delivery of these priorities which included: establishing a new leadership and management team, embedding a focus on service delivery, developing a sustainable financial strategy, and delivering growth and prosperity for the whole of Lancashire.

Our risks

A corporate risk and opportunity register is in place to identify and manage the risks that could impact on the delivery of the Council's objectives. The register is reported quarterly to the Cabinet Committee on Performance Improvement and the Audit, Risk and Governance Committee. Some of the most significant of these risks are highlighted below:

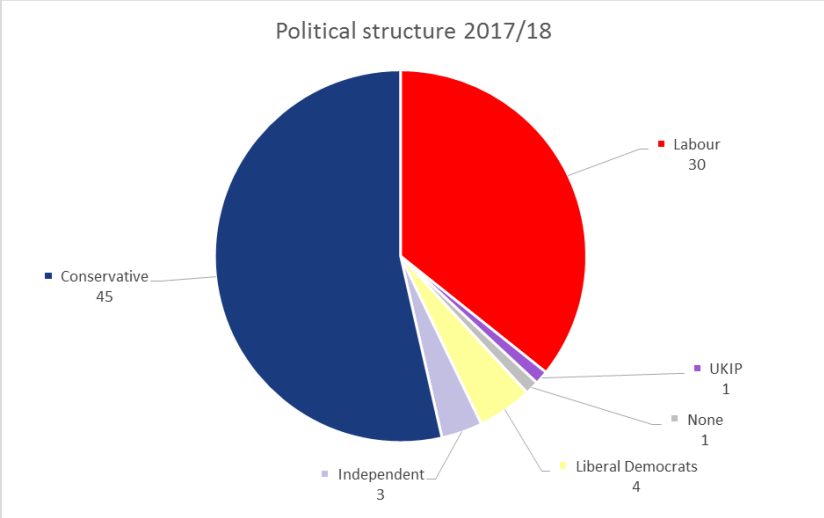
Risk description	Possible consequences	Mitigating actions
Failure to implement fully the Council's medium term financial strategy including the delivery of planned and new budget reductions.	Savings not achieved resulting in reserves depleted more quickly than planned. Reductions in service/quality.	Improve commercial and financial acumen. Continuously revalidate budget assumptions. Communicate with stakeholders to ensure an understanding of the financial position and the need for change. Service challenges will take place to review both costs and outcomes with a view to identifying further future savings to achieve a financially sustainable position.
Failure to adequately protect and safeguard children.	Children are put at risk of harm.	Director of Children's Services 'line of sight' to frontline practice to ensure adequate protection and safeguarding of children. Ongoing work to improve processes and practice.
Failure to recruit and retain experienced social work staff.	Inability to deliver effective services. High caseloads. Increased staff turnover / increased agency spend.	Strengthen leadership with new Executive Director of Education and Children's Services. Enhanced recruitment including recruitment evenings and use of social media. Weekly monitoring of workforce position and social work caseloads. Develop People Strategy and Employee Value Proposition.

Our governance structure

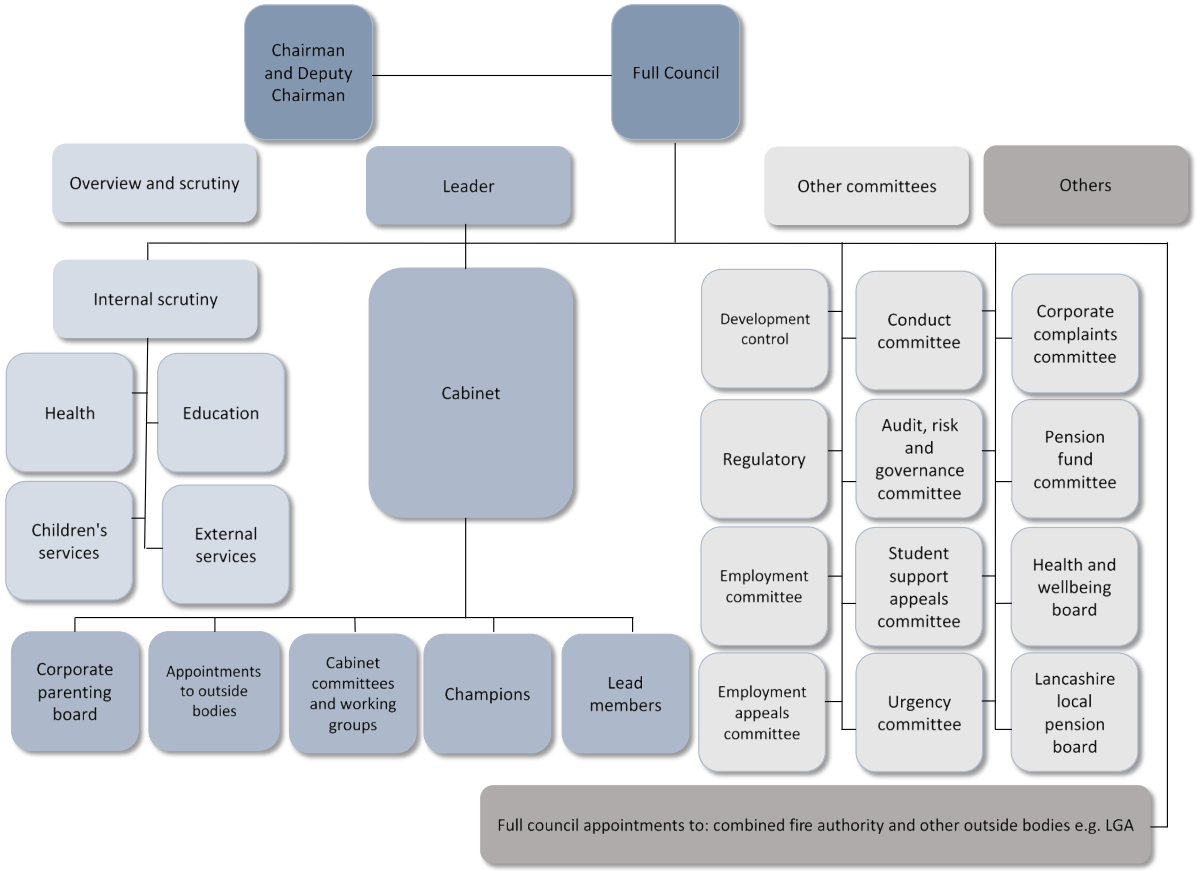
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities and bring their views into the Council's decision making process.

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

The chart below shows the political structure of the Council in the 2017/18 financial year.



The political management structure of the Council is shown below.

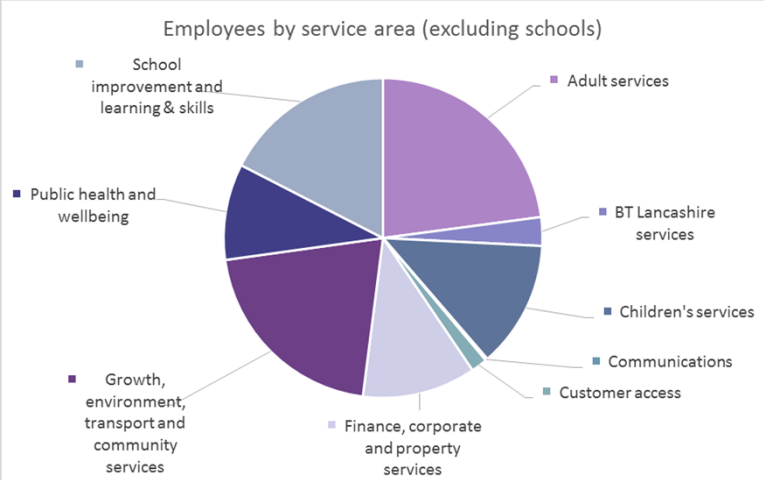


Further details of the Council's governance arrangements are provided in the Annual Governance Statement.

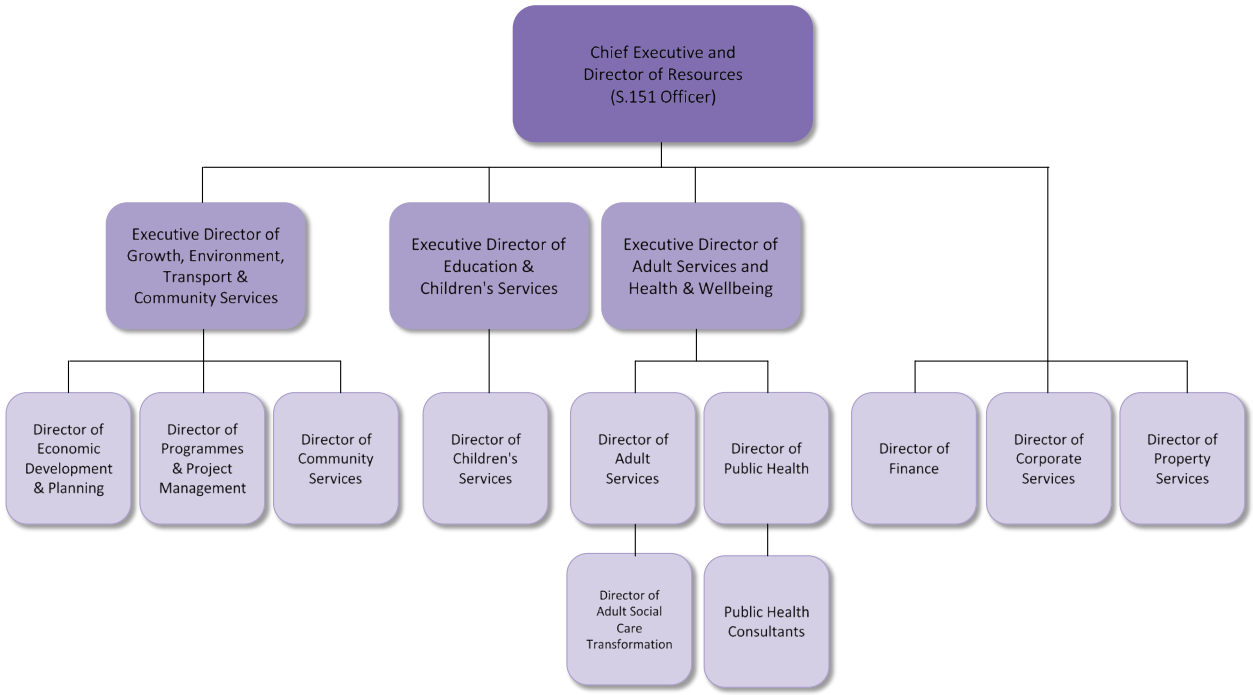
Our staff

The Council is supported by administrative, professional, technical and operational employees whose role is to advise the Council on all aspects of its functions and to put into effect decisions which are taken in order to provide services to the public.

The Council has responsibilities spanning public health, social care, the economy and the environment and employs over 12,400 people in full time and part time contracts with around a further 29,500 people employed in schools.



The Council implemented a new management structure with effect from 3 January 2018 which is shown below.



Our performance

Adult services

The focus for delivery of services in adult social care includes helping people to be independent by investing in prevention, early intervention and the use of technology; ensuring the quality of services for people needing our support, and safeguarding and protecting vulnerable people from harm.

Our progress towards these aims is demonstrated by:

- User feedback from the adult social care survey was particularly positive for people having control over their daily lives, satisfaction with their care and support and for those who said our services make them feel safe and secure;
- Indicator scores for carers receiving self-directed support and for carers receiving direct payments are consistently amongst the highest in the region;
- Compared with many other parts of the country, a greater proportion of people with learning disabilities who use our services are supported to live in their own home or with their family;
- The number of reablement support plans has increased by 26%, indicating greater numbers of people are being offered reablement in accordance with the aims of our Passport to Independence programme, and alongside this, the number of people admitted to residential care has decreased;
- Occupational Therapy recruitment has eased waiting lists considerably and seen a 20% increase in the number of Occupational Therapy assessments completed;
- Older People Services achieved the government Customer Service Excellence Accreditation standard, which assesses how services are customer focused;
- The Lancashire figure of 74.5% Care Quality Commission rated good or outstanding care homes has now exceeded the above-average threshold for the NW, but remains short of the above-average threshold for England;
- 100% of our in-house disability community based services have a Care Quality Commission rating of 'Outstanding' or 'Good'.

	2016/17	2017/18
Proportion of people satisfied with adult social care	68%	68%
Proportion of people with Learning Disabilities who use our services and are supported to live in their own home or with their family	85.5%	85.3%
Number of supported permanent admissions to residential care per 100,000 population aged 65 or over	742	720
Percentage of service users who completed reablement and left as self-caring	72%	82%
Percentage of older people discharged from hospital who were still at home 91 days after discharge	84%	88%

Education and children's services

Our shared vision for education and children's services is that all Lancashire's children and young people have the right to achieve and aspire to be the very best they can, to make the most of their lives and to do so within a safe, secure environment. Important aspects in achieving this are ensuring all our children and young people have access to a suitable educational offer, and that children, young people and families in need of help and support are safe, healthy and supported to achieve.

Our progress towards achieving these aims is demonstrated by:

	2016/17	2017/18
Proportion of children who achieved a good level of development at Early Years Foundation Stage	69.2%	69.4%
Average attainment 8 score at GCSE	49.7	45.7
Percentage of education settings rated Good/Outstanding	91%	90%
Absence levels in primary, secondary, and special schools	4.3%	4.3%
Number of children looked after	1,842	1,968
Stability of placements: % of children looked after with 3 or more placements	8.0%	7.9%
Number of children adopted	73	87
Number of children on child protection plans	1,412	1,243
16-17 year olds not in education, employment or training or not known	8.6%	8.3%
First time entrants to Youth Justice System per 100,000 (10-17 year old population)	204	188

Environmental, community and planning services

Our shared vision for environmental, community and planning services is to develop a strong sense of pride in Lancashire and build a place in which people actively choose to live, work, invest and play. In delivering this we believe people have the right to feel safe, live in a clean environment, have access to a modern transport infrastructure as well as having free unlimited access to information and knowledge.

These measures are important to us because they provide the people of Lancashire, particularly the most disadvantaged, with the opportunity of employment and investment as well as improving the quality of life for all.

Our progress towards achieving these aims is demonstrated by:

	2016/17	2017/18
Average number of working days to repair a LCC street lighting fault	4.3 days	4.6 days
Percentage of principal roads where maintenance should be considered	2.1%	2.5%
Percentage of non-principal classified roads where maintenance should be considered	5.0%	4.4%
Percentage diversion of municipal waste away from landfill	49%	51%
Number of e-book downloads each month	162,384	212,925
Superfast Broadband coverage for LCC area	96%	97%

Public health and wellbeing

Our vision is to develop Lancashire into a safer, fairer and healthier place for our residents; it is estimated that around 40% of all deaths in England are related to lifestyles; influencing and improving lifestyle choices is a key area.

Our progress towards achieving our vision is demonstrated by:

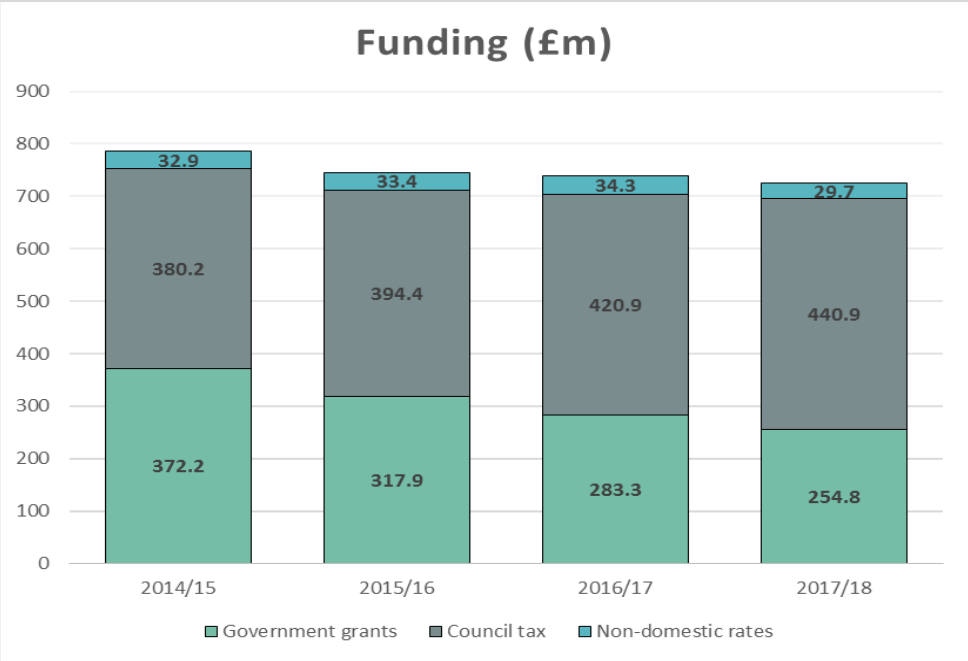
	2016/17	2017/18
Variation in life expectancy at birth due to deprivation across different areas of Lancashire (male)	10.1	9.9
Variation in life expectancy at birth due to deprivation across different areas of Lancashire (female)	7.8	8.2
Estimated percentage of persons aged 18 and over that smoke	18.3%	18.3%
Estimated percentage of adults classified as overweight or obese	63.5%	63.9%
Percentage of children (aged 4-5 years) classified as overweight or obese	22.5%	23.5%
Percentage of children (aged 11 years) classified as overweight or obese	33.2%	33.0%
Rate of alcohol related hospital admissions (narrow) (per 100,000)	669	645
Percentage of successful drug treatments in adults (opiate)	10.7%	9.5%
Percentage of successful drug treatments in adults (non-opiate)	50.1%	57.2%
Estimated percentage of residents (aged 19+) exercising at least 150 minutes per week (Sport England survey)	66.2%	65.3%

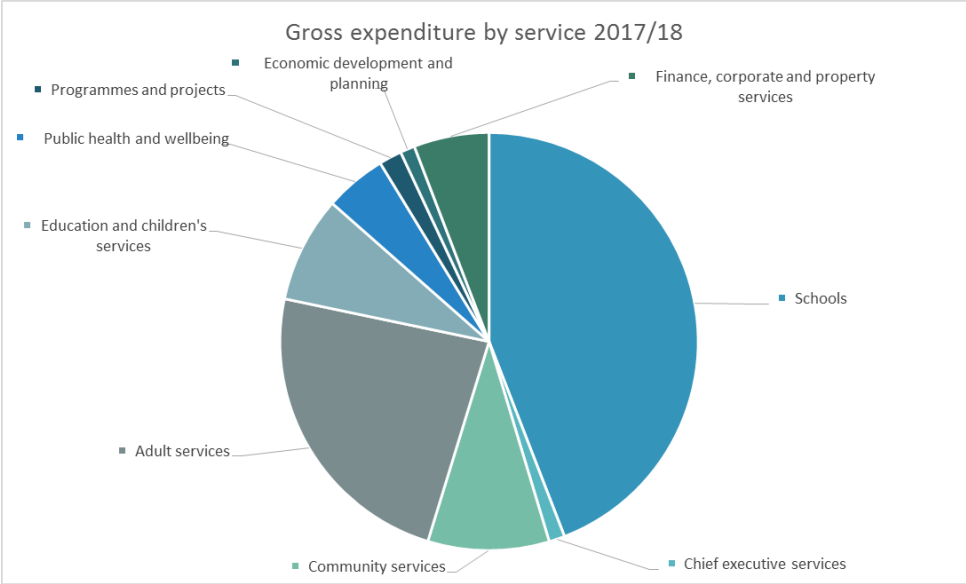
Our financial performance

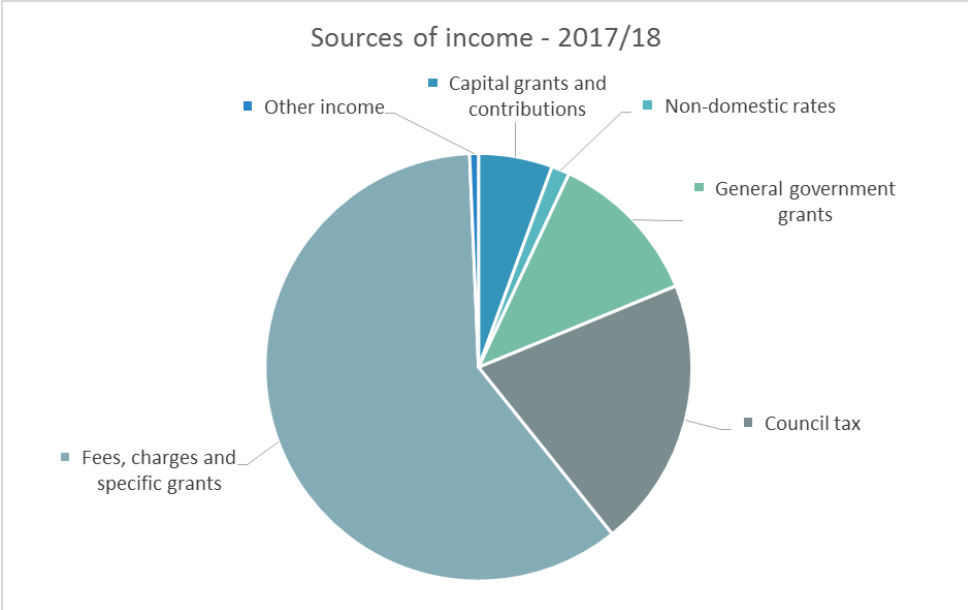
Revenue summary

The Council has faced an unprecedented period of financial challenge since the Government's austerity measures began in 2010, with year on year reductions in the grant funding provided by Government to the Council. In addition, the Council continues to face significant financial pressures from rising costs of the national living wage and contractual inflation and also in relation to increasing demand for its services.

The charts illustrate the funding received, how it was spent on services and also how the reduction in general Government grants has resulted in an increased pressure on council tax.







Revenue outturn

On 9 February 2017, the Council approved a net revenue budget of £724.8 million. The revenue budget shows the annual cost of carrying out the Council's duties and responsibilities to the community, many of which are required to be provided by the Council under statute.

The table shows the final outturn position compared to the approved budget.

The final outturn position (excluding schools) of £703.9 million, resulted in an underspend of £20.9 million compared to the budget. The underspends reported are largely due to treasury management activity, staffing underspends, additional income and some lower operational costs. This is partially offset by an overspend within children's social care arising from additional costs for placements, staffing, special guardianship orders and assistance to families.

The final schools outturn position reflected an overspend of £7.7 million against the budget. This is mainly due to the continuing increase in costs of inflation and staffing and significant demand pressures on the High Needs Block whilst the school grant funding continues to remain static.

Service	**Approved budget**	**Outturn position**	**Variation**
	£m	**£m**	**£m**
Adult services	328.4	326.2	(2.2)
Education and children's services	147.2	151.9	4.7
Community services	129.7	125.7	(4.0)
Public health and wellbeing	20.2	15.8	(4.4)
Economic development and planning	2.1	1.5	(0.6)
Programmes and projects	6.1	5.5	(0.6)
Finance, corporate and property services	77.9	77.1	(0.8)
Chief executive services	13.2	0.2	(13.0)
Sub total	**724.8**	**703.9**	**(20.9)**
Schools	0	7.7	7.7
Outturn position reported to Cabinet 14 June 2018	**724.8**	**711.6**	**(13.2)**
Change to MRP policy	0	(13.2)	(13.2)
Revised outturn	**724.8**	**698.4**	**(26.4)**

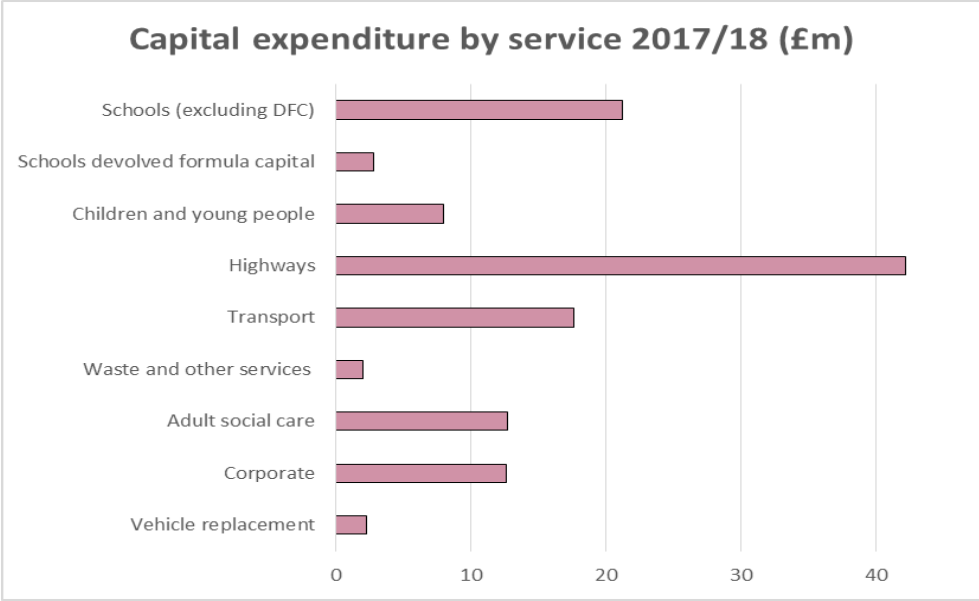
Capital investment programme

In February 2017, the Council confirmed a capital budget of £126.2 million for 2017/18 as part of the four year capital programme agreed in February 2016. After allowing for £36.6 million of programmed spend from previous years and a decision to fund additional works of £9.1 million, the budget for the 2017/18 programme was updated to £171.9 million by the year-end.

The programme was designed to deliver the following benefits to the residents of Lancashire:

- Enhancements and improvements to schools and residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in waste and recycling facilities;
- Enhancement of Council properties including libraries;
- Support to roll out superfast broadband.

Chorley Holy Cross Catholic High School expansion project completed September 2017.



The total spend on capital works in 2017/18 is £121.4 million which represents 71% of the budgeted programme. The £50.5 million underspend is largely due to works that were undelivered during the year which have been re-profiled to be carried out in future years.

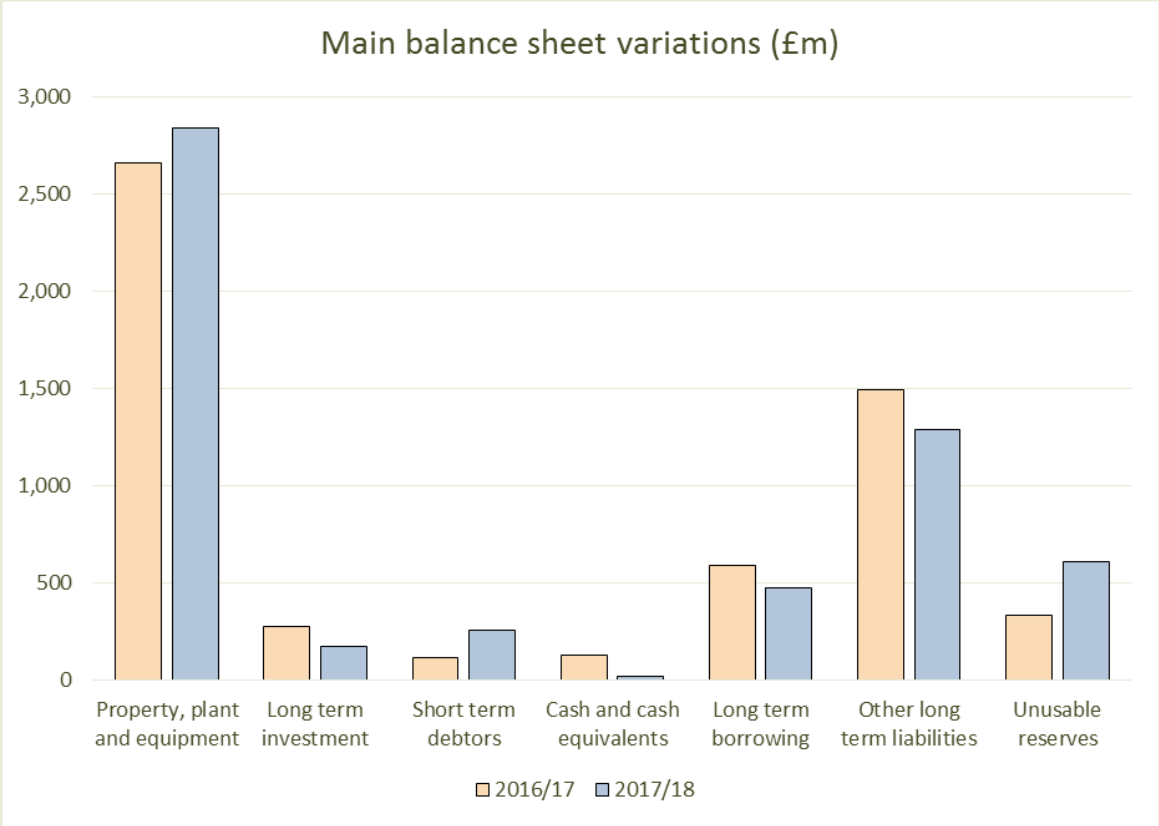
	Revised budget £m	Actual spend £m	Variation £m
Schools (excluding DFC)	28.2	21.3	(6.9)
Schools devolved formula capital	4.9	2.8	(2.1)
Children and young people	5.8	7.9	2.1
Highways	50.6	42.2	(8.4)
Transport	38.2	17.7	(20.5)
Waste and other services	6.4	1.9	(4.5)
Adult social care	14.1	12.7	(1.4)
Corporate	20.9	12.6	(8.3)
Vehicle replacement	2.8	2.3	(0.5)
Total expenditure	**171.9**	**121.4**	**(50.5)**

Assets and liabilities

The balance sheet summarises the Council's financial position at the year end and reports the assets, liabilities and reserves of the Council.

In summary, the net assets of the Council have increased by £262.7 million from £723.5 million at 31 March 2017 to £986.2 million at 31 March 2018.

The main balance sheet variations are shown in the chart below.



The balance sheet shows an increase in property, plant and equipment of £178 million which includes capital expenditure incurred in year together with the impact of revaluations (also reflected in the unusable reserves).

The decrease in long term investments of c£100 million is largely due to the planned reduction in investment levels to fund service delivery and is also reflected in the reductions in usable reserves.

The increase in short term debtors of £147 million is largely due to the cross year sales of bonds of £152 million with settlement dates falling in April 2018.

The cash and cash equivalents decreased by £109 million mainly as a result of the prepayment of pension liabilities of £85 million over the next two years in order to realise savings. This is also reflected in the reduction of other long term liabilities.

The decrease in long term borrowing of £113 million is in part due to the policy of renewing borrowing to short-term, however, there has been a total reduction in borrowing of £90 million overall this year.

Other long term liabilities reduced by £205 million, mainly owing to changes in the pension liability as a result of the prepayment and also changes in the pension liability valuation. This is also reflected by an increase in the pensions reserve of £120 million.

The increase in unusable reserves has resulted mainly from the increase in the pension reserve and the revaluation reserve as outlined above.

Reserves

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

Usable reserves are those reserves that can be spent on future services and include general and earmarked reserves. The revenue budget has been supported in recent years by the use of reserves and their value has therefore reduced. However, the reduction is less than anticipated in 2017/18 due to additional income and underspends generated in the year.

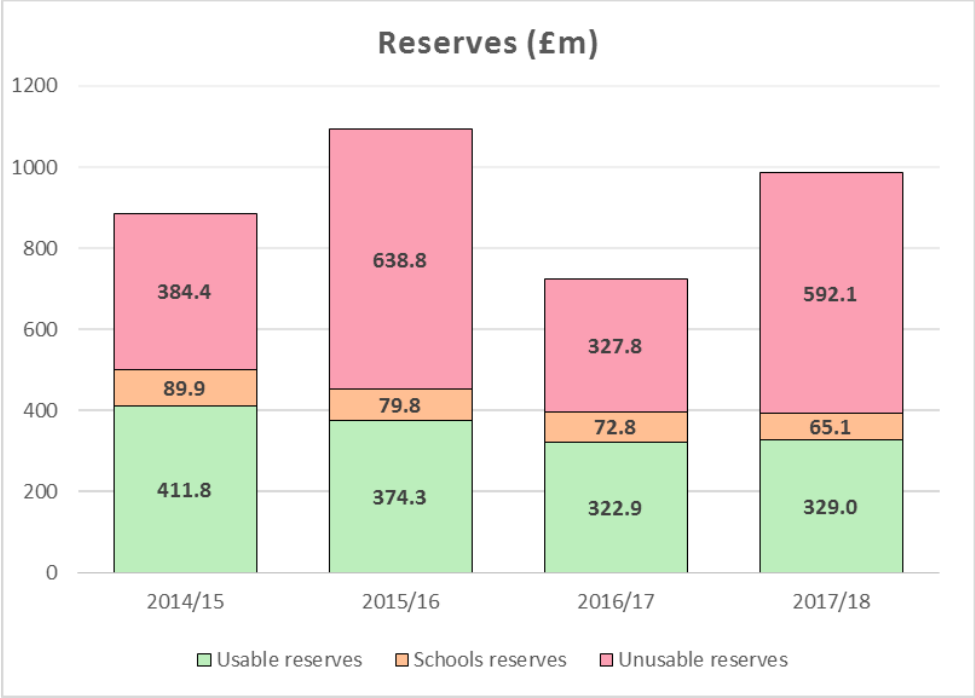
The Council also holds a number of unusable reserves which arise as a result of statutory or accounting adjustments and cannot be used for expenditure on services. These include unrealised gains and losses, particularly in relation to the revaluation of property, and adjustment accounts which absorb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

The following accounts normally represent the most significant movements in unusable reserves and are explained further in Note 29:

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

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

The overall trend shows a fall in usable reserves as the Council has had to use these to manage ongoing budget pressures as other income streams, primarily Government grant, fall. It is important that the Council address this structural deficit and deliver a sustainable financial plan.



Prior period adjustments

In 2017/18 the Council has taken the opportunity to carry out a comprehensive review of the processes associated with capital accounting and the assets held on the Council's fixed asset system. As a result, a number of the prior year comparator figures have been restated from those published in the 2016/17 Statement of Accounts.

The Council's departments were realigned following changes to the senior management structure in 2017/18. The 2016/17 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

The adjustments are detailed in Note 4 to the accounts.

Outlook for the future

Like all councils, Lancashire County Council is facing significant financial pressures as a result of the extended national programme of austerity with the funding provided by Government to the Council falling by over 50% since 2011.

In order to deliver a balanced budget from 2021/22 we need to address a forecast budget gap of around £144 million either through reduced costs or increased income. The Council has, over recent years, supported its revenue budget through the use of reserves in order to bridge the funding gap. It is recognised this is a temporary approach and cannot be sustained into the medium term.

With a projected increase in population, and as life expectancy also continues to increase, so do the demand pressures faced by services in particular those services delivering social care to both children and older people. Over the period 2018/19 to 2021/22, £85 million has been allocated in the Medium Term Financial Strategy for demand pressures of which £55.7 million relates to adult social care and £22 million to children's social care.

The Council is also facing a number of other cost pressures including costs of the National Living Wage and contractual inflation which affects both the services provided directly by the Council and the costs of purchased goods and services.

As a consequence, the Council has taken the decision to increase council tax in 2018/19 by 5.99% which includes a 3% adult social care precept to fund adult social care services and is the maximum level permissible without requiring a referendum.

The Council has previously agreed as part of the financial strategy to benchmark unit costs, and move towards the lowest quartile of the most appropriate comparator group. The data has been updated to reflect the latest information available to review how the Council now compares to other authorities with the same responsibilities. Further work is being planned and scheduled over coming months to ensure the Council can achieve a financially sustainable position. This involves a number of work streams including service challenges, commercialisation, review of taxation and grants, productivity, commissioning and the role of the third sector.

Explanation of the accounting statements

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

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

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

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

Comprehensive income and expenditure statement

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

The comprehensive income and expenditure statement has two sections:

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

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

Movement in reserves statement

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

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

The statutory adjustments largely relate to arrangements for funding capital expenditure or the timing with which some items, for example pension

costs, are charged to council tax. Further details of the adjustments are shown in the expenditure and funding analysis and Note 14 – adjustments between accounting basis and funding basis under regulations.

Balance sheet

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

Cash flow statement

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

Notes to the financial statements

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

Group accounts

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

Pension fund accounts

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

Annual governance statement

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

Statement of responsibilities

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

The Council's responsibilities

The Council is required to:

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

The Section 151 Officer's responsibilities

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

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

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

The Section 151 Officer has also:

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2018.

A Ridgwell
Interim Chief Executive and Director of Resources
30 July 2018

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 30 July 2018.

A Schofield
Chair of Audit, Risk and Governance Committee
30 July 2018

Financial statements

Stanah Park and Wyre Estuary

Comprehensive income and expenditure statement

2016/17 restated				2017/18		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
969.5	(908.2)	61.3	Schools ◦	947.4	(921.4)	26.0
48.9	(9.4)	39.5	Chief executive services ◦ ▪	26.3	(2.2)	24.1
282.2	(40.5)	241.7	Community services ▪	201.6	(57.3)	144.3
494.7	(124.0)	370.7	Adult services ▪	505.6	(153.7)	351.9
154.1	(12.0)	142.1	Education and children's services ◦ ▪	176.4	(12.9)	163.5
108.7	(84.6)	24.1	Public health and wellbeing ▪	102.8	(80.6)	22.2
32.7	(1.5)	31.2	Programmes and projects ▪	37.9	(1.5)	36.4
2.7	(5.5)	(2.8)	Economic development and planning ▪	24.2	(6.4)	17.8
114.7	(58.2)	56.5	Finance, corporate and property services ▪	125.0	(53.6)	71.4
2,208.2	**(1,243.9)**	**964.3**	**Cost of services ◦**	**2,147.2**	**(1,289.6)**	**857.6**
12.8	(1.2)	11.6	Other operating income and expenditure (Note 6) ◦	19.5	(6.5)	13.0
69.7	(30.4)	39.3	Financing and investment income and expenditure (Note 7)	65.6	(14.7)	50.9
0	(846.6)	(846.6)	Taxation and non-specific grant income (Note 8) ◦	0	(846.2)	(846.2)
2,290.7	**(2,122.1)**	**168.6**	**(Surplus)/deficit on provision of services ◦**	**2,232.3**	**(2,157.0)**	**75.3**
		(41.4)	(Surplus)/deficit on revaluation of non-current assets (Note 29) ◦			(125.8)
		243.2	Re-measurement of the net defined benefit pension liability/(asset) (Note 29)			(200.4)
		(1.0)	(Surplus)/deficit on revaluation of available for sale assets ◦			(11.8)
		200.8	**Other comprehensive income and expenditure ◦**			**(338.0)**
		369.4	**Total comprehensive income and expenditure ◦**			**(262.7)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

▪ The Council has restructured its services during 2017/18. The 2016/17 comparative figures have been restated to reflect the new structure. The adjustments are shown in detail in Note 4 – Prior period adjustments

2017/18

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**
Movement in reserves during 2017/18						
Total comprehensive income and expenditure	75.3	0	0	75.3	(338.0)	(262.7)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(51.4)	4.5	(26.8)	(73.7)	73.7	0
(Increase)/decrease in year	**23.9**	**4.5**	**(26.8)**	**1.6**	**(264.3)**	**(262.7)**
Balance at 31 March 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**

2016/17 restated

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016 ◦	**(399.1)**	**(3.5)**	**(51.5)**	**(454.1)**	**(638.8)**	**(1,092.9)**
Movement in reserves during 2016/17						
Total comprehensive income and expenditure ◦	168.6	0	0	168.6	200.8	369.4
Adjustment between accounting basis and funding basis under regulations (Note 14) ◦	(110.8)	(1.0)	1.6	(110.2)	110.2	0
(Increase)/decrease in year ◦	**57.8**	**(1.0)**	**1.6**	**58.4**	**311.0**	**369.4**
Balance at 31 March 2017 ◦	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Balance sheet

1 April 2016 restated	31 March 2017 restated		Note	31 March 2018
£m	£m			£m
2,671.2	2,660.3	Property, plant and equipment ◦	18	2,838.2
28.7	28.7	Heritage assets	20	28.7
4.4	2.0	Investment properties		1.6
24.6	21.7	Intangible assets		20.0
445.0	271.3	Long term investments	26	170.4
68.9	66.2	Long term debtors	21	46.4
3,242.8	**3,050.2**	**Long term assets ◦**		**3,105.3**
119.7	171.9	Short term investments	26	128.5
2.7	3.5	Inventories		2.3
108.7	110.3	Short term debtors ◦	22	255.7
12.8	8.6	Payments in advance		8.9
16.7	128.1	Cash and cash equivalents ◦	23	18.8
11.3	14.5	Assets held for sale		7.7
271.9	**436.9**	**Current assets ◦**		**421.9**
(399.2)	(463.8)	Short term borrowing	26	(487.5)
(179.4)	(185.0)	Short term creditors ◦	24	(250.1)
(10.8)	(8.2)	Receipts in advance		(9.4)
(12.2)	(7.0)	Short term provisions	25	(7.1)
(4.6)	(5.1)	Other current liabilities	26	(5.8)
(606.2)	**(669.1)**	**Current liabilities ◦**		**(759.9)**
(19.0)	(21.6)	Long term provisions	25	(26.1)
(583.4)	(584.4)	Long term borrowing	26	(471.4)
(1,213.2)	(1,488.5)	Other long term liabilities		(1,283.6)
(1,815.6)	**(2,094.5)**	**Long term liabilities**		**(1,781.1)**
1,092.9	**723.5**	**Net assets ◦**		**986.2**
(454.1)	(395.7)	Usable reserves ◦	29	(394.1)
(638.8)	(327.8)	Unusable reserves ◦	29	(592.1)
(1,092.9)	**(723.5)**	**Total reserves ◦**		**(986.2)**

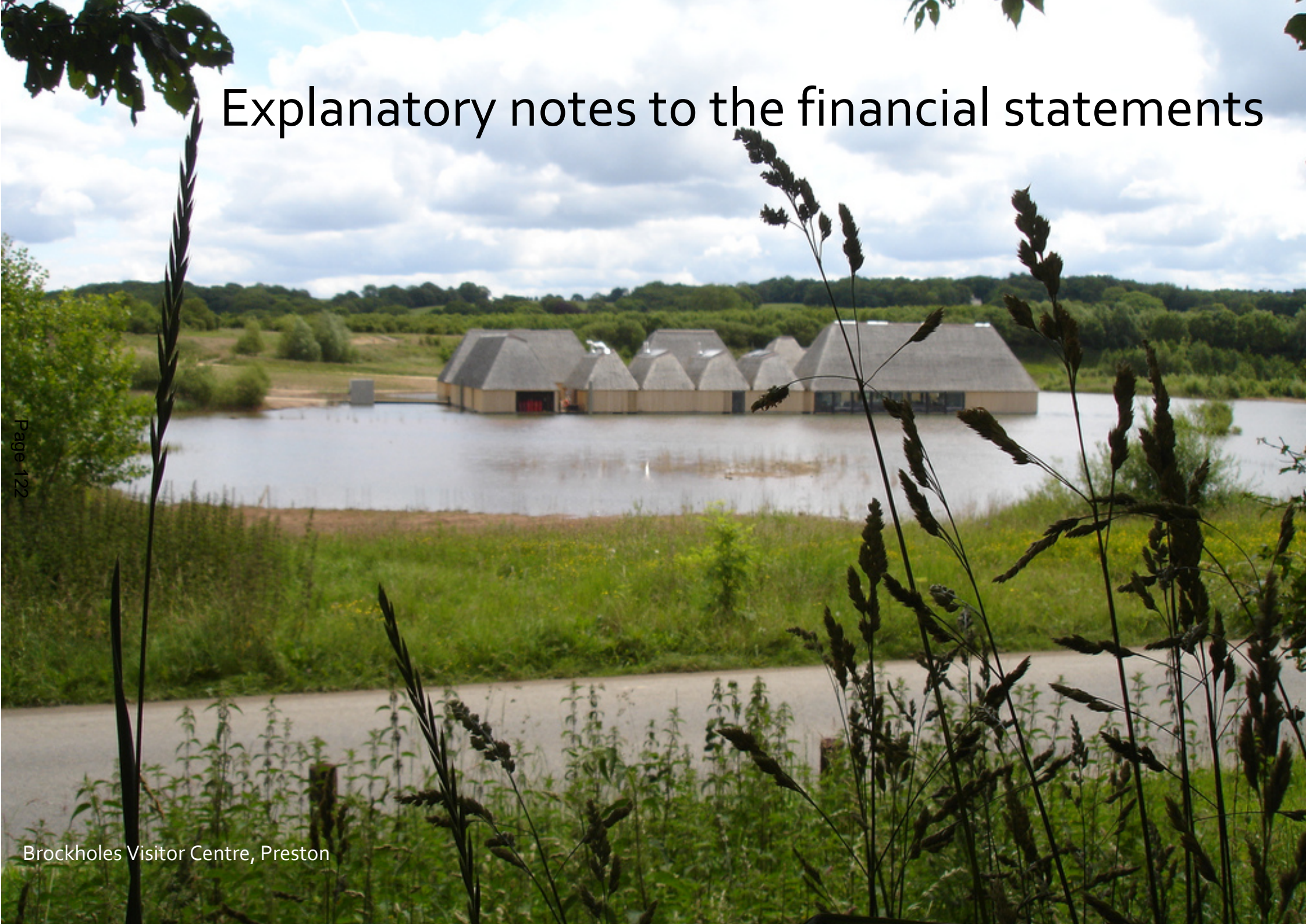
◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Cash flow statement

2016/17 restated		Note	2017/18
£m			£m
(168.6)	Net surplus/(deficit) on the provision of services ◦		(75.3)
233.6	Adjustments to net surplus/deficit on the provision of services for non-cash movements ◦	30	63.8
(137.4)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities ◦	30	(127.4)
(72.4)	**Net cash flows from operating activities ◦**		**(138.9)**
129.8	Investing activities ◦	31	124.6
54.0	Financing activities ◦	32	(95.0)
111.4	**Net increase/(decrease) in cash or cash equivalents ◦**		**(109.3)**
16.7	Cash and cash equivalents at the beginning of the reporting period ◦		128.1
128.1	**Cash and cash equivalents at the end of the reporting period ◦**	23	**18.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Explanatory notes to the financial statements



Brockholes Visitor Centre, Preston

Note 1 - Accounting standards issued, but not yet adopted

The Council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2018 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2018/19 Code will introduce the following amendments:

IFRS 9 Financial instruments

IFRS 9 replaces *International Accounting Standard (IAS) 39 - Financial instruments: recognition and measurement*. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change will result in more investments classified as 'fair value though profit and loss' where any gains or losses will impact on the general fund of the Council. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was sold. Additionally, the potential losses on investments are also to be charged to the revenue account in case actual losses are incurred in the future.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces *IAS 11 – Construction contracts and IAS 18 – Revenue and related interpretations*. The objective is to provide useful information to users of the financial statements regarding the nature, amount, timing and uncertainty of revenue from contracts as revenue is only recognised as and when the performance obligations of the contract are satisfied.

The principle in IFRS 15 for local authorities is that they should recognise revenue from contracts to reflect the transfer of goods or services to customers and the amount to which the authority expects to be entitled for that transfer. It excludes leases, financial instruments, insurance contracts, council tax and non-domestic rates income.

This standard is anticipated to have a limited impact on the Council's accounts.

IAS 7 Statement of cash flows: disclosure initiative

The objective of the amendments to IAS 7 is to improve the information provided by entities about their financing activities. The amendments require additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses

This applies to deferred tax assets related to debt instruments measured at fair value. The Council’s subsidiary company does not have such debt instruments, therefore, this will not impact on the group accounts for Lancashire County Council.

Note 2 - Critical judgements in applying accounting policies

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

Funding

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

Private finance initiative (PFI)

The Council is deemed to control the services provided under the private finance initiative (PFI) 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 £123.8 million as at 31 March 2018 (2016/17: £120.9 million).

School assets

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

The property, plant and equipment balance includes properties valued at £1,496.1 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 2017/18 Code* 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

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

The Council's relationships with other entities can be found within the related parties note. (Note 33).

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 on the basis that they are not considered to be material.

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

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

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

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

The items in the Council's balance sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment valuations	The Council commissions a 5-year rolling programme of valuations. Valuations are undertaken by qualified valuers within the Council's estates section in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation. Each year an estimate of the value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices to ensure that the value of the Council's assets are not materially misstated at the balance sheet date.	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. A reduction in value of 10% in the Council's land and buildings would result in a charge in the accounts of c£190 million. A change in the estimated valuations would result in an increase/decrease to the revaluation reserve and/or charge to the comprehensive income and expenditure statement.

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will sustain its current spending on repairs and maintenance, which affects the useful lives assigned to assets. For property assets, the valuation, residual value and useful life are all estimates. Valuation has been considered in the previous note. 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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by c£568,000 for every year that useful lives had to be reduced. 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.

Item	Uncertainties	Consequence if actual results differ from assumptions
Fair value estimations	When the fair values of investment properties, surplus assets and assets held for sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques: • For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; • For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.	The fair values of investment properties, surplus assets and assets held for sale are measured using Level 2 inputs, namely using quoted prices for similar assets or liabilities in active markets at the balance sheet date. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. As most estimates are based on current market information material changes are therefore not expected. Significant changes in any of the unobservable inputs could result in a significantly lower or higher fair value measurement for these assets.

Item	Uncertainties	Consequence if actual results differ from assumptions
Impairment of debtors	At 31 March 2018 the Council had a debtors balance of £255.7 million. Of this total £67 million relates to trade debtors. The balance of debtors relates to the sale of bonds (£152 million) which were settled in early April and also statutory debtors such as council tax and non-domestic rates for which a separate impairment exercise is undertaken. An impairment figure of £16.1 million has been set aside in the accounts for the trade debtors and is based on a regular assessment of aged debt information.	Should economic factors mean the impairment allowance is insufficient then any excess debt that proves uncollectable will result in a charge to the comprehensive income and expenditure statement. This cost may ultimately fall to the General Fund or the collection fund adjustment account depending on the nature of the debt. Should an additional 5% of debts prove to be uncollectable (above the amount set aside) there would be a cost of £3.4 million to the Council.

Item	Uncertainties	Consequence if actual results differ from assumptions
Pensions liability	The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. (See Technical Annex).	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 net pension liability by approximately £357 million; • A 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £182 million; • An increase of one year in assumed life expectancy would increase the net pension liability by approximately £82 million.

Note 4 – Prior period adjustments

Following changes to the senior management structure, the Council has restructured its services. The 2016/17 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

In 2017/18 the Council has undertaken a comprehensive review of the processes associated with capital accounting and the assets held on the Council's fixed asset system. As a result, a number of prior year comparator figures published in the 2016/17 accounts have been restated.

The adjustments are outlined below:

i. Restructure of Council services

The prior year figures in the comprehensive income and expenditure statement have been restated to reflect the new structure of the Council in order to aid comparability.

ii. Schools converting to academy status

Five schools with a total value of £19.9 million were disposed of from the Council's asset register following the decision to transfer to academy status, but ahead of the transfer actually taking place. As the transfer will not take place prior to 31 March 2018, the schools have been reinstated on the Council's asset register.

The impact of this adjustment is an increase in the value of the Council's property, plant and equipment figure on the balance sheet of £19.3 million (£19.9 million less depreciation of £0.6 million) with a corresponding increase in the unusable reserves. The loss of £17.9 million charged to the comprehensive income and expenditure account in 2016/17 has also been reversed.

iii. Disabled facilities grants

In 2016/17 £11.5 million of expenditure on Disabled Facilities Grants was incorrectly capitalised in the Council's accounts.

The impact of this adjustment is a reduction in the Council's property, plant and equipment total on the balance sheet of £11.5 million with a corresponding reduction in unusable reserves. The expenditure has been charged to adult services as revenue expenditure funded from capital under statute (REFCUS) within the comprehensive income and expenditure statement.

iv. Lancashire Enterprise Partnership

Lancashire County Council is the accountable body of the Lancashire Enterprise Partnership (LEP), all funds are paid through Lancashire County Council's bank account and all spend is recorded in the Council's ledger.

For 2017/18 the Council has reviewed its relationship with the LEP and concluded that a principal and agency arrangement exists.

Previously the expenditure and income of the LEP was reported within the Council's accounts, however, where the Council is merely an 'agent' for the expenditure, these transactions are now excluded from the Council's accounts. The accounts for 2016/17 have been restated to reflect this

approach. However, where the Council is the project sponsor, LEP expenditure will continue to be included within the Council's accounts.

Expenditure totalling £18.8 million relating to spend by the LEP had been included within the Council's balance sheet as infrastructure and assets under construction which has now been excluded. This is also reflected in the unusable reserves.

Grant income of £49.5 million and debtors and creditors of £4.8 million and 10.9 million respectively have also been excluded and reflected in a corresponding decrease in usable reserves of £43.4 million.

The impact on the comprehensive income and expenditure account in 2016/17 is a reduction of capital grant income and capital receipts of £24.1 million and £4.1 million respectively, and a decrease of £7.3 million for expenditure incorrectly classed as REFCUS.

v. Depreciation charges

In 2016/17 depreciation charges totalling £71.2 million were charged in error to children's services instead of schools.

The impact of this adjustment is a switch of £71.2 million between the two service areas within the comprehensive income and expenditure statement.

vi. Other capital adjustments

The review identified a small number of assets with a total value of £1.8 million and also a surrendered lease which have been omitted from the Council's asset register. This also includes other adjustments for minor corrections.

The comprehensive income and expenditure account reflects a net revaluation gain of £8.3 million which is split between costs of services and revaluation reserve gains.

Assets under construction

A review of the assets under construction at the end of 2016/17 identified that they included some operational assets which could have been added to the respective fixed asset category. This mainly occurred where spend on works continued whilst the asset became operational.

The impact of this adjustment is a reclassification of £50.2 million from assets under construction to land and buildings (£17.3 million) and infrastructure (£29.4 million) within property, plant and equipment on the balance sheet.

£3.2 million of assets under construction relating to the LEP have been removed from the accounts leaving a restated balance of assets under construction of £0.3 million.

The adjustments that have been made to the core financial statements over the version published in the 2016/17 Statement of Accounts are detailed in the following tables.

Adjustments to the comprehensive income and expenditure statement

	Audited 2016/17	PPA i	PPA ii	PPA iii	PPA iv	PPA v	PPA vi	Total changes	Restated 2016/17
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Schools	10.9	0	(17.9)	0	0	71.2	(2.9)	50.4	61.3
Chief executive services	39.7	(0.2)	0	0	0	0	0	(0.2)	39.5
Commissioning	20.9	(20.9)	0	0	0	0	0	(20.9)	0
Development and corporate services	68.5	(68.5)	0	0	0	0	0	(68.5)	0
Community services	249.4	(7.7)	0	0	0	0	0	(7.7)	241.7
Adult services	354.8	4.4	0	11.5	0	0	0	15.9	370.7
Education and children's services	216.2	0.6	0	0	0	(71.2)	(3.5)	(74.1)	142.1
Public health and wellbeing	24.2	(0.1)	0	0	0	0	0	(0.1)	24.1
Programmes and projects	0	31.2	0	0	0	0	0	31.2	31.2
Economic development and planning	0	(2.8)	0	0	0	0	0	(2.8)	(2.8)
Finance, corporate and property services	0	64.0	0	0	(7.3)	0	(0.2)	56.5	56.5
Change in cost of services	**984.6**	**0**	**(17.9)**	**11.5**	**(7.3)**	**0**	**(6.6)**	**(20.3)**	**964.3**
Other operating income and expenditure	7.5	0	0	0	4.1	0	0	4.1	11.6
Financing and investment income and expenditure	39.3	0	0	0	0	0	0	0	39.3
Taxation and non-specific grant income	(870.7)	0	0	0	24.1	0	0	24.1	(846.6)
Change in (surplus)/deficit on provision of services	**160.7**	**0**	**(17.9)**	**11.5**	**20.9**	**0**	**(6.6)**	**7.9**	**168.6**
(Surplus)/deficit on revaluation of non-current assets	(39.7)	0	0	0	0	0	(1.7)	(1.7)	(41.4)
Re-measurement of the net defined benefit pension liability/(asset)	243.2	0	0	0	0	0	0	0	243.2
(Surplus)/deficit on revaluation of available for sale assets	(1.1)	**0**	0	0	0	0	0.1	0.1	(1.0)
Change in other comprehensive income and expenditure	**202.4**	**0**	**0**	**0**	**0**	**0**	**(1.6)**	**(1.6)**	**200.8**
Change in total comprehensive income and expenditure	**363.1**	**0**	**(17.9)**	**11.5**	**20.9**	**0**	**(8.2)**	**6.3**	**369.4**

Adjustments to the movement in reserves statement

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	**(400.7)**	**(17.7)**	**(64.6)**	**(483.0)**	**(649.0)**	**(1,132.0)**
Prior year adjustment	1.6	14.2	13.1	28.9	10.2	39.1
Restated balance at 1 April 2016	**(399.1)**	**(3.5)**	**(51.5)**	**(454.1)**	**(638.8)**	**(1,092.9)**
Movement in reserves during 2016/17						
Total comprehensive income and expenditure	160.7	0	0	160.7	202.4	363.1
Adjustment between accounting basis and funding basis under regulations (Note 14)	(103.2)	(5.1)	(8.6)	(116.9)	116.9	0
(Increase)/decrease in year	**57.5**	**(5.1)**	**(8.6)**	**43.8**	**319.3**	**363.1**
Changes to total comprehensive income and expenditure	7.9	0	0	7.9	(1.6)	6.3
Changes to adjustment between accounting basis and funding basis under regulations (Note 14)	(7.6)	4.1	10.2	6.7	(6.7)	0
Restated movement in reserves during 2016/17						
Total comprehensive income and expenditure	168.6	0	0	168.6	200.8	369.4
Adjustment between accounting basis and funding basis under regulations (Note 14)	(110.8)	(1.0)	1.6	(110.2)	110.2	0
(Increase)/decrease in year	**57.8**	**(1.0)**	**1.6**	**58.4**	**311.0**	**369.4**
Balance at 31 March 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**

Adjustments to the balance sheet

	Audited 2016/17	PPA ii	PPA iii	PPA iv	PPA vi	Total changes	Restated 2016/17
	£m	£m	£m	£m	£m	£m	£m
Property, plant and equipment	2,662.3	19.3	(11.5)	(18.8)	9.0	(2.0)	2,660.3
Short term debtors	115.1	0	0	(4.8)	0	(4.8)	110.3
Cash and cash equivalents	177.6	0	0	(49.5)	0	(49.5)	128.1
Short term creditors	(195.9)	0	0	10.9	0	10.9	(185.0)
Change in net assets	**2,759.1**	**19.3**	**(11.5)**	**(62.2)**	**9.0**	**(45.4)**	**2,713.7**
Usable reserves	(439.2)	0	0	43.5	0	43.5	(395.7)
Unusable reserves	(329.7)	(19.3)	11.5	18.7	(9.0)	1.9	(327.8)
Change in reserves	**(768.9)**	**(19.3)**	**11.5**	**62.2**	**(9.0)**	**45.4**	**(723.5)**

Adjustments to the cash flow statement

	Audited 2016/17	Adjustments	Restated 2016/17
	£m	£m	£m
Net surplus/(deficit) on the provision of services	(160.7)	(7.9)	(168.6)
Adjustments to net surplus/deficit on the provision of services for non-cash movements	265.1	(31.5)	233.6
Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	(165.6)	28.2	(137.4)
Net cash flows from operating activities	**(61.2)**	**(11.2)**	**(72.4)**
Investing activities	140.5	(10.7)	129.8
Financing activities	53.6	0.4	54.0
Net increase/(decrease) in cash or cash equivalents	**132.9**	**(21.5)**	**111.4**
Cash and cash equivalents at the beginning of the reporting period	44.7	(28.0)	16.7
Cash and cash equivalents at the end of the reporting period	**177.6**	**(49.5)**	**128.1**

The following explanatory notes to the accounts have been restated as a result of the prior period adjustments:

Note 5 - Expenditure and funding analysis
Note 6 - Other operating income and expenditure
Note 8 - Taxation and non-specific grant income
Note 14 - Adjustments between accounting basis and funding basis under regulations
Note 15 - Transfers to and from earmarked reserves
Note 16 - Capital expenditure and capital financing
Note 18 - Property, plant and equipment
Note 19 - School assets
Note 22 - Short term debtors
Note 23 - Cash and cash equivalents
Note 24 - Short term creditors
Note 26 - Financial instruments

Note 29 - Reserves
Note 30 - Cash flows from operating activities
Note 31 - Cash flows from investing activities
Financial instrument disclosure notes

The prior period adjustments are also reflected in the group accounts as follows:

Group comprehensive income and expenditure statement
Group balance sheet
Group movement in reserves statement
Group cash flow statement
Note 7 - Group transfers to and from earmarked reserves
Note 10 - Group reserves
Note 11 - Group cash flows from operating activities
Note 12 - Group cash flows from investing activities
Note 13 - Group cash flows from financing activities

Note 5 - Expenditure and funding analysis

The expenditure and funding analysis reconciles the cost of providing services in line with proper accounting practices included in the comprehensive income and expenditure statement with the statutorily defined amounts chargeable to council tax payers as shown in the movement in reserves statement.

Proper accounting practices measure the resources that have been generated and consumed in the year, including the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the Council's expenditure needs to be met from council tax each year.

Expenditure and funding analysis - 2017/18

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools	7.7	0	7.7	18.3	26.0
Chief executive services	(13.0)	33.4	20.4	3.7	24.1
Community services	125.7	(1.3)	124.4	19.9	144.3
Adult services	326.2	(0.5)	325.7	26.2	351.9
Education and children's services	151.9	0.7	152.6	10.9	163.5
Public health and wellbeing	15.8	0.9	16.7	5.5	22.2
Programmes and projects	5.5	2.1	7.6	28.8	36.4
Economic development and planning	1.5	1.2	2.7	15.1	17.8
Finance, corporate and property services	77.1	(11.6)	65.5	5.9	71.4
Net cost of services	**698.4**	**24.9**	**723.3**	**134.3**	**857.6**
Other income and expenditure	(724.8)	25.4	(699.4)	(82.9)	(782.3)
(Surplus)/deficit	**(26.4)**	**50.3**	**23.9**	**51.4**	**75.3**
Opening general fund balance at 1 April			**(341.3)**		
(Surplus)/deficit			23.9		
Closing general fund balance at 31 March			**(317.4)**		

Notes supporting the comprehensive income and expenditure statement

Expenditure and funding analysis - 2016/17 restated

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools ◦	6.9	0	6.9	54.4	61.3
Chief executive ◦	0.8	26.0	26.8	12.7	39.5
Community services	130.7	21.2	151.9	89.8	241.7
Adult services	323.1	30.7	353.8	16.9	370.7
Education and children's services ◦	133.0	4.6	137.6	4.5	142.1
Public health and wellbeing	24.6	(1.3)	23.3	0.8	24.1
Programmes and projects	6.4	0.4	6.8	24.4	31.2
Economic development and planning	2.0	1.6	3.6	(6.4)	(2.8)
Finance, corporate and property services	69.3	(22.9)	46.4	10.1	56.5
Net cost of services ◦	**696.8**	**60.3**	**757.1**	**207.2**	**964.3**
Other income and expenditure ◦	(713.0)	13.7	(699.3)	(96.4)	(795.7)
(Surplus)/deficit ◦	**(16.2)**	**74.0**	**57.8**	**110.8**	**168.6**
Opening general fund balance at 1 April ◦			**(399.1)**		
(Surplus)/deficit ◦			57.8		
Closing general fund balance at 31 March ◦			**(341.3)**		

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

2016/17 restated				2017/18		
Adjustments relating to other income and expenditure	**Adjustments relating to transfers to and from reserves**	**Total adjustments**		**Adjustments relating to other income and expenditure**	**Adjustments relating to transfers to and from reserves**	**Total Adjustments**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
0	0	0	Schools ◦	0	0	0
28.2	(2.2)	26.0	Chief executive services	1.2	32.2	33.4
(0.6)	21.8	21.2	Community services ◦	(0.7)	(0.6)	(1.3)
0	30.7	30.7	Adult services ◦	0	(0.5)	(0.5)
0	4.6	4.6	Education and children's services	0	0.7	0.7
0	(1.3)	(1.3)	Public health and wellbeing	0	0.9	0.9
0	0.4	0.4	Programmes and projects ◦	0	2.1	2.1
(0.4)	2.0	1.6	Economic development and planning ◦	(0.4)	1.6	1.2
(15.7)	(7.2)	(22.9)	Finance, corporate and property services ◦	(15.4)	3.8	(11.6)
11.5	**48.8**	**60.3**	**Net cost of services ◦**	**(15.3)**	**40.2**	**24.9**
(11.5)	25.2	13.7	Other income and expenditure	15.3	10.1	25.4
0	**74.0**	**74.0**	**(Surplus)/deficit ◦**	**0**	**50.3**	**50.3**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Notes supporting the comprehensive income and expenditure statement

Notes to the expenditure and funding analysis

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

Adjustments for capital purposes

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

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also any change in the fair value of assets held for sale is reflected in this note.

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

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

Net change for the pensions adjustments

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

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

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

Other differences

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

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

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

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

Adjustments between the funding and accounting basis - 2017/18

	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total Adjustments
	£m	£m	£m	£m
Schools	18.3	0	0	18.3
Chief executive services	0	3.7	0	3.7
Community services	9.7	10.1	0.1	19.9
Adult services	11.1	15.2	(0.1)	26.2
Education and children's services	2.4	8.6	(0.1)	10.9
Public health and wellbeing	0	5.7	(0.2)	5.5
Programmes and projects	26.4	2.4	0	28.8
Economic development and planning	14.3	0.8	0	15.1
Finance, corporate and property services	3.9	2.0	0	5.9
Net cost of services	**86.1**	**48.5**	**(0.3)**	**134.3**
Other income and expenditure from the expenditure and funding analysis	(110.8)	31.6	(3.7)	(82.9)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(24.7)**	**80.1**	**(4.0)**	**51.4**

Adjustments between the funding and accounting basis - 2016/17 restated

	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total Adjustments
	£m	£m	£m	£m
Schools ◦	50.5	0	3.9	54.4
Chief executive ◦	0	13.1	(0.4)	12.7
Community services ◦	89.8	0.1	(0.1)	89.8
Adult services	16.7	0.1	0.1	16.9
Children's services ◦	13.1	(8.4)	(0.2)	4.5
Public health and wellbeing ◦	(0.1)	0.1	0.8	0.8
Programmes and projects ◦	24.5	0	(0.1)	24.4
Economic development and planning ◦	(6.4)	0	0	(6.4)
Finance, corporate and property services ◦	12.6	(1.8)	(0.7)	10.1
Net cost of services ◦	**200.7**	**3.2**	**3.3**	**207.2**
Other income and expenditure from the expenditure and funding analysis ◦	(122.0)	34.8	(9.2)	(96.4)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services ◦	**78.7**	**38.0**	**(5.9)**	**110.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Expenditure and income analysed by nature

The Council's expenditure and income is analysed as follows:

2016/17 restated £m		2017/18 £m
783.2	Employee expenses (excluding voluntary aided schools)	807.6
225.7	Employee expenses for voluntary aided schools	227.1
1,013.2	Other service expenses ◦	1,062.0
185.9	Depreciation, amortisation and impairment ◦	50.6
35.0	Interest payments	34.0
1.1	Precepts and levies	1.1
34.8	Net pension interest costs	31.6
11.8	Gain or loss on disposal of non-current assets ◦	18.3
2,290.7	**Total expenditure ◦**	**2,232.3**
(243.0)	Fees, charges and other service income ◦	(256.7)
(32.6)	Interest and investment income	(14.4)
(420.9)	Income from council tax precept	(440.9)
(34.3)	Income from business rates precept	(29.7)
(1,391.3)	Government grants and contributions ◦	(1,415.3)
(2,122.1)	**Total income ◦**	**(2,157.0)**
168.6	**(Surplus)/deficit on the provision of services ◦**	**75.3**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 6 - Other operating income and expenditure

2016/17 restated		2017/18
£m		£m
1.1	Levies for flood defences and inshore fisheries and conservation authorities	1.1
3.4	Other operating income/expenditure	0.8
7.1	Net (gains)/losses on the disposal of non-current assets ◦	11.1
11.6	**Total**	**13.0**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 7 - Financing and investment income and expenditure

2016/17		2017/18
£m		£m
18.9	Interest payable and other similar charges	18.6
16.1	Interest payable on PFI unitary payments	15.4
34.8	Net interest of the net defined benefit liability	31.6
(32.6)	Interest receivable and similar income	(14.4)
2.1	Changes in the fair value of investment properties	(0.3)
39.3	**Total**	**50.9**

Note 8 - Taxation and non-specific grant income

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

2016/17 restated		2017/18
£m		£m
(283.3)	Non-ringfenced Government grants	(254.8)
(108.1)	Capital grants and contributions ◦	(120.8)
(391.4)	**Total non-specific grant income ◦**	**(375.6)**
(420.9)	Council tax income	(440.9)
(34.3)	Non-domestic rates income	(29.7)
(846.6)	**Total ◦**	**(846.2)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

Non-ringfenced government grants

2016/17		2017/18
£m		£m
(120.0)	Revenue support grant	(82.7)
(143.4)	Top-up grant (business rates retention scheme)	(152.6)
(14.6)	Education services grant	(5.5)
(5.3)	Other	(14.0)
(283.3)	**Total**	**(254.8)**

Capital grants and contributions

2016/17 restated		2017/18
£m		£m
(36.6)	Department for transport	(46.5)
(31.6)	Department of education	(35.2)
(20.3)	Ministry of housing, communities and local government ◦	(14.0)
(7.6)	Other government grants	(12.6)
(12.0)	Other grants ◦	(12.5)
(108.1)	**Total ◦**	**(120.8)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

2016/17		2017/18
£m		£m
(770.2)	Dedicated schools grant	(787.3)
(45.9)	Pupil premium grant	(45.2)
(62.3)	Other Government grants	(89.2)
(21.9)	PFI grant	(21.9)
(71.9)	Public health grant	(70.2)
(2.2)	Other grants	(0.1)
(25.3)	Other contributions	(25.8)
(999.7)	**Total**	**(1,039.7)**

Note 10 - Dedicated schools grant

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2017/18 before academy recoupment			(889.4)
Academy figure recouped for 2017/18			102.1
Total DSG after academy recoupment for 2017/18			**(787.3)**
Brought forward from 2016/17			(20.7)
Carry forward to 2018/19 agreed in advance			12.7
Agreed initial budgeted distribution for 2017/18	**(38.5)**	**(756.8)**	**(795.3)**
In-year adjustments	0	0.7	0.7
Final budget distribution for 2017/18	**(38.5)**	**(756.1)**	**(794.6)**
Actual central expenditure relating to DSG	24.1		24.1
Actual ISB deployed to schools		756.1	756.1
Carry forward to 2018/19	**(14.4)**	**0**	**(14.4)**

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

The table details how the DSG receivable for 2017/18 has been utilised.

Note 11 - Officers' remuneration

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

The Council implemented a new senior management structure with effect from 3 January 2018. Changes to the individual posts are detailed in the notes.

Officers' remuneration - 2017/18

Post holder	Note	Salary, fees and allowances	Benefits in kind (lease car payments / excess mileage)	Compensation for loss of employment	Total remuneration excluding pension contributions	Pension contribution	Total remuneration including pension contribution
		£	£	£	£	£	£
Interim Chief Executive and Director of Resources (s151) – A Ridgwell	1, 11	48,611	0	0	48,611	0	48,611
Chief Executive – J Turton	2	134,999	0	113,997	248,996	19,780	268,776
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)	3	99,776	5,389	110,430	215,595	14,980	230,575
Executive Director of Adult Services and Health and Wellbeing	4	32,241	1,266	0	33,507	4,868	38,375
Corporate Director Operations and Delivery	5	99,557	3,702	0	103,259	15,033	118,292
Director of Children's Services	6	114,015	0	0	114,015	16,416	130,431
Director of Corporate Services	7	21,814	1,102	0	22,916	3,293	26,209
Director Governance, Finance and Public Services	7	90,691	0	95,924	186,615	13,090	199,705
Director Public Health	8	29,994	0	0	29,994	4,127	34,121
Director Public Health and Wellbeing	8	92,618	0	0	92,618	12,743	105,361
Director of Development and Corporate Services	9	87,344	8,691	48,979	145,014	12,799	157,813
Director of Finance	10	22,766	1,408	0	24,174	3,438	27,612
Director of Financial Resources	11	70,299	4,118	0	74,417	10,615	85,032
Director of Adult Services	12	84,762	4,705	0	89,467	12,799	102,266
Director of Economic Development and Planning	13	23,717	2,753	0	26,470	3,581	30,051
Director of Property Services	14, 15	26,240	2,025	0	28,265	3,955	32,220
Director of Programmes and Project Management	13, 15	24,062	0	0	24,062	3,438	27,500
Director of Community Services	13, 15	25,014	0	0	25,014	3,581	28,595
Director of Education, Schools and Care	16	18,702	1,107	87,371	107,180	2,824	110,004
Head of Service – Communications		64,936	0	0	64,936	9,805	74,741

Notes

Notes supporting the comprehensive income and expenditure statement

1 The Interim Chief Executive and Director of Resources was appointed on 3 January 2018 and performs the statutory roles of the Head of Paid Service and Section 151 Officer.
2 The Chief Executive was the previous statutory Head of Paid Service. This post was disestablished.
3 The Corporate Director of Commissioning and Deputy Chief Executive (Executive Director) post was disestablished with effect from 3 January 2018.
4 The Executive Director of Adult Services and Health and Wellbeing post was created with effect from 3 January 2018 and holds the statutory role of Director of Adult Services.
5 The Corporate Director of Operations and Delivery post was disestablished and the post holder was appointed to the new post of Executive Director of Adult Services and Health and Wellbeing with effect from 3 January 2018.
6 The Director of Children's Services was appointed to the new post of the same name from 3 January 2018. This post performed the statutory duties until 5 March 2018, when these were transferred to the post of Interim Executive Director of Education and Children's Services.
7 The Director of Corporate Services is the statutory Monitoring Officer with effect from 3 January 2018. This role was previously undertaken by the Director of Governance, Finance and Public Services. This post was disestablished on 3 January 2018.
8 The Director of Public Health was appointed to the post of the Director of Public Health and Wellbeing with effect from 3 January 2018. Both posts undertook the statutory duties of the Director of Public Health.
9 The post of Director of Development and Corporate Services was disestablished with effect from 3 January 2018.
10 The Director of Financial Resources was appointed to the new post of Director of Finance from 3 January 2018.
11 The statutory role of Section 151 Officer was undertaken by the Director of Financial Resources until 2 January 2018, when the responsibilities transferred to the Interim Chief Executive and Director of Resources.
12 The Director of Adult Services held statutory responsibilities until 2 January 2018, when the responsibilities then transferred to the post of Executive Director of Adult Services and Health and Wellbeing.
13 The Director of Economic Development and Planning, the Director of Programmes and Project Management and the Director of Community Services reported directly to the Head of Paid Service.
14 The Director of Property Services reports directly to the Head of Paid Service.
15 The Director of Property Services, the Director of Programmes and Project Management and the Director of Community Services are posts effective from 3 January 2018.
16 The post of Director of Education, Schools and Care was disestablished as part of a senior management restructure of Children's Services and Education, Schools and Skills with effect from 31 May 2017.

Officers' remuneration - 2016/17

Post holder	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		171,745	5,300	177,045	21,640	198,685
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)		127,890	9,217	137,107	16,114	153,221
Corporate Director Operations and Delivery		130,493	4,482	134,975	16,442	151,417
Director Public Health and Wellbeing		113,625	5,300	118,925	16,248	135,173
Director of Development and Corporate Services		108,575	8,309	116,884	13,681	130,565
Director Governance, Finance and Public Services		111,100	5,300	116,400	13,999	130,399
Director of Children's Services	1	13,256	663	13,919	1,670	15,589
Director of Adult Services		108,575	5,766	114,341	13,681	128,022
Director of Education, Schools and Care		108,575	6,613	115,188	13,681	128,869
Head of Service – Communications	2	42,514	0	42,514	5,357	47,871
Interim Head of Service – Communications	3	25,623	0	25,623	3,228	28,851
Director of Financial Resources		89,445	5,188	94,633	11,270	105,903

Notes

1 The Director of Children's Services took up the post on 15 February 2017. The post was undertaken on an interim basis from April 2016 until February 2017 through a part-time secondment from Blackburn with Darwen Borough Council.

2 The Head of Service – Communications ceased employment with the Council on 4 November 2016.

3 The interim Head of Service – Communications took up the post on 7 November 2016.

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

Number of employees

	2017/18				2016/17			
Remuneration Banding £	**LCC non-teaching staff [1]**	**Schools [2]**	**Total**	**Redundancies**	**LCC non-teaching staff [1]**	**Schools [2]**	**Total**	**Redundancies**
50,000 to 54,999	40	330	370	4	71	324	395	21
55,000 to 59,999	37	256	293	4	35	239	274	10
60,000 to 64,999	32	160	192	0	51	155	206	7
65,000 to 69,999	44	80	124	2	34	67	101	8
70,000 to 74,999	4	30	34	2	3	30	33	2
75,000 to 79,999	1	19	20	1	6	16	22	6
80,000 to 84,999	2	18	20	2	1	18	19	0
85,000 to 89,999	2	8	10	1	0	7	7	0
90,000 to 94,999	1	7	8	0	3	6	9	0
95,000 to 99,999	0	5	5	0	4	6	10	1
100,000 to 104,999	2	3	5	1	1	4	5	0
105,000 to 109,999	1	2	3	1	1	2	3	0
110,000 to 114,999	0	1	1	0	0	1	1	0
115,000 to 119,999	0	0	0	0	1	0	1	0
120,000 to 124,999	0	0	0	0	1	0	1	0
140,000 to 144,999	1	0	1	1	0	0	0	0
Total	**167**	**919**	**1,086**	**19**	**212**	**875**	**1,087**	**55**

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

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

Exit packages

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding (£)	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**
0 to 20,000	35	19	367	451	**402**	**470**	**2,490**	**3,703**
20,001 to 40,000	1	1	38	104	**39**	**105**	**1,046**	**2,839**
40,001 to 60,000	2	1	10	27	**12**	**28**	**598**	**1,344**
60,001 to 80,000	0	0	6	16	**6**	**16**	**431**	**1,101**
80,001 to 100,000	0	0	3	19	**3**	**19**	**283**	**1,696**
100,001+	1	0	5	25	**6**	**25**	**1,603**	**3,225**
Total	**39**	**21**	**429**	**642**	**468**	**663**	**6,451**	**13,908**

The table shows the number of exit packages and the total cost to the Council per band.

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

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

During 2017/18, the Council terminated the contracts of a number of employees, incurring liabilities of £6.5 million (2016/17: £13.9 million). Of the £6.5 million, £2.3 million is for enhanced pension benefits and £4.2 million relates to redundancy payments.

Note 12 - Members' allowances

2016/17 £000		2017/18 £000
1,225	Allowances payable to Members	1,236
61	Expenses payable to Members	63
1,286	**Total**	**1,299**

Note 13 - Fees payable to auditors

The Council incurred the following fees relating to external audit.

2016/17 £000		2017/18 £000
113	Fees incurred with regard to external audit services provided by Grant Thornton	113
11	Fees incurred for other audit work undertaken by Grant Thornton	11
124	**Total**	**124**

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

This note details the adjustments made to the comprehensive income and expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. Further information is provided in Note 29 which details the movements on unusable reserves.

Adjustments between accounting basis and funding basis under regulations - 2017/18

	Usable reserves				Unusable reserves
	Earmarked reserves balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(80.1)	0	0	(80.1)	80.1
Financial instruments (transferred to the financial instruments adjustments account)	3.3	0	0	3.3	(3.3)
Council tax and NDR (transferred to or from the collection fund)	0.5	0	0	0.5	(0.5)
Holiday pay (transferred to the accumulated absences reserve)	0.2	0	0	0.2	(0.2)
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):	(69.4)	0	58.6	(10.8)	10.8
Total adjustments to revenue resources	**(145.5)**	**0**	**58.6**	**(86.9)**	**86.9**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	(4.5)	4.5	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	13.2	0	0	13.2	(13.2)
Total adjustments between revenue and capital resources	**8.7**	**4.5**	**0**	**13.2**	**(13.2)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	85.4	0	(85.4)	0	0
Total adjustments to capital resources	**85.4**	**0**	**(85.4)**	**0**	**0**
Total adjustments	**(51.4)**	**4.5**	**(26.8)**	**(73.7)**	**73.7**

Adjustments between accounting basis and funding basis under regulations - 2016/17 restated

	Usable reserves				Unusable reserves
	Earmarked reserves balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(38.0)	0	0	(38.0)	38.0
Financial instruments (transferred to the financial instruments adjustments account)	3.2	0	0	3.2	(3.2)
Council tax and NDR (transferred to or from the collection fund)	6.2	0	0	6.2	(6.2)
Holiday pay (transferred to the accumulated absences reserve)	(3.5)	0	0	(3.5)	3.5
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): ◦	(150.8)	0	43.7	(107.1)	107.1
Total adjustments to revenue resources ◦	**(182.9)**	**0**	**43.7**	**(139.2)**	**139.2**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve ◦	4.6	(4.6)	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	25.4	0	0	25.4	(25.4)
Capital expenditure financed from revenue balances (transferred to the capital adjustment account	0	3.6	0	3.6	(3.6)
Total adjustments between revenue and capital resources ◦	**30.0**	**(1.0)**	**0**	**29.0**	**(29.0)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure ◦	42.1	0	(42.1)	0	0
Total adjustments to capital resources ◦	**42.1**	**0**	**(42.1)**	**0**	**0**
Total adjustments ◦	**(110.8)**	**(1.0)**	**1.6**	**(110.2)**	**110.2**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2016 restated	Transfers out 2016/17	Transfers in 2016/17 restated	Balance at 31 March 2017 restated	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m	£m	£m	£m
General fund	(36.0)	0	0	(36.0)	12.6	0	(23.4)
Reserves held to deliver corporate priorities							
Strategic investment reserve	(11.0)	6.5	0	(4.5)	0.7	0	(3.8)
Reserves held to deliver organisational change							
Downsizing reserve	(64.9)	46.0	0	(18.9)	5.2	(0.2)	(13.9)
Risk management reserve	(15.8)	5.4	(0.1)	(10.5)	5.1	(0.1)	(5.5)
Transitional reserve	(141.8)	63.9	(84.1)	(162.0)	65.1	(58.1)	(155.0)
Reserves held to pay for expenditure commitments							
Election reserve	(1.2)	0	(0.4)	(1.6)	1.1	0	(0.5)
Funding of capital projects	(0.1)	0.1	(0.1)	(0.1)	0.1	0	0
School reserves							
Individual school reserves	(53.7)	16.3	(7.9)	(45.3)	10.5	(9.4)	(44.2)
Other school reserves	(26.1)	1.6	(3.0)	(27.5)	17.4	(10.8)	(20.9)
Reserves held to meet service priorities							
Treasury management reserve	0	0	0	0	0	(10.0)	(10.0)
Directorate reserves ◦	(42.3)	22.2	(8.4)	(28.5)	8.6	(15.2)	(35.1)
Centrally managed schools maintenance reserve	(6.2)	6.2	(6.4)	(6.4)	6.4	(5.1)	(5.1)
Total earmarked revenue and capital reserves ◦	**(399.1)**	**168.2**	**(110.4)**	**(341.3)**	**132.8**	**(108.9)**	**(317.4)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Notes supporting the movement in reserves statement

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 Council as it continues to deliver its agreed savings and develops its strategy to reduce costs over the next two years.

Risk management reserve

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

Transitional reserve

This reserve was created to meet the dual requirements of funding the lead-in time for the savings programme in 2016/17 and 2017/18 as well as providing the resources necessary to cover the funding shortfall in those two years until further budget savings were identified.

Reserves held to pay for expenditure commitments

County Council election reserve

This reserve is used to fund the fees and charges relating to the administration of the County Council elections.

Schools' reserves

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

Reserves held to meet service priorities

These earmarked reserves consist of amounts carried forward for specifically agreed projects within departments.

Note 16 - Capital expenditure and capital financing

31 March 2017 restated		31 March 2018
£m		£m
978.4	**Opening capital financing requirement**	**1,002.1**
	Capital investment	
144.8	Property, plant and equipment ◦	109.0
2.1	Intangible assets	3.6
14.7	Revenue expenditure funded from capital under statute ◦	35.3
161.6	**Total capital investment ◦**	**147.9**
	Sources of finance	
(3.6)	Capital receipts	0
(108.1)	Government grants and other contributions ◦	(94.0)
	Sums set aside from revenue:	
(0.9)	Direct revenue contributions	0
(5.3)	Write down of PFI liability	(5.0)
(20.0)	Minimum revenue provision (MRP) for debt repayment	(8.1)
1,002.1	**Closing capital financing requirement**	**1,042.9**
	Explanation of movement in year	
(8.9)	Increase in underlying need to borrow (supported by Government financial assistance)	22.1
37.9	Increase in underlying need to borrow (unsupported by Government financial assistance)	23.7
(5.3)	Write down of PFI liability	(5.0)
23.7	**Total movement**	**40.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

Note 17 - Capital contractual commitments

At 31 March 2018 the Council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2018/19 or future years. (2016/17: £8 million)

Note 18 - Property, plant and equipment

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

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure	Assets under construction	Surplus assets	Total
	£m	£m	£m	£m	£m	£m
Carried at historical cost	**113.9**	**90.2**	**1,053.4**	**3.5**	**1.5**	**1,262.5**
Valued at current value as at:						
31 March 2018	673.1	0	0	0	23.3	**696.4**
31 March 2017	509.3	0	0	0	0.4	**509.7**
31 March 2016	621.5	0	0	0	1.1	**622.6**
31 March 2015	48.8	0	0	0	0	**48.8**
Total cost or valuation	**1,966.6**	**90.2**	**1,053.4**	**3.5**	**26.3**	**3,140.0**

Property, plant and equipment - movements in 2017/18

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2017	**1,828.2**	**89.0**	**991.8**	**0.3**	**15.9**	**2,925.2**	**122.5**
Additions	38.6	5.6	61.5	3.3	0	**109.0**	0
De-recognition – disposals	(12.8)	(4.4)	0	0	(0.9)	**(18.1)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	115.7	0	0	0	3.3	**119.0**	1.0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	2.3	0	0	0	0.9	**3.2**	2.8
Assets reclassified *	(5.4)	0	0.1	(0.1)	7.1	**1.7**	0
At 31 March 2018	**1,966.6**	**90.2**	**1,053.4**	**3.5**	**26.3**	**3,140.0**	**126.3**
Depreciation and impairment							
At 1 April 2017	**(78.4)**	**(58.7)**	**(127.7)**	**0**	**(0.1)**	**(264.9)**	**(1.6)**
Depreciation charge	(26.7)	(6.4)	(14.8)	0	**(1.0)**	**(48.9)**	(1.6)
Depreciation written out to revaluation reserve	6.8	0	0	0	**0**	**6.8**	0.4
Depreciation written out to the surplus/deficit on provision of services	0.6	0	0	0	**0**	**0.6**	0.3
De-recognition	0.2	4.4	0	0	**0**	**4.6**	0
Reclassification	0	0	0	0	**0**	**0**	0
At 31 March 2018	**(97.5)**	**(60.7)**	**(142.5)**	**0**	**(1.1)**	**(301.8)**	**(2.5)**
At 1 April 2017	**1,749.8**	**30.3**	**864.1**	**0.3**	**15.8**	**2,660.3**	**120.9**
At 31 March 2018	**1,869.1**	**29.5**	**910.9**	**3.5**	**25.2**	**2,838.2**	**123.8**

* The £1.7 million balance on assets reclassified relates to assets held for sale.

Property, plant and equipment - movements in 2016/17 restated

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2016 ◦	**1,924.6**	**83.2**	**894.3**	**8.0**	**14.2**	**2,924.3**	**122.7**
Additions ◦	73.0	5.8	102.2	0.4	0.1	**181.5**	0.3
De-recognition – disposals ◦	(8.8)	0	0	0	(1.1)	**(9.9)**	0
De-recognition – other ◦	0	0	(4.8)	(3.3)	0	**(8.1)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	13.7	0	0	0	0.6	**14.3**	(0.2)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services ◦	(165.0)	0	0	0	(3.1)	**(168.1)**	(0.3)
Assets reclassified *◦	(9.3)	0	0.1	(4.8)	5.2	**(8.8)**	0
At 31 March 2017 ◦	**1,828.2**	**89.0**	**991.8**	**0.3**	**15.9**	**2,925.2**	**122.5**
Depreciation and impairment							
At 1 April 2016 ◦	**(89.5)**	**(52.3)**	**(111.2)**	**0**	**(0.1)**	**(253.1)**	**(1.5)**
Depreciation charge ◦	(24.3)	(6.4)	(16.5)	0	(0.1)	**(47.3)**	(1.2)
Depreciation written out to revaluation reserve	25.3	0	0	0	0.1	**25.4**	0
Depreciation written out to the surplus/deficit on provision of services	9.4	0	0	0	0.1	**9.5**	1.1
De-recognition – disposals	0.4	0	0	0	0	**0.4**	0
De-recognition – other ◦	0	0	0	0	0	**0**	0
Reclassification	0.3	0	0	0	(0.1)	**0.2**	0
At 31 March 2017 ◦	**(78.4)**	**(58.7)**	**(127.7)**	**0**	**(0.1)**	**(264.9)**	**(1.6)**
At 1 April 2016 ◦	**1,835.1**	**30.9**	**783.1**	**8.0**	**14.1**	**2,671.2**	**121.2**
At 31 March 2017 ◦	**1,749.8**	**30.3**	**864.1**	**0.3**	**15.8**	**2,660.3**	**120.9**

* The £8.8 million balance on assets reclassified relates to assets held for sale.

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 19 - School assets

Schools included on the Council's balance sheet

31 March 2017 restated			31 March 2018	
Number of schools	Value of land and buildings		Number of schools	Value of land and buildings
	£m			£m
269	716.4	Community schools ◦	265	747.4
11	87.1	Foundation schools ◦	10	82.9
269	521.8	Voluntary aided schools ◦	268	566.8
50	97.5	Voluntary controlled schools	50	100.1
599	**1,422.8**	**Total ◦**	**593**	**1,497.2**
14	120.9	Schools included above subject to PFI contracts ◦	14	123.9

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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.

Note 20 - Heritage assets

	Paintings and furniture	Other museum artefacts	Manuscripts and books	Total
	£m	£m	£m	£m
Cost or valuation				
At 31 March 2018	**3.0**	**11.1**	**14.6**	**28.7**
At 31 March 2017	**3.0**	**11.1**	**14.6**	**28.7**

There have been no additions or disposals during the year and the values remain unchanged from 2016/17.

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

Paintings, furniture and other artefacts

The museum service contains around 140,000 items which cover a variety of artefacts 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.

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

66.2	**Total**

Note 21 - Long term debtors

31 March 2017		31 March 2018
£m		£m
33.9	Transferred Debt [1]	15.1
32.3	Finance Lease Debtor [2]	31.3

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 28).

Note 22 - Short term debtors

31 March 2017 restated		31 March 2018
£m		£m
11.6	Central Government bodies	12.2
22.3	Other local authorities	20.9
16.4	NHS bodies	14.3
0	Public corporations	0.1
17.7	Council tax	18.0
0.8	Non-domestic rates	0.8
41.5	Other entities and individuals ◦	189.4
110.3	**Total ◦**	**255.7**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 23 - Cash and cash equivalents

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

31 March 2017 restated		31 March 2018
£m		£m
0.7	Cash held by the Council	0.6
(20.4)	Bank current accounts ◦	(31.5)
147.8	Short term deposits under 3 months	49.7
128.1	**Total ◦**	**18.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 24 - Short term creditors

31 March 2017 restated		31 March 2018
£m		£m
(20.8)	Central Government bodies	(24.5)
(12.6)	Other local authorities	(17.0)
(6.3)	NHS bodies	(5.7)
(145.3)	Other entities and individuals ◦	(202.9)
(185.0)	**Total ◦**	**(250.1)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 25 – Provisions

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

	Balance at 1 April 2017	Additional provision made in 2017/18	Spending met from the provision in 2017/18	Unused amounts reversed in 2017/18	Balance at 31 March 2018
	£m	£m	£m		£m
Insurance provision	(18.8)	(10.5)	7.0	0	(22.3)
MMI provision	(2.6)	(0.2)	0	0	(2.8)
Other long term provisions	(0.2)	(0.8)	0	0	(1.0)
Total long term provisions	**(21.6)**	**(11.5)**	**7.0**	**0**	**(26.1)**
Business rates appeals	(4.2)	(0.2)	0	0	(4.4)
Early retirement	(0.6)	(0.5)	0.5	0.1	(0.5)
Other short term provisions	(2.2)	(1.2)	0.3	0.9	(2.2)
Total short term provisions	**(7.0)**	**(1.9)**	**0.8**	**1.0**	**(7.1)**
Total provisions	**(28.6)**	**(13.4)**	**7.8**	**1.0**	**(33.2)**

Insurance provision

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

Municipal Mutual Insurance (MMI)

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

Business rates appeals

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

Early retirement provision

This provision is for future voluntary redundancy costs.

Other provisions

All other provisions are individually insignificant.

Note 26 - Financial instruments

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and Government grants do not give rise to financial instruments. The term covers both financial assets such as bank deposits, investments and loans by the Council and amounts receivable and financial liabilities including amounts borrowed by the Council and amounts payable.

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

The disclosures include:

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

Financial assets

31 March 2017 Restated				31 March 2018		
£m				£m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
70.5	0	**70.5**	Loans and receivables	34.8	63.8	**98.6**
200.8	0	**200.8**	Available for sale financial assets	135.6	0	**135.6**
0	171.9	**171.9**	Financial assets at fair value through profit and loss	0	64.7	**64.7**
271.3	**171.9**	**443.2**	**Total investments**	**170.4**	**128.5**	**298.9**
0	128.1	**128.1**	Cash and cash equivalents ◦	0	18.8	**18.8**
32.3	76.2	**108.5**	Debtors #◦	31.3	220.4	**251.7**
303.6	**376.2**	**679.8**	**Total financial assets ◦**	**201.7**	**367.7**	**569.4**
# 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						
33.9	*34.1*	*68.0*		*15.1*	*35.3*	*50.4*

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Financial liabilities

31 March 2017 restated				31 March 2018		
£m				£m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(584.4)	(463.8)	**(1,048.2)**	Financial liabilities at amortised cost	(471.4)	(487.5)	**(958.9)**
0	(141.1)	**(141.1)**	Creditors #◦	0	(210.3)	**(210.3)**
(157.3)	(5.1)	**(162.4)**	Other financial liabilities (PFI) at amortised cost	(151.6)	(5.8)	**(157.4)**
(741.7)	**(610.0)**	**(1,351.7)**	**Total financial liabilities** ◦	**(623.0)**	**(703.6)**	**(1,326.6)**
# 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	*(43.9)*	*(43.9)*		*0*	*(39.8)*	*(39.8)*

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 27 - Private finance initiative (PFI)

Under these PFI contracts (Fleetwood High School and Building Schools for the Future (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.

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 3.65% is made for future inflation within the model.

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

Fleetwood High School

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

Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 4 separate phases under contract with Catalyst Education (Lancashire) Limited. Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

Fleetwood High School

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2018/19	0.4	0.5	1.0	1.9
Payment within 2 to 5 years	1.5	2.4	3.7	7.6
Payment within 6 to 10 years	2.0	4.0	3.0	9.0
Total	**3.9**	**6.9**	**7.7**	**18.5**

Building schools for the future (BSF)

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2018/19	9.8	5.4	14.4	29.6
Payment within 2 to 5 years	47.5	22.9	52.4	122.8
Payment within 6 to 10 years	75.2	38.8	52.8	166.8
Payment within 11 to 15 years	83.6	60.8	39.7	184.1
Payment within 16 to 20 years	24.1	22.6	7.7	54.4
Total	**240.2**	**150.5**	**167.0**	**557.7**

Outstanding PFI liability

31 March 2017		31 March 2018
£m		£m
(167.7)	**Balance outstanding at start of year**	**(162.4)**
5.3	Payments during the year	5.0
(162.4)	**Balance outstanding at year end**	**(157.4)**

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

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

Note 28 - Leases

Council as lessor – finance leases

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

31 March 2017		31 March 2018
£m		£m
1.0	Current	1.0
32.3	Non-current	31.3
17.3	Unearned finance income	16.1
50.6	**Gross investment in the finance lease**	**48.4**

Lancashire County Council has recognised a finance lease debtor in respect of the borrowing raised on behalf of Blackpool 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.

31 March 2017			31 March 2018	
Gross investment	Minimum lease payments		Gross investment	Minimum lease payments
£m	£m		£m	£m
2.2	1.0	Not later than one year	2.2	1.0
9.0	4.2	Later than one year and not later than 5 years	9.0	4.4
39.4	28.1	Later than 5 years	37.2	26.9
50.6	**33.3**	**Total**	**48.4**	**32.3**

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

Note 29 - Reserves

Usable reserves

2016/17 restated £m		2017/18 £m
(36.0)	General fund	(23.4)
(232.4)	Earmarked reserves ◦	(228.9)
(72.8)	School reserves	(65.1)
(0.1)	Capital funding reserve	0
(341.3)	**Total earmarked reserves ◦**	**(317.4)**
(49.9)	Capital grants unapplied reserve ◦	(76.7)
(4.5)	Capital receipts reserve ◦	0
(395.7)	**Total usable reserves ◦**	**(394.1)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Unusable reserves

31 March 2017 restated £m		31 March 2018 £m
7.7	Available for sale financial instruments reserve	(4.1)
41.7	Financial instruments adjustment account	38.4
(754.7)	Revaluation reserve ◦	(857.7)
(970.5)	Capital adjustment account ◦	(995.6)
1,331.1	Pensions reserve	1,210.7
(9.7)	Collection fund adjustment account	(10.4)
26.6	Accumulated absences adjustment account	26.6
(327.8)	**Total ◦**	**(592.1)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Financial instruments adjustment reserve

2016/17 £m		2017/18 £m
45.0	**Balance at 1 April**	**41.7**
(3.3)	Proportion of premiums incurred in previous financial years to be charged against general fund balance	(3.3)
41.7	**Balance at 31 March**	**38.4**

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.

Revaluation reserve

2016/17 restated £m		2017/18 £m
(727.2)	**Balance at 1 April** ◦	**(754.7)**
(128.2)	Upward revaluation of assets ◦	(142.8)
86.8	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	17.0
(41.4)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services** ◦	**(125.8)**
11.6	Difference between fair value depreciation and historical cost depreciation	13.4
2.3	Accumulated gains on assets sold or scrapped	9.4
13.9	**Amount written off to the capital adjustment account**	**22.8**
(754.7)	**Balance at 31 March** ◦	**(857.7)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation or;
- Disposed of and the gains are realised.

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

Capital adjustment account

2016/17 restated £m		2017/18 £m
(1,034.8)	**Balance at 1 April ◦**	**(970.5)**
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
47.3	Charges for depreciation and impairment of non-current assets ◦	48.9
136.9	Revaluation losses on property, plant and equipment including assets held for sale ◦	(2.8)
5.1	Amortisation of intangible assets	5.3
14.7	Revenue expenditure funded from capital under statute ◦	35.3
11.7	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	18.3
(5.3)	Write down of PFI liability	(5.0)
(13.9)	Adjusting amount written out of the revaluation reserve	(22.8)
(838.3)	**Net written out amount of the cost of non-current assets consumed in the year ◦**	**(893.3)**
	Capital financing applied in the year	
(111.4)	Capital grants and contributions credited to the comprehensive income and expenditure statement ◦	(67.1)
1.7	Application of capital grants to capital financing from the capital grants unapplied account ◦	(26.8)
(3.6)	Application of capital receipts to capital financing from the capital receipts reserve	0
(20.0)	Statutory provision for the financing of capital investment charged against the general fund	(8.1)
(0.9)	Capital expenditure charged against the general fund	0
(134.2)	**◦**	**(102.0)**
2.0	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement	(0.3)
(970.5)	**Balance at 31 March ◦**	**(995.6)**

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.

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Pensions reserve

2016/17		2017/18
£m		£m
1,049.9	**Balance at 1 April**	**1,331.1**
243.2	Re-measurement of the net defined benefit liability/(asset)	(200.4)
133.1	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	163.2
(95.1)	Employer's pension contributions and direct payments to pensioners payable in the year	(83.2)
1,331.1	**Balance at 31 March**	**1,210.7**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible.

The debit balance on the pensions reserve, therefore, shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Note 30 - 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 2017		31 March 2018
£m		£m
(35.2)	Interest received	(15.3)
34.5	Interest paid	33.9

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

31 March 2017 restated		31 March 2018
£m		£m
47.3	Depreciation ◦	48.9
135.6	Impairment and downward valuations ◦	(3.4)
5.1	Amortisation of intangible assets	5.3
(1.2)	Increase/(decrease) in provision for bad debts	(6.3)
(1.6)	Increase/(decrease) in creditors ◦	(18.7)
0.1	(Increase)/decrease in debtors ◦	9.7
(0.8)	(Increase)/decrease in inventories	1.2
38.0	Movement in pension liability	1.4
11.7	Carrying amount of non-current assets sold	18.5
(0.6)	Other non-cash items charged to the surplus or deficit on the provision of services ◦	7.2
233.6	**Total ◦**	**63.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

31 March 2017 restated		31 March 2018
£m		£m
(24.7)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(6.6)
(4.6)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	0
(108.1)	Capital grants credited to the surplus on the provision of services ◦	(120.8)
(137.4)	**Total ◦**	**(127.4)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 31 - Cash flows from investing activities

31 March 2017 restated		31 March 2018
£m		£m
(143.8)	Purchase of property, plant and equipment, investment property and intangible assets ◦	(113.4)
(8,408.3)	Purchase of short term and long term investments	(6,237.9)
(17.5)	Other payments for investing activities	0
8.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	2.8
8,580.5	Proceeds from the sale of short term and long term investments	6,332.5
110.8	Other capital grants and receipts from investing activities ◦	140.6
129.8	**Net cash flows from investing activities ◦**	**124.6**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 32 - Cash flows from financing activities

31 March 2017		31 March 2018
£m		£m
1,059.0	Cash receipts from short term and long term borrowing	1,029.3
(6.2)	Appropriate to/from Collection Fund Adjustment Account	(0.5)
(993.5)	Repayment of short term and long term borrowing	(1,118.8)
(5.3)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(5.0)
54.0	**Net cash flows from financing activities**	**(95.0)**

Note 33 - Related party transactions

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

Central government

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

Other public bodies (subject to common control by Central Government)

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

The Council is the host to pooled budget arrangements with several Clinical Commissioning Groups, for the Better Care Fund and for Learning Disabilities. Transactions and balances for both funds are detailed in Note 34.

Lancashire County Pension Fund

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

The Council incurred costs of £0.6 million in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of the members of the Pension Fund and contributed £73.3 million to the fund in 2017/18.

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

The Council's Chief Executive and Director of Resources is responsible for the preparation and sign off of the Lancashire County Pension Fund accounts. For this service, the pension fund is recharged an element (c2%) of the Chief Executive Director of Resources' salary.

Members

Members of the Council have direct control over the Council's financial and operating policies. Members are also appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. The total of Members' allowances paid in 2017/18 is shown in Note 12. Details of Members' interests are recorded in a formal Register of Interest, which is open to public inspection. This table contains material transactions (from the perspective of either the Council or the organisation) during 2017/18 for services to organisations in which Members have declared interests. These are listed along with any respective outstanding year end balances.

	Income received £	Payments made £	Balance owed at 31 March 2018 £
Anderton Centre – LOAI LTD	(2,979)	16,370	(2,336)
Astley and Bucksaw Juniors Football Club	0	1,180	0
Ribble Valley Citizens Advice Bureau	(12,647)	0	0

Chief Officers

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

The payments shown in the table were made for services to organisations in which chief officers have declared interests.

	Income received £	Payments made £	Balance owed at 31 March 2018 £
Preston's College	(22,602)	476,531	(15,172)

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.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity. Where the value of the interest is considered to be immaterial, the company is not consolidated in the group accounts. The transactions of Lancashire County Developments Limited are included within the Council's group accounts.

Transactions between the other remaining companies are shown in the following tables.

Company	Interest	Relationship	
Global Renewables Lancashire Operations Limited	87.5%	Subsidiary	
Marketing Lancashire Limited	100%	Subsidiary	
Local Pensions Partnership Limited	50%	Joint venture	
Lancashire Sport Partnership Limited (Active Lancashire Limited)	100%	Subsidiary	
Lancashire Partnership Against Crime Limited	25%	Associate	No transactions
Lancashire Environmental Fund Limited	25%	Associate	No transactions
Lancashire Enterprise Partnership Limited	100%	Subsidiary	Dormant company
Lancashire Workforce Development Partnership Limited	100%	Subsidiary	Company in liquidation

Global Renewables Lancashire Operations Limited

The two strategic waste management facilities at Leyland and Thornton, were transferred to the Council in 2014. The operating company Global Renewables Lancashire Operations Limited was acquired with Lancashire County Council having an 87.5% shareholding in the company and the remaining 12.5% owned by - Blackpool Council.

2016/17		2017/18
£m		£m
(0.1)	Income received during the year from Global Renewables	(0.4)
26.1	Payments made during the year to Global Renewables	23.3
0.1	Amounts owed at the year end from Global Renewables	0.2
(1.2)	Amounts owed at the year end to Global Renewables	(1.0)

Marketing Lancashire Limited

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

2016/17 £m		2017/18 £m
0.6	Payments made during the year to Marketing Lancashire Limited	1.0
0	Amounts owed at the year end to Marketing Lancashire Limited	(0.5)

Local Pensions Partnership Limited (LPP)

In 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.

LPP operates the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies. In the case of the Lancashire County Pension Fund, the Pension Fund Committee.

2016/17 £m		2017/18 £m
(0.7)	Income received during the year from Local Pensions Partnership	(0.9)
0.1	Payments made during the year to Local Pensions Partnership	0.2
0.2	Amounts owed at the year end from Local Pensions Partnership	0.3
17.5*	Loan to Local Pensions Partnership	17.5

* 2016/17 figures restated to include loan to Local Pensions Partnership

Lancashire Sport Partnership Limited

Lancashire Sport Partnership changed its name to Active Lancashire Limited on 10 February 2018 and is a county sport partnership and charity operating in the Lancashire and South Cumbria public health regions.

2016/17 £m		2017/18 £m
0	Payments made during the year to Lancashire Sport Partnership Limited	0.2

Penna PLC

Penna PLC is a recruitment consultancy company, which during the course of 2017/18 has provided recruitment and key management personnel services to Lancashire County Council.

2016/17		2017/18
£m		£m
0	Payments made during the year to Penna PLC	0.1

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(113.8)	Lancashire County Council	(113.7)
(1.4)	NHS Morecambe Bay 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)
(0.4)	Other	(0.4)
(123.5)	**Total**	**(123.4)**
	Expenditure met from the pooled budget	
130.9	Lancashire County Council	136.6
1.8	NHS Morecambe Bay CCG	1.9
1.8	NHS Fylde and Wyre CCG	1.9
0.2	NHS Blackpool CCG	0.3
0.1	NHS Greater Preston CCG	0.1
2.6	NHS Chorley and South Ribble CCG	2.7
1.4	NHS Greater Preston – central pool	1.5
1.4	NHS West Lancashire CCG	1.4
1.5	NHS East Lancashire CCG	1.5
141.7	**Total**	**147.9**
18.2	**Net (surplus)/deficit arising on the pooled budget during the year**	**24.5**
16.7	**Council share of the net (surplus)/deficit**	**22.5**

Note 34 - 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 is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

Better care fund

2016/17		2017/18
£m		£m
	Funding provided to the pooled budget	
(11.5)	Lancashire County Council (Disabled facilities grant)	(12.6)
(26.1)	NHS East Lancashire CCG	(26.5)
(13.4)	NHS Greater Preston CCG	(13.7)
(11.6)	NHS Chorley and South Ribble CCG	(11.8)
(10.9)	NHS Fylde and Wyre CCG	(11.1)
(10.5)	NHS Morecambe Bay CCG	(10.7)
(7.4)	NHS West Lancashire CCG	(7.5)
(91.4)	**Total**	**(93.9)**
	Expenditure met from the pooled budget	
25.3	Lancashire County Council (Social care)	25.8
17.8	NHS East Lancashire CCG	18.2
9.2	NHS Greater Preston CCG	9.3
8.2	NHS Chorley and South Ribble CCG	8.3
7.2	NHS Fylde and Wyre CCG	7.3
7.2	NHS Morecambe Bay CCG	7.3
5.0	NHS West Lancashire CCG	5.1
11.5	Lancashire County Council (Disabled facilities grant)	12.6
91.4	**Total**	**93.9**
0	**Net surplus/(deficit) arising on the pooled budget during the year**	**0**

Highlighted as a key element of public service reform, the better care fund (BCF) has a primary aim to drive closer integration and improve outcomes for patients 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.

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

Note 35 – Agency services

Lancashire Local Enterprise Partnership

The Council acts as accountable body for the Lancashire Local Enterprise Partnership (LEP) and processes transactions through its financial ledger using the Council's procedures and processes as set out in the LEP assurance framework.

The LEP is a collaboration of leaders from local businesses, universities and local councils, who direct economic growth and drive job creation.

The Council has no entitlement to retain any funds or interest generated from funds or to direct the use of these funds.

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

Income

2016/17		2017/18
£m		£m
(53.4)	Growth deal	(44.7)
(35.8)	City deal *	(26.1)
(3.8)	Growing places investment fund	0
(0.8)	LEP core activity funding	(0.8)
(0.3)	Growth hub	(0.3)
(94.1)	**Total income**	**(71.9)**

* The City deal total includes contributions of £11 million from Lancashire County Council in 2017/18. (2016/17: £4.4 million)

Expenditure

2016/17		2017/18
£m		£m
53.4	Growth deal	44.7
29.7	City deal	35.0
0.9	LEP core activity funding	0.4
0.7	Growth hub	0.3
0.3	Growing places investment fund	1.4
85.0	**Total expenditure**	**81.8**

In 2017/18 expenditure totalling £28.7 million was spent on LCC schemes. (2016/17: £24.6 million)

Reserves

2016/17		2017/18
£m		£m
(29.2)	**Balance at 1 April**	**(38.3)**
(94.1)	Income	(71.9)
85.0	Expenditure	81.8
(38.3)	**Balance at 31 March**	**(28.4)**

Note 36 – Material items of income and expense

In April 2017 the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its future service and deficit recovery payments for the three years 2017/18 to 2019/20. The value of the payment totalled £118 million and resulted in a saving to the Council of £7.9 million. The amount charged to the comprehensive income and expenditure statement in 2017/18 is £39.3 million.

Note 37 – Events after the reporting period

On 12 July 2018, Cabinet recommended a revised minimum revenue provision (MRP) policy to Full Council for approval.

Technical annex

Income, expense, gains and losses on financial instruments – 2017/18

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

	Financial liabilities at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Interest expense	33.6	0	0	0	33.6
Fee expense	0.4	0	0	0	0.4
Total expense in surplus on the provision of services	**34.0**	**0**	**0**	**0**	**34.0**
Interest income	0	(4.4)	(2.3)	(1.3)	(8.0)
Increases in fair value	0	0	0	0.3	0.3
Gains on de-recognition	0	0	(15.4)	(1.0)	(16.4)
Loss on de-recognition	0	0	9.6	0.1	9.7
Total income in surplus on the provision of services	**0**	**(4.4)**	**(8.1)**	**(1.9)**	**(14.4)**
(Gain)/loss on revaluation	0	0	(11.8)	0	(11.8)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income and expenditure	**0**	**0**	**(11.8)**	**0**	**(11.8)**
Total net (gain)/loss for the year	**34.0**	**(4.4)**	**(19.9)**	**(1.9)**	**7.8**

Income, expense, gains and losses on financial instruments – 2016/17

	Financial liabilities at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Interest expense	34.6	0	0	0	34.6
Fee expense	0.3	0	0	0	0.3
Total expense in surplus on the provision of services	**34.9**	**0**	**0**	**0**	**34.9**
Interest income	0	(4.5)	(1.6)	(1.6)	(7.7)
Increases in fair value	0	0	0	(0.2)	(0.2)
Gains on de-recognition	0	0	(31.8)	(3.6)	(35.4)
Loss on de-recognition	0	0.0	10.5	0.3	10.8
Total income in surplus on the provision of services	**0**	**(4.5)**	**(22.9)**	**(5.1)**	**(32.5)**
(Gain)/loss on revaluation	0	0	(1.0)	0	(1.0)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income and expenditure	**0**	**0**	**(1.0)**	**0**	**(1.0)**
Total net (gain)/loss for the year	**34.9**	**(4.5)**	**(23.9)**	**(5.1)**	**1.4**

Fair value of financial assets and liabilities

The Council discloses the fair value of each class of financial asset and liability so that it can be compared with the carrying amount in the balance sheet.

Accounting standards require the type of information used in fair value calculations (as classified in the hierarchy below) to be disclosed.

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

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, 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 value of financial assets

31 March 2017 restated				31 March 2018	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
		Financial assets held at fair value			
		Available for sale financial assets			
37.8	37.8	Local authority bonds	2	39.2	39.2
163.0	163.0	Bond, equity and property funds	1	96.4	96.4
200.8	**200.8**	**Subtotal**		**135.6**	**135.6**
		Financial assets at fair value through profit and loss			
170.9	170.9	Bond, equity and property funds ◦	1	62.7	62.7
		Financial assets held at amortised cost			
46.9	13.1	Long term bank deposits ◦	2	11.5	12.3
32.3	39.2	Lease receivables	2	31.3	37.2
23.6	29.8	Long term loans to companies ◦	2	23.3	31.9
102.8	**82.1**	**Subtotal ◦**		**66.1**	**81.4**
474.5	**453.8**	**Total ◦**		**264.4**	**279.7**
205.3		Assets for which fair value is not disclosed #◦		305.0	
679.8		**Total financial assets ◦**		**569.4**	
		Recorded on balance sheet as:			
32.3		Long term debtors ◦		31.3	
271.3		Long term investments		170.4	
76.2		Short term debtors ◦		220.4	
171.9		Short term investments		128.5	
128.1		Cash and cash equivalents ◦		18.8	
679.8		**Total financial assets ◦**		**569.4**	

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

Fair value of financial liabilities

31 March 2017				31 March 2018	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
		Financial liabilities held at amortised cost			
338.9	411.2	Long term PWLB loans	2	338.9	400.0
52.1	106.9	Long term LOBO loans	2	52.0	106.9
193.4	198.5	Other long term loans	2	80.5	84.4
162.4	252.3	PFI liabilities	2	157.4	248.7
746.8	**968.9**	**Total**		**628.8**	**840.0**
604.9		Liabilities for which fair value is not disclosed #◦		697.8	
1,351.7		**Total financial liabilities** ◦		**1,326.6**	
		Recorded on balance sheet as:-			
141.1		Short term creditors ◦		210.3	
463.8		Short term borrowings		487.5	
584.4		Long term borrowings		471.4	
162.4		Other long term liabilities		157.4	
1,351.7		**Total financial liabilities** ◦		**1,326.6**	

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date.

This shows a notional future loss (based on economic conditions at the end of the financial year) arising from a commitment to pay interest to lenders above current market rates.

Nature and extent of risks arising from financial instruments

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

The Council's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy.

The strategy also imposes a maximum sum and duration which the Council can invest in an institution. This is dependent upon the quality of credit rating and in 2017/18 the investment portfolio has maintained a very high AA credit rating.

A main principle of the 2017/18 credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating. In addition, one of the bank loans is collateralised (backed by UK government securities), providing further access to government credit quality.

Credit risk

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

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies.

At the end of the year the Council's investments portfolio was placed as follows:

2016/17	Investment portfolio	Fitch rating	2017/18
£m			£m
	Long term investments		
162.4	Core UK gilts	AAA	95.6
37.8	Local authority bonds	AA	39.2
0.6	Core Supra national bonds	AA	0.5
200.8	**Long term investments**		**135.3**
	Long term deposits		
46.5	Other local authorities	AA	11.3
46.5	**Long term deposits**		**11.3**
247.3	**Total**		**146.6**
	Short term investments		
1.0	Local authority bonds	AA+	2.0
170.9	Traded commercial bonds	AAA	62.7
171.9	**Short term investments**		**64.7**
	Short term deposits		
0	Other local authorities	AA	63.5
0	**Short term deposits**		**63.5**
171.9	**Total**		**128.2**

Excludes accrued investment income and long term loans.

The maximum single commercial exposure is to Svenska Handelsbanken at £50 million, which is lower than individual counterparty limit of £100 million for investments. Overall the portfolio is diversified by the use of 31 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 the Council will have insufficient funds in its bank account to make the payments necessary to meet its financial obligations.

The maturity analysis of principal sums borrowed is as follows:

2016/17		2017/18
£m		£m
462.4	Under 1 year	493.9
462.4	**Total short term borrowing**	**493.9**
159.3	Maturing in 1 to 2 years	57.9
249.8	Maturing in 3 to 5 years	194.7
97.6	Maturing in 6 to 10 years	91.2
235.0	Maturing in more than 10 years	269.6
741.7	**Total long term borrowing**	**613.4**
1,204.1	**Total borrowing**	**1,107.3**

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

Market risk

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

The 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:

Borrowing at variable rates	The interest expense charged to the surplus or deficit on the provision of services will rise.
Borrowing at fixed rates	The fair value of the liabilities 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 regularly refinanced as part of the strategy to benefit from low short term interest rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the Council to switch from short term to long term borrowing should the UK enter a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by 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 general 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 market conditions whilst managing interest rate risk. The treasury management team proactively reviews interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

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

The following table attempts to quantify the interest rate risk looking back at the 31 March 2018 position.

	2017/18 £m
Increase in interest payable on variable rate borrowings	4.3
Increase in interest receivable on variable rate investments	(1.3)
Decrease in fair value of investments held for trading*	(0.2)
Impact on surplus on the provision of services	**2.8**
Decrease in fair value of fixed rate available for sale investment assets	(5.7)
Impact on other comprehensive income and expenditure	**(2.9)**
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)	(33.2)
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)	(30.9)

* 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 the same 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.

Defined benefit pension schemes

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

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

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

The most recent valuation was carried out at 31 March 2016, and showed a shortfall of assets against liabilities of £0.69 billion, equivalent to a funding level of 90%. The fund's employers are paying additional contributions over a period of 16 years in order to meet this shortfall.

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

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

Governance and risk management

The liability associated with the Council's pension arrangements is material to the Council, as is the 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

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer

responsible for the management of the Fund. The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

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

Risks and investment strategy

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

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. 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 risk is routinely monitored by the fund and its investment advisors in accordance with the risk management strategy.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur financial loss. 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 risk

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

Other risks

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

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. For service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary.

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

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

Schemes for teachers and transferred NHS staff

Governance

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

Funding the liabilities

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

Investment risk

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could

change the funding standards relating to them, which could increase the Council's contributions to them.

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 general fund via the movement in reserves statement.

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

- In 2017/18 £51.4 million was paid to the Department for Education for teachers' pension costs. This represents 16.5% of teachers' pensionable pay (2016/17: £52.9 million and 14.1%).
- In 2017/18 the Council paid £0.2 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14% of pensionable pay (2016/17: £0.3 million and 14%).
- The Council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2017/18 these amounted to £8.6 million, representing 2.6% of pensionable pay (2016/17: £8.7 million and 2.6%).

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 £200.4 million (2016/17: £243.2 million loss) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £292.3 million.

Transactions relating to retirement benefits

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2017/18	2016/17	2017/18	2016/17
	£m	£m	£m	£m
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	128.0	85.2	0	0
(Gain)/loss from settlements and curtailments	1.9	11.3	0	0
Administration expenses	1.9	1.8	0	0
Financing and investment income and expenditure				
Net Interest expense	28.3	30.4	3.3	4.4
Total post-employment benefit charged to the surplus or deficit on the provision of services	**160.1**	**128.7**	**3.3**	**4.4**
Other post-employment benefit charged to the comprehensive income and expenditure statement				
Re-measurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(32.4)	(411.6)	0	0
Experience (gains)/losses on liabilities	0	(103.6)	0	(4.6)
Actuarial (gains)/losses arising on changes in financial assumptions	(165.4)	778.4	(2.7)	14.6
Actuarial (gains)/losses arising on changes in demographic assumptions	0	(26.2)	0	(3.9)
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**(37.7)**	**365.7**	**0.6**	**10.5**
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	160.1	128.7	3.3	4.4
Actual amount charged against the general fund balance for pensions in the year				
Employers' contributions payable to the scheme	**73.0**	**84.6**	**10.2**	**10.5**

Assets and liabilities in relation to retirement benefits

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

2016/17		2017/18
£m		£m
2,456.9	**Opening balance as at 1 April**	**2,944.8**
411.6	Re-measurement (assets)	32.4
85.9	Interest on plan assets	74.1
(1.8)	Admin expenses	(1.9)
(1.6)	Settlements	(1.1)
84.6	Employer contributions	73.0
22.5	Contributions from scheme participants	22.7
(113.3)	Benefits/transfers paid	(110.1)
2,944.8	**Closing balance as at 31 March**	**3,033.9**

Reconciliation of present value of the scheme liabilities

	Funded liabilities: Lancashire County Pension Fund		Unfunded liabilities: Teachers' Pension Scheme	
	2016/17	2017/18	2016/17	2017/18
	£m	£m	£m	£m
Opening balance as at 1 April	**(3,371.7)**	**(4,140.7)**	**(135.1)**	**(135.2)**
Current service cost	(85.2)	(128.0)	0	0
Interest on pension liabilities	(116.4)	(102.4)	(4.4)	(3.3)
Contributions from scheme participants	(22.5)	(22.8)	0	0
Benefits/transfers paid	113.3	110.1	10.4	10.2
Curtailment cost	(14.2)	(3.4)	0	0
- Gain/loss from settlements	4.6	2.8	0	0
Re-measurement gains and (losses):				
- Experience gains/(losses) on liabilities	103.6	0	4.6	0
- Actuarial gains/(losses) arising from changes in financial assumptions	(778.4)	165.4	(14.6)	2.7
- Actuarial gains/(losses) arising from changes in demographic assumptions	26.2	0	3.9	0
Lump sum early payment of contributions	0	78.7	0	0
Closing balance as at 31 March	**(4,140.7)**	**(4,040.3)**	**(135.2)**	**(125.6)**

Local Government Pension Scheme assets comprised:

31 March 2017	Asset category	Quoted in active markets (Y/N)	31 March 2018
£m			£m
30.6	**Cash and cash equivalents**	N	**(12.7)**
	Bonds (by sector):		
48.4	Corporate	Y	56.3
58.4	Government	Y	72.4
106.8	**Sub-total bonds**		**128.7**
	Property (by type):		
80.3	Retail	N	83.4
179.6	Commercial	N	201.9
259.9	**Sub-total property**		**285.3**
	Private equity:		
33.4	UK	N	0
156.4	Overseas	N	220.2
189.8	**Sub-total private equity**		**220.2**
	Other investment funds:		
355.9	Infrastructure	N	384.5
41.6	Property	N	46.1
1,960.2	Miscellaneous	N	1,981.8
2,357.7	**Sub-total other investment funds**		**2,412.4**
2,944.8	**Total assets**		**3,033.9**

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:

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Present value of scheme liabilities					
Local Government Pensions Scheme	(2,858.0)	(3,446.4)	(3,371.7)	(4,140.7)	(4,040.3)
Teachers' Pensions Scheme	(140.1)	(145.4)	(135.1)	(135.2)	(125.6)
Fair value of assets in the Lancashire County Pension Fund	**2,093.0**	**2,353.6**	**2,456.9**	**2,944.8**	**3,033.9**
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(765.0)	(1,092.8)	(914.8)	(1,195.9)	(1,006.4)
Teachers' Pensions Scheme	(140.1)	(145.4)	(135.1)	(135.2)	(125.6)
Total	**(905.1)**	**(1,238.2)**	**(1,049.9)**	**(1,331.1)**	**(1,132.0)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,210.7 million in 2017/18 has a substantial impact on the net worth of the Council as recorded in the balance sheet, resulting in net assets of £986.2 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 2019 are £61.3 million. Expected contributions for the teachers and health workers in the year to 31 March 2019 are £50.9 million and £0.1 million respectively.

The pension liability on the balance sheet is £1,132 million, reflecting a payment in advance of £78.7 million in respect of the contributions and deficit payable for 2018/19 and 2019/20. The pensions reserve balance of £1,211 million represents the valuation provided by the actuary for the pension liability as at 31 March 2018, which does not take account of the payment in advance.

Basis for estimating assets and liabilities

2016/17		2017/18
Mortality assumptions		
Longevity at 65 for current pensioners		
22.6 years	Male	22.7 years
25.2 years	Female	25.4 years
Longevity at 65 for future pensioners		
24.9 years	Male	25.0 years
27.9 years	Female	28.0 years
Financial assumptions		
2.3%	Rate of CPI inflation	2.1%
3.8%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.5%	Rate for discounting scheme liabilities	2.6%

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. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

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

31 March 2017		31 March 2018
%		%
50.6	Equity investments	51.8
3.6	Bonds	4.2
45.8	Other assets	44.0
100.0	Total	

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 categories detailed in the table.

Sensitivity analysis

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption	Decrease in assumption
	£m	£m
Longevity (increase or decrease in 1 year)	81.5	(81.5)
Rate of inflation (increase or decrease by 1%)	727.0	(727.0)
Rate of increase in salaries (increase or decrease by 1%)	103.5	(103.5)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(714.4)	714.4

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.

Significant accounting policies

General principles

Basis of preparation

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end of 31 March 2018. The Accounts and Audit (England) Regulations require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

Events after the reporting period

Events may occur between the balance sheet date and the date the accounts are authorised for issue which might have a bearing upon the financial results of the past year.

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

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

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

Group accounts

The Council carries out its activities through a variety of undertakings, either under ultimate control or in partnership with other organisations. Those considered to be material are included in the group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. An entity could be material but still not consolidated (if all of its business is with the Council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

The Council has a material interest in an external entity and therefore group accounts have been prepared.

Pooled budgets

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

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

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

Prior period adjustments 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.

Accounting policies for income

Accruals of income

The 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 received. In particular:

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- Income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and non-domestic rates income

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

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. Regulations determine the amount of council tax and non-domestic rates that must be included in the Council's general fund, therefore, the difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is charged to the collection fund adjustment account through the movement in reserves statement.

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

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

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

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-ringfenced 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 general fund balance in the movement in reserves statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Accounting policies for costs

Accruals of expenditure

The expenditure 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. In particular:

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest payable on borrowings is accounted for as expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where expenditure have been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

Charges to revenue for non-current assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- 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. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are, therefore, replaced by the MRP in the earmarked reserves balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement, for the difference between the two.

Depreciation

Depreciation is provided for on property, plant and equipment assets, by the systematic allocation of their depreciable amounts over their useful lives.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Land	Not depreciated
Buildings	Useful life as determined by the valuer
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years depending upon the nature of the asset

Roads and highways infrastructure	10-120 years depending upon the nature of the asset
Community assets	Not depreciated
Assets under construction	Not depreciated
Investment properties	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

Depreciation is charged from the month of acquisition until the month of disposal.

Depreciation is also calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the revaluation reserve to the capital adjustment account.

Employee benefits

Employee benefits payable during employment

Short-term employee benefits including wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits 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. These 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 general 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

The Council recognises the cost of post-employment benefits in the cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, statutory provisions require that

the charge made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement.

There are three pension schemes for Council staff. They are all defined benefit schemes.

Defined benefit scheme - 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.

Pension scheme	Administered by
Teachers' pension scheme	Capita Teachers' pensions on behalf of the Department for Education (DfE)
Local government pension scheme	Lancashire County Council
NHS pension scheme	NHS Business Services Authority on behalf of the Secretary of State for Health

Teachers' pension scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore, the scheme is 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 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. Liabilities are discounted to their value at current prices using a discount rate.

Projected unit method - 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.

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;
- Property – market value.

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

Component	Description	Treatment
Service costs		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

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.

Long term contracts

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

Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

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 five elements:

- Fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement;
- Finance cost – an interest charge 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.

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 as 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.

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.

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 general 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.

Accounting policies for assets and liabilities

Cash and cash equivalents

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

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 three types:

Loans and receivables

Assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.

Loans and receivables are initially measured at fair value and are subsequently carried 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. The amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

Available for sale assets

Assets that have a quoted market price and include, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.

Available for sale assets are initially recognised 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.

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. 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.

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

Assets which are held primarily for trading or have a recent history of being traded.

Fair value through profit and loss assets are initially recognised on the balance sheet and subsequently measured and carried at fair value.

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.

Impairment of financial assets

If assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service or to 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.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet 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 amount presented in the balance sheet is the outstanding principal repayable plus accrued interest. Interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase/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 general 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.

Property, plant and equipment

Assets that have physical substance and are 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 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.

Componentisation

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.

Measurement

Assets are initially recognised at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the Council will initially be recognised at cost. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase, is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, 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.

Assets are then carried in the balance sheet using the following measurement bases:

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value – highest and best
All other assets	Existing use value

Where there is no market-based evidence of fair value because of the

specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Each year an estimate of the total current 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. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Valuations are undertaken internally by Lancashire County Council's estates service.

The valuations for specialist operational properties are undertaken by external professional valuers.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written

down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

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, is it reclassified as an asset held for sale.

Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of:

- Their carrying amount before they were classified as held for sale. In this case the carrying amount is adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale.
- Their recoverable amount at the date of the decision not to sell.

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 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. Disposal costs are shown in other operating expenditure in the comprehensive income and expenditure statement. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement, also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The 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 received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the capital receipts reserve, and can traditionally only be used for new capital investment or, be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The collection has an indeterminate life and is subject to appropriate

conservation measures, therefore, depreciation is not charged on heritage assets.

The valuation of the Council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which is not considered 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.

The Council has a detailed acquisitions and disposal policy, further information on which can be obtained from the Council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long term purpose and, therefore, there is a strong presumption against disposal. 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 for an item before any consideration of final disposal is made.

Investment property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the balance sheet date. Gains and losses on revaluation are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and charged to the capital adjustment account.

Leases

Leases are classed as finance leases, where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

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.

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 general 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. The reserve is then appropriated back into the general fund in the movement in reserves statement, so that there is no net charge against council tax for the expenditure.

Certain reserves are held for technical accounting purposes in respect of non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council. These reserves are explained in the relevant notes.

Schools

Schools' non-current assets (school buildings and playing fields) are recognised on the balance sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or, where the school or the school governing body own the assets or have had rights to use the assets transferred to them.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the Council's property, plant and equipment as the Council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency.

DSG is allocated to budgets delegated to individual schools and centrally retained Council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Supplementary accounts and explanatory notes

Avenham Park Pavilion, Preston

Introduction

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. These are classified into the categories of subsidiaries, joint ventures and associates.

The CIPFA Code of Practice requires that where an authority has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity. Where an entity is considered to be immaterial, it is not included in the group accounts. Details of the Council's relationships with other entities are detailed in the notes supporting the group accounts.

Group comprehensive income and expenditure statement

2016/17 restated				2017/18		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
969.5	(908.2)	61.3	Schools ◦	947.4	(921.4)	26.0
48.9	(9.4)	39.5	Chief executive services ◦	26.3	(2.2)	24.1
282.2	(40.5)	241.7	Community services	201.6	(57.3)	144.3
494.7	(124.0)	370.7	Adult services	505.6	(153.7)	351.9
154.1	(12.0)	142.1	Education and children's services ◦	176.4	(12.9)	163.5
108.7	(84.6)	24.1	Public health and wellbeing	102.8	(80.6)	22.2
32.7	(1.5)	31.2	Programmes and projects	37.9	(1.5)	36.4
4.8	(7.0)	(2.2)	Economic development and planning	26.9	(9.3)	17.6
114.7	(58.2)	56.5	Finance, corporate and property services	125.0	(53.6)	71.4
2,210.3	**(1,245.4)**	**964.9**	**Cost of services ◦**	**2,149.9**	**(1,292.5)**	**857.4**
12.8	(1.2)	11.6	Other operating income and expenditure ◦	19.5	(6.5)	13.0
69.7	(33.8)	35.9	Financing and investment income and expenditure	65.6	(10.9)	54.7
0	(846.6)	(846.6)	Taxation and non-specific grant income ◦	0	(846.2)	(846.2)
2,292.8	**(2,127.0)**	**165.8**	**(Surplus)/deficit on provision of services ◦**	**2,235.0**	**(2,156.1)**	**78.9**
0.5	0	0.5	Taxation on profit on ordinary activities (Note 6)	0	(0.7)	(0.7)
2,293.3	**(2,127.0)**	**166.3**	**Group (surplus)/deficit ◦**	**2,235.0**	**(2,156.8)**	**78.2**
		(41.4)	(Surplus)/deficit on revaluation of non-current assets ◦			(125.8)
		243.2	Re-measurement of the net defined benefit pension liability/(asset)			(200.4)
		(1.0)	(Surplus)/deficit on revaluation of available for sale assets ◦			(11.8)
		200.8	**Other comprehensive income and expenditure ◦**			**(338.0)**
		367.1	**Total comprehensive income and expenditure ◦**			**(259.8)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Group movement in reserves statement

2017/18

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the Council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**	**(44.6)**	**(768.1)**
Movement in reserves during 2017/18								
Total comprehensive income and expenditure	75.3	0	0	75.3	(338.0)	(262.7)	2.9	(259.8)
Adjustment between accounting basis and funding basis under regulations	(51.4)	4.5	(26.8)	(73.7)	73.7	0	0	0
(Increase)/decrease in year	**23.9**	**4.5**	**(26.8)**	**1.6**	**(264.3)**	**(262.7)**	**2.9**	**(259.8)**
Balance at 31 March 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**	**(41.7)**	**(1,027.9)**

2016/17 restated

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the Council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016 ◦	**(399.1)**	**(3.5)**	**(51.5)**	**(454.1)**	**(638.8)**	**(1,092.9)**	**(42.3)**	**(1,135.2)**
Movement in reserves during 2016/17								
Total comprehensive income and expenditure ◦	168.6	0	0	168.6	200.8	369.4	(2.3)	367.1
Adjustment between accounting basis and funding basis under regulations ◦	(110.8)	(1.0)	1.6	(110.2)	110.2	0	0	0
(Increase)/decrease in year ◦	**57.8**	**(1.0)**	**1.6**	**58.4**	**311.0**	**369.4**	**(2.3)**	**367.1**
Balance at 31 March 2017 ◦	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**	**(44.6)**	**(768.1)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Group balance sheet

31 March 2016 restated £m	31 March 2017 restated £m		Note	31 March 2018 £m
2,671.2	2,660.3	Property, plant and equipment ◦		2,838.2
28.7	28.7	Heritage assets		28.7
45.0	46.2	Investment properties	8	42.3
24.6	21.7	Intangible assets		20.0
443.4	268.9	Long term investments		167.6
68.9	66.2	Long term debtors		46.4
3,281.8	**3,092.0**	**Long term assets ◦**		**3,143.2**
120.6	173.3	Short term investments		130.0
2.8	3.7	Inventories		2.3
108.7	111.6	Short term debtors ◦		256.8
14.1	9.1	Payments in advance		9.1
23.1	128.3	Cash and cash equivalents ◦		18.8
11.3	14.5	Assets held for sale		7.7
280.6	**440.5**	**Current assets ◦**		**424.7**
(399.2)	(458.0)	Short term borrowing		(480.7)
(178.1)	(184.4)	Short term creditors ◦		(249.8)
(14.6)	(10.5)	Receipts in advance		(11.5)
(12.1)	(8.6)	Short term provisions		(8.5)
(4.6)	(5.1)	Other current liabilities		(5.8)
(608.6)	**(666.6)**	**Current liabilities ◦**		**(756.3)**
(19.0)	(21.6)	Long term provisions		(26.1)
(1.6)	(2.0)	Deferred tax liability	9	(1.3)
(584.8)	(585.7)	Long term borrowing		(472.7)
(1,213.2)	(1,488.5)	Other long term liabilities		(1,283.6)
(1,818.6)	**(2,097.8)**	**Long term liabilities**		**(1,783.7)**
1,135.2	**768.1**	**Net assets**		**1,027.9**
(454.1)	(395.7)	Usable reserves ◦	10	(394.1)
(638.8)	(327.8)	Unusable reserves ◦	10	(592.1)
(27.9)	(27.1)	Subsidiary usable reserves	10	(27.0)
(14.4)	(17.5)	Subsidiary unusable reserves	10	(14.7)
(1,135.2)	**(768.1)**	**Total reserves ◦**		**(1,027.9)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Group cash flow statement

2016/17 restated		Note	2017/18
£m			£m
(166.3)	Net surplus/(deficit) on the provision of services ◦		(78.2)
224.6	Adjustments to net surplus/deficit on the provision of services for non-cash movements ◦	11	67.4
(137.6)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities ◦	11	(127.4)
0.5	Taxation paid		(0.7)
(78.8)	**Net cash flows from operating activities ◦**		**(138.9)**
130.3	Investing activities ◦	12	124.8
53.7	Financing activities ◦	13	(95.4)
105.2	**Net increase/(decrease) in cash or cash equivalents ◦**		**(109.5)**
23.1	Cash and cash equivalents at the beginning of the reporting period ◦		128.3
128.3	**Cash and cash equivalents at the end of the reporting period ◦**		**18.8**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 1 - General notes to the financial statements

Where figures in the group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes to the accounts give information on the areas that have materially changed on consolidation of the group entities into the Council's accounts.

Note 2 - Group accounting policies

The accounting policies of the Council's subsidiary company have been aligned with the Council's accounting policies.

The subsidiaries of Lancashire County Developments (Property) Limited and Lancashire County Developments (Investments) Limited are consolidated into the group accounts of Lancashire County Developments Limited.

Lancashire County Developments Limited has been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and Lancashire County Developments Limited. 100% of all balances and transactions are consolidated, with the minority interest recognised as an unusable reserve in the group balance sheet. To avoid overstating the figures within the group financial statements, all inter-group transactions and balances between the Council and Lancashire County Developments Limited have been eliminated.

Lancashire County Developments Limited has the same reporting date as the Council. Year end accounts to 31 March 2018 have been used for consolidation.

Note 3 - Entities not consolidated

Details of the Council's relationships with other entities are outlined below:

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

Company	Interest	Relationship	
Global Renewables Lancashire Operations Limited	87.5%	Subsidiary	Not material
Marketing Lancashire Limited	100%	Subsidiary	Not material
Lancashire Workforce Development Partnership Limited	100%	Subsidiary	Not material
Lancashire Sport Partnership Limited (Active Lancashire)	100%	Subsidiary	Not material
Local Pensions Partnership Limited	50%	Joint venture	Not material
Lancashire Partnership Against Crime Limited	25%	Associate	Not material
Lancashire Environmental Fund Limited	25%	Associate	Not material

Note 4 - Entities consolidated

Lancashire County Developments Limited has been consolidated into the Council's group accounts.

Lancashire County Developments Limited

Company registration number: 01624144

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989.

Lancashire County Developments Limited (LCDL) acts as an economic and employment 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 two members of the company (Blackburn with Darwen Borough Council and Blackpool Council) having 10% of voting rights each. It is classed as a subsidiary of the County Council.

County Councillors have been appointed as directors on the board. The Council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not able to distribute profits as dividends.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited - owns and manages three commercial estates in Lancashire;
- Lancashire County Developments (Investments) Limited - has an investment portfolio of business loans to companies operating in Lancashire within key sectors to enable start up and economic growth.

Note 5 - Group fees payable to auditors

2016/17 £000		2017/18 £000
	Fees in respect of Lancashire County Council	
113	Fees incurred with regard to external audit services provided by Grant Thornton	113
11	Fees incurred for other audit work undertaken by Grant Thornton	11
0	Fees payable in respect of other services provided by Grant Thornton during the year	0
124	**Total fees for Lancashire County Council**	**124**
	Fees in respect of Lancashire County Developments Limited	
31	Fees incurred with regard to external audit services provided by Beever and Struthers	30
9	Fees payable in respect of other services provided by Beever and Struthers during the year	10
40	**Total fees for Lancashire County Developments Limited**	**40**
164	**Total**	**164**

Note 6 - Group taxation

Taxation expenses are only applicable to subsidiary company of Lancashire County Council.

31 March 2017		31 March 2018
£m		£m
0.5	Deferred tax: origination and reversal of timing differences	(0.7)
0.5	**Total deferred tax**	**(0.7)**
0.5	**Taxation on profit on ordinary activities**	**(0.7)**

Factors affecting the tax charge for the year

31 March 2017		31 March 2018
£m		£m
2.8	**Profit on ordinary activities before taxation**	**(3.6)**
0.5	Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	(0.7)
	Effect of:	
0.1	Fixed asset differences	0
(0.7)	Tax on fair value movements	(0.7)
0.6	Capital gains	0.6
(0.2)	Other differences leading to a decrease in the tax charge	0
0.2	Deferred tax not recognised	0.1
0.5	**Tax charge for year**	**(0.7)**

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2016 restated	Transfers out 2016/17	Transfers in 2016/17 restated	Balance at 31 March 2017 restated	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m	£m	£m	£m
Total earmarked reserves of the Council ◦	**(399.1)**	**168.2**	**(110.4)**	**(341.3)**	**132.8**	**(108.9)**	**(317.4)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(19.2)	0.8	0	(18.4)	0.1	0	(18.3)
Total revenue and capital reserves of the subsidiary	**(27.9)**	**0.8**	**0**	**(27.1)**	**0.1**	**0**	**(27.0)**
Total reserves ◦	**(427.0)**	**169.0**	**(110.4)**	**(368.4)**	**132.9**	**(108.9)**	**(344.4)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 8 – Group investment properties

31 March 2017		31 March 2018
£m		£m
(3.5)	Rental Income from investment property	(3.9)
2.1	Direct operating expenses arising from investment property	1.2
(1.4)	**Total**	**(2.7)**

The items of income and expense shown in the table have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

31 March 2017		31 March 2018
£m		£m
45.0	**Balance as at 1 April**	**46.2**
0	Additions	0
0	Reclassifications	(0.4)
(0.4)	Disposals	(0.3)
1.6	Net gains/(losses) from fair value adjustments	(3.2)
46.2	**Balance as at 31 March**	**42.3**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for the repairs, maintenance or enhancement of the properties.

The table summarises the movement in the value of investment properties over the year.

Fair value hierarchy

Details of the Council's investment properties and information about the fair value hierarchy are as follows.

31 March 2017				31 March 2018	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
2.0	2.0	Residential properties	2	1.6	1.6
44.2	44.2	Commercial units	2	40.7	40.7
46.2	**46.2**	**Total**		**42.3**	**42.3**

Significant observable inputs – level 2

The fair value for the investment 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 internally on an existing use basis by RICS qualified surveyors from Lancashire County Council's estates department, in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance – Applications and United Kingdom Valuation Standards contained within the RICS Valuation - Professional Standards 2014, (Red Book).

Note 9 - Deferred taxation

31 March 2017		31 March 2018
£m		£m
1.5	**Balance as at 1 April**	**2.0**
0.5	Charge for the year	(0.7)
2.0	**Balance as at 31 March**	

Taxation expenses are only applicable to subsidiary company of Lancashire County Council. The deferred taxation balance consists of accelerated capital allowances.

Note 10 - Group reserves

The total usable reserves are shown in the table below:

2016/17 restated		2017/18
£m		£m
(36.0)	General fund	(23.4)
(232.4)	Earmarked reserves ◦	(228.9)
(72.8)	School reserves ◦	(65.1)
(0.1)	Capital funding reserve	0
(341.3)	**Total earmarked reserves of the Council ◦**	**(317.4)**
(49.9)	Capital grants unapplied reserve ◦	(76.7)
(4.5)	Usable capital receipts ◦	0
(395.7)	**Total usable reserves of the Council ◦**	**(394.1)**
(27.1)	Usable reserves of the subsidiary	(27.0)
(422.8)	**Total usable reserves of the Group ◦**	**(421.1)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

The table below shows the group's unusable reserves:

31 March 2017 restated £m		31 March 2018 £m
7.7	Available for sale financial instruments reserve	(4.1)
41.7	Financial instruments adjustment account	38.4
(754.7)	Revaluation reserve ◦	(857.7)
(970.5)	Capital adjustment account ◦	(995.6)
1,331.1	Pensions reserve	1,210.7
(9.7)	Collection fund adjustment account	(10.4)
26.6	Accumulated absences adjustment account	26.6
(327.8)	**Total unusable reserves of the Council ◦**	**(592.1)**
(17.5)	Revaluation reserve for subsidiary	(14.7)
(345.3)	**Total unusable reserves of the Group ◦**	**(606.8)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

The revaluation reserve for the subsidiary is detailed below.

31 March 2017 £m		31 March 2018 £m
(14.4)	**Balance as at 1 April**	**(17.5)**
(3.6)	Upward revaluation of assets	3.5
0.5	Deferred taxation	(0.7)
(3.1)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**2.8**
(17.5)	**Balance as at 31 March**	**(14.7)**

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

31 March 2017		31 March 2018
£m		£m
(35.0)	Interest received	(15.0)
34.5	Interest paid	33.9

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

31 March 2017 restated		31 March 2018
£m		£m
47.3	Depreciation ◦	48.9
135.6	Impairment and downward valuations ◦	(3.4)
5.1	Amortisation of intangible assets	5.3
(1.2)	Increase/(decrease) in provision for bad debts	(6.3)
(3.4)	Increase/(decrease) in creditors ◦	(19.0)
0.7	(Increase)/decrease in debtors ◦	10.7
(0.8)	(Increase)/decrease in inventories	1.2
38.0	Movement in pension liability	1.4
11.7	Carrying amount of non-current assets sold	18.5
(8.4)	Other non-cash items charged to the surplus or deficit on the provision of services ◦	10.1
224.6	**Total ◦**	**67.4**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

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

31 March 2017 restated £m		31 March 2018 £m
(24.7)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(6.6)
(4.6)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	0
(108.3)	Capital grants credited to the surplus on the provision of services ◦	(120.8)
(137.6)	**Total ◦**	**(127.4)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 12 - Group cash flows from investing activities

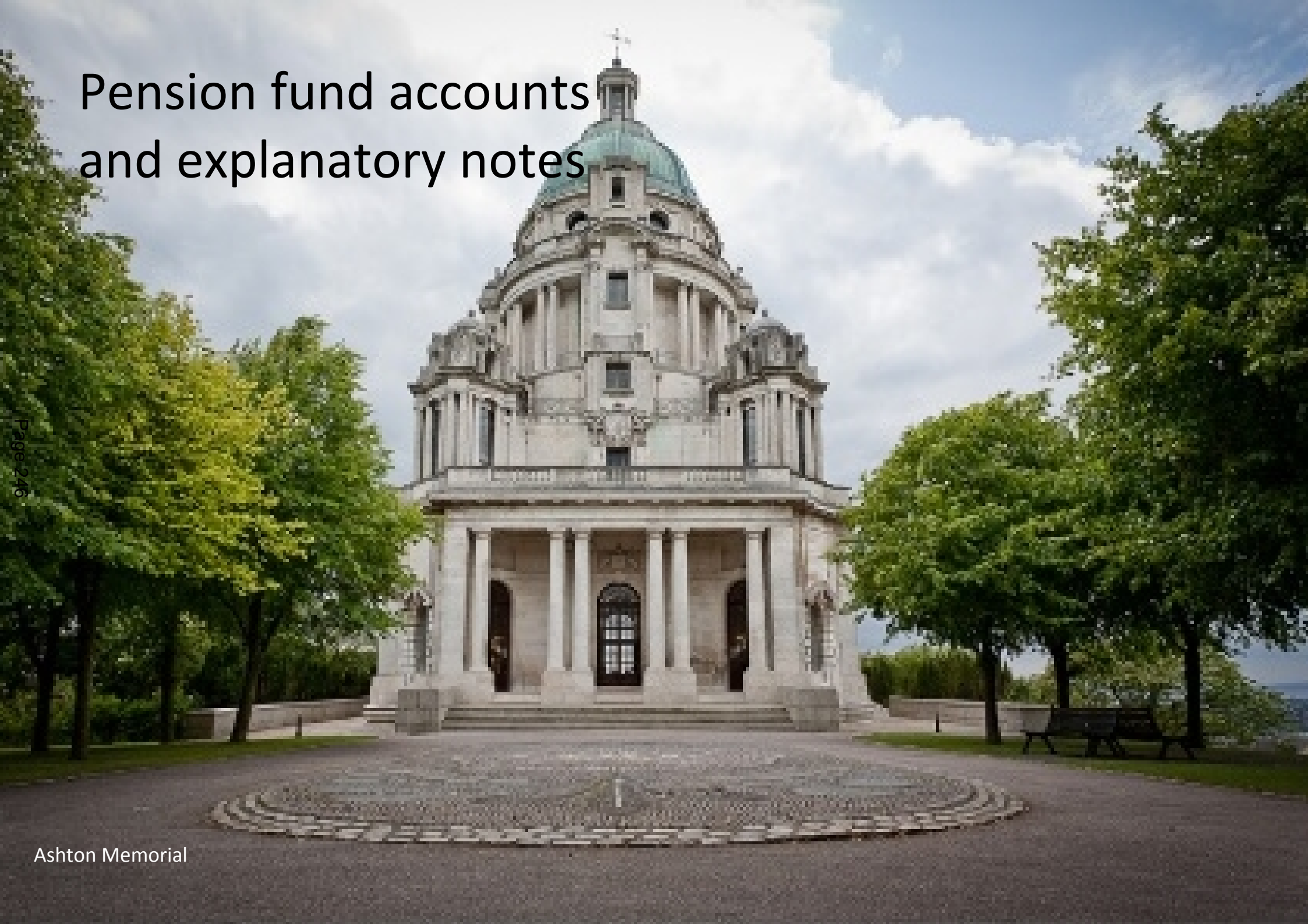
31 March 2017 restated £m		31 March 2018 £m
(143.8)	Purchase of property, plant and equipment, investment property and intangible assets ◦	(113.4)
(8,410.1)	Purchase of short term and long term investments	(6,239.5)
(17.5)	Other payments for investing activities	0
9.8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	4.6
8,581.1	Proceeds from the sale of short term and long term investments	6,332.5
110.8	Other capital grants and receipts from investing activities ◦	140.6
130.3	**Net cash flows from investing activities ◦**	**124.8**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 13 - Group cash flows from financing activities

31 March 2017		31 March 2018
£m		£m
1,058.7	Cash receipts from short term and long term borrowing	1,028.9
(6.2)	Appropriate to/from collection fund adjustment account	(0.5)
(993.5)	Repayment of short term and long term borrowing	(1,118.8)
(5.3)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(5.0)
53.7	**Net cash flows from financing activities**	**(95.4)**

Pension fund accounts and explanatory notes



Ashton Memorial

Lancashire County Pension Fund

Fund account

2016/17 £m		Note	2017/18 £m
	Dealing with members, employers and others directly involved in the Fund		
245.5	Contributions *	6	374.9
10.9	Transfers in from other pension funds	7	11.5
256.4			**386.4**
(261.1)	Benefits	8	(254.8)
(15.7)	Payments to and on account of leavers	9	(17.9)
(276.8)			**(272.7)**
(20.4)	**Net (withdrawals)/return from dealings with members**		**113.7**
(70.4)	Management expenses **	10	(62.4)
(90.8)	**Net (withdrawals)/return including fund management expenses**		**51.3**
	Returns on investments		
109.9	Investment income	11	138.7
1,154.0	Profit and losses on disposal of investments and changes in the market value of investments **	13	221.9
1,263.9	**Net return on investments**		**360.6**
1,173.1	**Net increase in the net assets available for benefits during the year**		**411.9**
6,036.2	**Opening net assets of the scheme**		**7,209.3**
7,209.3	**Closing net assets of the scheme**		**7,621.2**

* Contributions for the year ended 31 March 2018 include employer contributions of £137.0m paid up-front in respect of the years ending 31 March 2019 and 31 March 2020.

** The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

Net assets statement as at 31 March 2018

31 March 2017		Note	31 March 2018
£m			£m
7,135.1	Investment assets	13	7,448.2
56.3	Cash deposits	13	162.0
7,191.4	**Total net investments**		**7,610.2**
30.7	Current assets	19	23.4
(12.8)	Current liabilities	20	(12.4)
7,209.3	**Net assets of the Fund available to fund benefits at the at the period end**		**7,621.2**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 25.

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 2018 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 1 - Pension Fund operations and membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The County Council is the reporting entity for this Pension Fund.

Up-front contributions of £137.0 million were received from employers during the year, relating to the years ending 31 March 2019 and 2020. Contributions in respect of the year ended 31 March 2018 amounted to £237.9 million, and with transfers in of £11.5 million they part funded benefits payable of £272.7 million.

The resulting net cash outflow from transactions with members for the year ended 31 March 2018, together with management expenses is funded from investment income.

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 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (Amendment) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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 geographic county of Lancashire. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at Your Pension Service - Lancashire Fund Information

The investments of the Fund are managed by external investment managers, including the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP manages the administration and investment functions on behalf of the two partner authorities.

Membership

Membership of the LGPS is automatic although employees are free to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 412 employer organisations (2016/17: 413 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 287 have active members (2016/17: 287) as detailed below:

31 March 2017	Lancashire County Pension Fund	31 March 2018
413	Total number of employers	412
287	Number of employers with active members*	287
	Number of active scheme members	
26,416	County Council	27,059
29,499	Other employers	29,817
55,915	**Total**	**56,876**
	Number of pensioners	
23,141	County Council	23,722
23,012	Other employers	23,723
46,153	**Total**	**47,445**
	Number of deferred pensioners	
34,668	County Council	35,477
30,573	Other employers	32,276
65,241	**Total**	**67,753**
167,309	**Total membership**	**172,074**

* includes employers for whom admission to the Fund is in progress

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with

the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 for the three years commencing 1 April 2017.

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

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2017/18* 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 to these accounts.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2018 but not yet adopted by the Code.

The 2018/19 Code will introduce the following amendments in respect of:

IFRS 9 Financial Instruments

IFRS 9 replaces *International Accounting Standard (IAS) 39 - Financial instruments: recognition and measurement*. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change results in more investments being classified as 'fair value through profit and loss' with any gains or losses impacting on the fund account rather than being held until the investment was sold.

No significant impact is expected on the accounts of the Fund as all financial assets, other than cash and debtors, are already classified as fair value through profit and loss with movements in market value recognised in the fund account during the year.

Note 3 - Accounting policies

Fund Account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 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.

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 (Amendment) Regulations 2018.

Individual transfers in/out are accounted for when received/paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

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.

Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend and is included within distributions from pooled funds.

Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue.

Dividend income arising on equities which are now held within pooled funds is included within distributions from pooled funds. It is Fund policy to reinvest dividend income.

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.

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

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.

Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The code does not require any breakdown of pension fund management expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)".*

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the 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.

Oversight and governance costs

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the pension fund committee (i.e.

those charged with governance of the pension fund), local pensions board, or any other oversight body;

- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All 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.

Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers, custody fees and any fees payable to fund managers which are deducted from fund assets. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses.

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers, including the Local Pensions Partnership 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 with a number of managers that an element of their fee be performance related.

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 2017/18, £11.5m of fees is based on such estimates (2016/17: £17.5m).

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

Freehold and leasehold properties

The properties were valued at open market value at 31 March 2018 by independent property valuers Bilfinger GVA 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.

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.

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.

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.

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.

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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 25).

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(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 18).

Note 4 - Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines 2012.

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 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the 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 net assets statement at 31 March 2018 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 £1,538.9 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 be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,364.0m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans 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 loans to Heylo Housing Trust totals £198.3m 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 £113.3m. 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 £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £100m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £200m.

Note 6 - Contributions receivable

2016/17		2017/18
£m	By category	£m
55.5	Members	56.5
	Employers:	
124.5	Normal contributions [1]	221.3
48.5	Deficit recovery contributions [1]	89.9
17.0	Augmentation contributions [2]	7.2
190.0	Total employers contributions	318.4
245.5		**374.9**
	By authority	
109.5	County Council [1]	174.9
114.7	Scheduled bodies [1]	176.5
21.3	Admitted bodies	23.5
245.5		**374.9**

[1] Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and Scheduled Bodies include £137.0m received in advance.
[2] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2017/18, £0.4m is voluntary and additional regular contributions (2016/17: £0.3m).

Note 7 - Transfers in from other pension funds

2016/17		2017/18
£m		£m
10.9	Individual transfers in from other schemes	11.5
10.9		**11.5**

Note 8 - Benefits payable

2016/17		2017/18
£m	**By category**	£m
207.3	Pensions	213.6
48.2	Commutation and lump sum retirement benefits	35.1
5.6	Lump sum death benefits	6.1
261.1		**254.8**
	By authority	
113.3	County Council	107.1
128.6	Scheduled bodies	126.5
19.2	Admitted bodies	21.2
261.1		**254.8**

Note 9 - Payments to and on account of leavers

2016/17		2017/18
£m		£m
0.7	Refunds to members leaving service	0.6
14.4	Individual transfers	17.3
0.6	Group transfers	-
15.7		**17.9**

Note 10 - Management expenses

2016/17 £m		2017/18 £m
3.2	Fund administrative costs	3.8
63.5	Investment management expenses [1]	54.1
3.7	Oversight and governance costs [2]	4.5
70.4		**62.4**

[1] The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

[2] Oversight and governance costs above include external audit fees which amounted to £34,169 (2016/17: £34,169)

Investment management expenses

2016/17 £m		2017/18 £m
1.1	Transaction costs [3]	0.4
42.7	Fund value based management fees [1,3]	41.8
2.0	Cost of global equities transition [2]	0.3
17.5	Performance related fees [3]	11.5
0.2	Custody fees	0.1
63.5		**54.1**

[1] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

[2] Transition costs of £0.3m (2016/17: £2.0m), relate to infrastructure, private equity and credit portfolios transitioned to pooled funds within Local Pensions Partnership Investments Ltd during the year.

[3] The 2016/17 comparatives transaction costs, fund value based management fees and performance related fees have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

Note 11 - Investment income

2016/17 £m		2017/18 £m
1.4	Fixed interest securities	3.3
32.0	Equity dividends [1]	-
1.5	Index linked securities	0.8
43.1	Pooled investment vehicles [2]	103.4
2.2	Pooled property investments [2]	2.2
28.2	Net rents from properties	28.9
0.7	Interest on cash deposits	0.1
0.8	Other [3]	-
109.9	**Total before taxes**	**138.7**

[1] Income from equity dividends is included within income from pooled investment vehicles following the transition of global equities during the year ended 31 March 2017.
[2] £9.0m income from pooled investment vehicles has been reclassified from income from pooled property investments for the year ended 31 March 2017.
[3] Stock lending income of £0.8m was included within investment income in the year ended 31 March 2017. Since the pooling of equities there is no stock lending income attributable to the Fund and any equivalent income is credited to the global equity fund held with LPPI.

Note 12 - Property income

2016/17 £m		2017/18 £m
31.3	Rental income	32.2
(3.1)	Direct operating expenses	(3.3)
28.2	**Net income**	**28.9**

Note 13 - Reconciliation of movements in investments and derivatives

2017/18

	Market value as at 1 April 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value [1]	Market value as at 31 March 2018
	£m	£m	£m	£m	£m
Fixed interest securities	132.2	341.8	(351.3)	(5.9)	116.8
Index linked securities	127.1	1,940.4	(1,889.4)	(0.1)	178.0
Pooled investment vehicles	6,136.7	1,956.1	(1,879.5)	108.2	6,321.5
Pooled property investments	99.4	-	(0.1)	14.0	113.3
Direct property	637.0	43.0	(17.9)	53.4	715.5
	7,132.4	**4,281.3**	**(4,138.2)**	**169.6**	**7,445.1**
Other investment balances:					
Cash deposits	56.3				162.0
Investment accruals	2.7				3.1
Net investment assets	**7,191.4**				**7,610.2**

[1] £221.9m on the face of the Fund account includes the change in market value of investments disclosed above (£169.6m), plus profits and losses on disposals and changes in the market value of derivatives held within the pools.

2016/17

	Market value as at 1 April 2016	Purchases at cost and derivative payments [3]	Sales proceeds and derivative receipts [3]	Change in market value [3]	Market value as at 31 March 2017
	£m	£m	£m	£m	£m
Fixed interest securities	123.1	189.5	(190.5)	10.1	132.2
Equities[1]	2,069.9	1,876.6	(4,358.0)	411.5	-
Index linked securities	63.7	125.1	(66.7)	5.0	127.1
Pooled investment vehicles[2]	2,855.0	3,365.7	(779.1)	695.1	6,136.7
Pooled property investments[2]	80.6	13.4	(0.4)	5.8	99.4
Direct property	608.1	33.6	(15.0)	10.3	637.0
	5,800.4	**5,603.9**	**(5,409.7)**	**1,137.8**	**7,132.4**
Derivative contracts:					
Forward currency contracts asset value	294.5				-
Forward currency contracts liability value	(291.0)				-
Forward currency contracts	**3.5**	**47.7**	**(13.2)**	**(38.0)**	-
Other investment balances:					
Cash deposits	210.3				56.3
Investment accruals	13.1				2.7
Net investment assets	**6,027.3**				**7,191.4**

[1] All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.
[2] The value of pooled property investments was previously included within total pooled investment vehicles.
[3] Change in market value, purchases at cost and derivative payments and sales proceeds and derivative receipts have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Investments analysed by fund manager

31 March 2017			31 March 2018	
£m	%		£m	%
Private equity				
Investments managed by LPPI Private Equity Fund				
-	-	Capital Dynamics	83.5	1.1%
-	-	HGGC	37.1	0.5%
-	-	Genstar Capital	32.1	0.4%
-	-	Permira	30.0	0.4%
-	-	Insight Venture Partners	26.1	0.3%
-	-	Hermes GPE	22.1	0.3%
-	-	Nordic Capital	21.4	0.3%
-	-	BV Investment Partners	17.4	0.2%
-	-	Apax Partners	16.5	0.2%
-	-	Hg Capital	16.1	0.2%
-	-	Thoma Bravo	15.2	0.2%
-	-	CVC Capital Partners	15.1	0.2%
-	-	Waterland	15.1	0.2%
-	-	Mid Europa Partners	14.4	0.2%
-	-	ECI Partners	14.1	0.2%
-	-	Ironbridge Equity Partners	14.1	0.2%
-	-	SL Capital Partners	13.2	0.2%
-	-	Colbeck Capital Management	13.1	0.2%
-	-	Rutland Fund Management	10.8	0.1%
-	-	Advent Life Sciences	10.0	0.1%
-	-	Adveq TMC	10.0	0.1%
-	-	Alpha Group	9.9	0.1%
-	-	CBPE Capital	9.6	0.1%
-	-	Endeavour Vision	7.5	0.1%

-	-	LPP internal managers	7.0	0.1%
-	-	Chequers Capital	6.5	0.1%
-	-	Triton Partners	6.3	0.1%
-	-	NorthEdge Capital	6.3	0.1%
-	-	Littlejohn & Co	6.1	0.1%
-	-	Advent Venture Partners	6.0	0.1%
-	-	Advent International	6.0	0.1%
-	-	Accent	4.4	0.1%
-	-	Charterhouse Capital Partners	3.5	0.1%
-	-	EQT Partners	1.8	-
-	-	Abingworth Management	1.8	-
-	-	Private Equity Partners	0.8	-
-	-	Italian Capital Management	0.1	-
			531.0	**7.0%**
Investments managed outside of LPPI Private Equity Fund				
452.7	6.3%	Capital Dynamics	16.7	0.2%
28.2	0.4%	Standard Life	-	-
480.9	**6.7%**		**16.7**	**0.2%**
Long term credit investments				
Investments managed by LPPI Credit Investments Fund				
-	-	Prima Mortgage Investment Trust LLC	200.4	2.6%
-	-	Pictet	128.1	1.7%
-	-	Bluebay	114.8	1.5%
-	-	Apollo	84.3	1.1%
-	-	LPPI internal managers	79.7	1.0%
-	-	White Oak	73.8	1.0%
-	-	King Street	67.2	0.9%
-	-	Permira	64.5	0.9%
-	-	Venn Commercial Real Estate	61.9	0.8%

-	-	Monarch	51.7	0.7%
-	-	M&G	38.5	0.5%
-	-	MFO King Street	37.2	0.5%
-	-	Kreos	35.7	0.5%
-	-	Blackrock	14.4	0.2%
-	-	Muzinich Private Debt Fund	10.4	0.1%
-	-	Westmill	8.5	0.1%
-	-		**1,071.1**	**14.1%**
Investments managed outside of LPPI Credit Investments Fund				
138.6	1.9%	Heylo Housing Trust	198.3	2.6%
152.5	2.1%	CRC	138.0	1.8%
61.9	0.9%	Neuberger Berman	56.6	0.7%
64.8	0.9%	Pimco Bravo	48.3	0.6%
51.2	0.7%	EQT	31.2	0.4%
52.4	0.7%	Hayfin	18.8	0.3%
256.8	3.6%	Prima	-	-
159.6	2.2%	Pictet	-	-
132.5	1.8%	Bluebay	-	-
128.4	1.8%	MFO King Street	-	-
101.7	1.4%	Investec	-	-
83.7	1.2%	Venn Commercial Real Estate	-	-
76.6	1.1%	Permira Credit Solutions	-	-
71.5	1.0%	HSBC	-	-
68.8	1.0%	White Oak	-	-
67.0	0.9%	Monarch	-	-
33.8	0.5%	Kreos	-	-
17.6	0.2%	Muzinich Private Debt Fund	-	-
10.9	0.2%	Westmill	-	-
1,730.2	**24.1%**		**491.2**	**6.4%**

Liquid credit (cash and bonds)				
Investments managed by LPPI Fixed Income Fund				
-	-	PIMCO	92.0	1.2%
-	-	Wellington	91.8	1.2%
-	-		**183.8**	**2.4%**
Investments managed outside of LPPI Fixed Income Fund				
135.2	1.9%	LPPI internal and LCC Treasury Management	282.0	3.7%
135.2	**1.9%**		**282.0**	**3.7%**
Global equity funds				
Investments managed by LPPI Global Equities Fund				
1,292.5	18.0%	LPPI internal managers	1,306.2	17.2%
474.1	6.6%	Magellan	482.5	6.3%
622.5	8.7%	Robeco	469.0	6.2%
-	-	First Eagle	466.7	6.1%
-	-	Wellington	315.1	4.1%
-	-	Baron	174.9	2.3%
779.1	10.8%	MFS	-	-
3,168.2	**44.1%**		**3,214.4**	**42.2%**
Infrastructure				
Investments managed by LPPI Infrastructure Investments Fund				
-	-	Elisandra Spain	111.4	1.5%
-	-	Guild Investments Limited	95.0	1.2%
-	-	GLIL Infrastructure LLP	84.2	1.1%
-	-	Semperian PPP	79.5	1.0%
-	-	Cape Byron Infrastructure	61.6	0.8%
-	-	Global Infrastructure Partners	47.2	0.6%
-	-	ISquared Global Infrastructure	44.8	0.6%
-	-	LPPI internal managers	35.6	0.5%

-	-	Meridiam Infrastructure	34.2	0.5%
-	-	EQT Infrastructure	32.7	0.4%
-	-	ISQ Viridian	30.8	0.4%
-	-	Capital Dynamics	24.9	0.3%
-	-	Stonepeak Infrastructure	20.7	0.3%
-	-	Glenmont	15.5	0.2%
-	-	Icon Infrastructure Partners	6.3	0.1%
-	-	Stonepeak Claremont	3.0	0.1%
-	**-**		**727.4**	**9.6%**
Investments managed outside of LPPI Infrastructure Investments Fund				
95.7	1.3%	Arclight Energy	104.6	1.4%
69.8	1.0%	Icon Infrastructure Partners	77.1	1.0%
61.5	0.9%	Highstar Capital	49.4	0.7%
60.5	0.8%	Capital Dynamics Red Rose	32.7	0.4%
146.6	2.0%	Madrilena Red de Gas (MRG)	-	-
130.1	1.8%	Guild Investments Ltd	-	-
101.3	1.4%	ISQ Global Infrastructure	-	-
85.7	1.2%	Capital Dynamics Cape Byron	-	-
60.3	0.8%	Global Infrastructure Partners	-	-
42.6	0.6%	GLIL Infrastructure LLP	-	-
31.1	0.4%	Capital Dynamics Clean Energy	-	-
28.9	0.4%	Stonepeak Infrastructure Partners	-	-
26.6	0.4%	EQT Infrastructure	-	-
940.6	**13.1%**		**263.8**	**3.5%**
Property				
637.0	8.9%	Knight Frank	715.5	9.4%
41.0	0.6%	M&G Europe fund	46.0	0.6%
33.4	0.5%	Gatefold Hayes	39.0	0.5%
25.0	0.4%	Kames Target	28.3	0.4%

736.4	**10.2%**		**828.8**	**10.9%**
7,191.4	**100.0%**		**7,610.2**	**100.0%**

Fixed interest securities

31 March 2017		31 March 2018
£m		£m
20.9	UK corporate bonds quoted	32.5
13.6	Overseas public sector	14.2
97.7	Overseas corporate bonds quoted	70.1
132.2		**116.8**

Index linked securities

31 March 2017		31 March 2018
£m		£m
127.1	UK quoted	178.0
127.1		**178.0**

Pooled investment vehicles

31 March 2017		31 March 2018
£m	**UK managed funds:**	£m
71.5	Fixed income funds [1]	183.8
79.5	Private equity	108.2
134.2	Infrastructure [1]	760.1
191.4	Long term credit investments [1]	1,110.3
58.3	Property funds	67.3
	Overseas managed funds:	
1,125.1	Fixed income funds [1]	242.8
401.0	Private equity	439.5
761.8	Infrastructure [1]	231.1
204.1	Long term credit investments [1]	31.2
3,168.2	Equity funds	3,214.4
41.0	Property funds	46.0
6,236.1		

[1] The pooling of infrastructure, long term credit and fixed income funds with LPPI during the year ended 31 March 2018 has resulted in realignment of these pooled investment vehicles from overseas to UK managed funds. Investments previously classified as overseas fixed income funds have also been transitioned into the UK managed LPPI credit pool.

Direct property investments

31 March 2017		31 March 2018
£m		£m
538.8	UK – freehold	601.8
98.2	UK – long leasehold	113.7
637.0		**715.5**

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants.

Details of these directly owned properties are shown in the table.

31 March 2017*		31 March 2018
£m		£m
608.1	**Opening balance**	**637.0**
	Additions:	
14.6	Purchases	18.3
11.9	New construction	15.5
6.7	Subsequent expenditure	9.2
(15.0)	Disposals	(17.9)
10.7	Net increase in market value	53.4
637.0	**Closing balance**	**715.5**

*The movement on property holdings during the year 31 March 2017 has been restated for consistency of classification between categories.

Operating leases

The Fund leases out property under operating leases. The table shows the future minimum lease payments receivable under non-cancellable leases in future years.

2016/17		2017/18
£m		£m
32.3	Leases expiring in the following year	29.9
101.5	Leases expiring in 2 to 5 years	82.8
106.0	Leases expiring after 5 years	128.7
239.8	**Total future minimum lease payments receivable under existing non-cancellable leases**	**241.4**

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.

Cash deposits

31 March 2017		31 March 2018
£m		£m
18.2	Sterling	109.1
38.1	Foreign currency	52.9
56.3		**162.0**

Note 14 - Financial instruments classification

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. Directly held property is excluded from this note.

31 March 2018

	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	116.8		
Index linked securities	178.0		
Pooled investment vehicles	6,321.5		
Pooled property investments	113.3		
Cash deposits		162.0	
Investment accruals	3.1		
Debtors		23.5	
Total financial assets	**6,732.7**	**185.5**	
Financial liabilities			
Creditors			149.4
Total financial liabilities			**149.4**

31 March 2017

	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	132.2		
Equities			
Index linked securities	127.1		
Pooled investment vehicles	6,136.8		
Pooled property investments	99.4		
Cash deposits		56.3	
Investment accruals	2.6		
Debtors		30.7	
Total financial assets	**6,498.1**	**87.0**	
Financial liabilities			
Creditors			12.8
Total financial liabilities			**12.8**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £221.9m (2016/17: £1,154.0m after adjusting for directly owned property).

Note 16 - Financial instruments – fair value hierarchy

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPPI Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. 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.

Fair value hierarchy

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided 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 of the 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 2018

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,399.4	116.9	3,216.4	6,732.7
Non-financial assets at fair value through profit and loss (property holdings)		715.5		715.5
Net investment assets	**3,399.4**	**832.4**	**3,216.4**	**7,448.2**

31 March 2017

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,549.9	158.7	2,789.5	6,498.1
Non-financial assets at fair value through profit and loss (property holdings)		637.0		637.0
Net investment assets	**3,549.9**	**795.7**	**2,789.5**	**7,135.1**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Bilfinger GVA in accordance with RICS valuation standards (9th edition).	Comparable recent market transactions on arms length terms; general changes in property market prices; rental growth; vacant properties.	Not required.
Pooled property investments	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Reconciliation of fair value measurements within level 3

	Financial assets at fair value through profit and loss
	£m
Market value 1 April 2017	**2,789.5**
Purchases during the year and derivative payments	2,613.1
Sales during the year and derivative receipts	(2,288.3)
Transfers out of level 3	(15.0)
Unrealised losses	(202.1)
Realised gains	319.2
Market value 31 March 2018	**3,216.4**

Note 17 - Nature and extent of risks arising from financial instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2017/18 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	7.2%
Total equities	9.6%
Alternatives	7.4%
Total property	3.9%

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 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	132.7	7.2%	142.3	123.1
Total equities	3,762.1	9.6%	4,123.3	3,400.9
Alternatives	2,721.5	7.4%	2,922.9	2,520.1
Total property	828.8	3.9%	861.1	796.5
Total assets available to pay benefits	**7,445.1**		**8,049.6**	**6,840.6**

Asset type	31 March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	1,433.1	6.4%	1,524.8	1,341.4
Total equities	3,649.1	9.6%	3,999.4	3,298.8
Alternatives	1,313.8	6.4%	1,397.9	1,229.8
Total property	736.4	2.4%	746.7	726.1
Total assets available to pay benefits	**7,132.4**		**7,676.2**	**6,588.6**

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 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2017	Asset type	31 March 2018
£m		£m
56.3	Cash and cash equivalents	162.0
56.3	**Total**	**162.0**

Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type		Change in year in net assets available to pay benefits	
	31 March 2018	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	162.0	1.6	(1.6)
Total change in assets available		**1.6**	**(1.6)**

Asset type		Change in year in net assets available to pay benefits	
	31 March 2017	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	56.3	0.6	(0.6)
Total change in assets available		**0.6**	**(0.6)**

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 2018 and as at the previous year end.

31 March 2017	Currency exposure – asset type	31 March 2018
£m		£m
1,071.4	Overseas bonds (including index linked)	84.3
3,569.6	Overseas equities	3,653.8
1,101.9	Overseas alternatives	505.2
41.0	Overseas property	46.0
5,783.9	**Total overseas assets**	**4,289.3**

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 8.5%.

An 8.5% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2016/17 6.1%).

An 8.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type		**Change in year in net assets available to pay benefits**	
	31 March 2018	**+8.5%**	**-8.5%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	84.3	91.5	77.1
Overseas equities	3,653.8	3,964.4	3,343.2
Overseas alternatives	505.2	548.1	462.3
Overseas property	46.0	49.9	42.1
Total assets available to pay benefits	**4,289.3**	**4,653.9**	**3,924.7**

Currency exposure - asset type		**Change in year in net assets available to pay benefits**	
	31 March 2017	**+6.1%**	**-6.1%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	1,071.4	3,787.3	3,351.8
Overseas equities	3,569.6	1,136.7	1,006.0
Overseas alternatives	1,101.9	1,169.1	1,034.6
Overseas property	41.0	43.5	38.5
Total assets available to pay benefits	**5,783.9**	**6,136.6**	**5,431.0**

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 2018 was £162.0m (31 March 2017: £56.3m.) This was held with the following institutions:

31 March 2017	Summary	Rating	31 March 2018
£m			£m
	Bank deposit accounts		
47.9	Northern Trust	A+	154.5
8.4	Svenska Handelsbanken	AA-	7.5
56.3	**Total**		**162.0**

Liquidity risk

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

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

The Fund has financial liabilities of £149.4m at 31 March 2018, of which £68.5m is due after more than one year. This long term liability represents receipts in advance of employer deficit contributions. See note 20 for more detail.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by 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 2017 to 31 March 2018 for Prudential and 1 September 2016 to 31 August 2017 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*

	Equitable Life	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.7**	**24.3**	**25.0**
Income (incl. contributions, bonuses, interest & transfers in)	-	6.6	6.6
Expenditure (incl. benefits, transfers out & change in market value)	-	(3.6)	(3.6)
Value at the end of the year	**0.7**	**27.3**	**28.0**

Note 19 - Current assets

31 March 2017		31 March 2018
£m		£m
14.1	Contributions due – employers	7.7
4.6	Contributions due – members	6.3
12.0	Debtors	9.4
30.7		**23.4**

31 March 2017	Analysis of debtors	31 March 2018
£m		£m
14.6	Other local authorities	8.5
16.1	Other entities and individuals	14.9
30.7		**23.4**

Note 20 – Current liabilities

31 March 2017 £m		31 March 2018 £m
5.7	Unpaid benefits	1.6
7.1	Accrued expenses	10.8
12.8		**12.4**

31 March 2017 £m	Analysis of creditors	31 March 2018 £m
5.0	Other local authorities	1.9
7.8	Other entities and individuals	10.5
12.8		**12.4**

Note 21 - Contractual commitments

As at 31 March 2018 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £546.6m (2017: £663.4m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £462.4m (2017: £390.7m). 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 £47.3m (2017: £24.6m). These amounts are expected to be drawn down over the next 10 months based on valuation certificates.

There is no outstanding commitment on indirect property investments (2017: £0.6m).

Note 22 - Related party transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

Lancashire County Council

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

The Council incurred costs of £0.6m (2016/17: £0.4m) 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 £152.0m to the fund in 2017/18, including a prepayment of £78m for the years ending 31 March 2019 and 2020. (2016/17: £87.0m). All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2018 amount to £6.8m (2016/17: £8.2m).

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 2018 payroll, are included within the debtors figure in note 20.

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 2017/18 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2018.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Financial Resources and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2017/18

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/17 – 31/03/18	54,699	8,228	62,927
Director of Financial Resources	01/04/17 – 31/03/18	4,653	703	5,356
Chief Executive and Director of Resources [2]	03/01/18 – 31/03/18	874	0	874

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.
[2] The Chief Executive and Director of Resources is a new post and was appointed on 3 January 2018.

2016/17

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/16 – 31/03/17	52,175	6,664	58,839
Director of Financial Resources	01/04/16 – 31/03/17	4,732	563	5,295

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

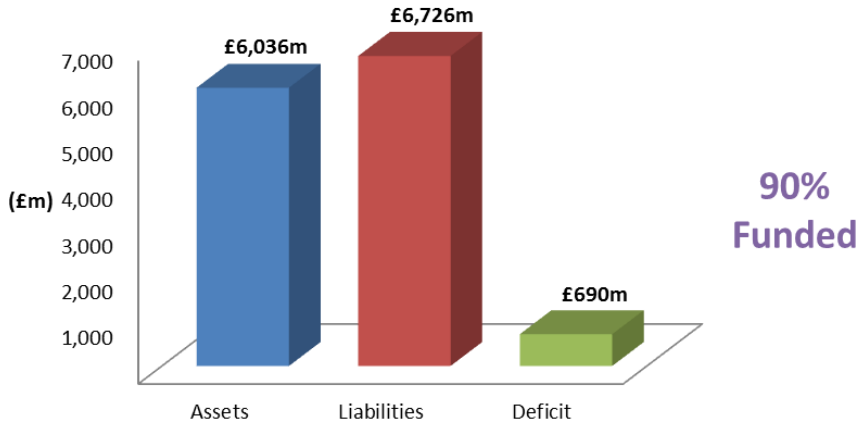
Note 24 - Funding arrangements

Accounts for the year ended 31 March 2018 - 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 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,036 million represented 90% of the Fund's past service liabilities of £6,726 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £690 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the "Secondary rate") for 2018/19 is approximately £43 million. The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years' contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Note 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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.3% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £10,065 million. Interest over the year increased the liabilities by c£253 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£105 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £401 million due to "actuarial gains" (i.e. the effect of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £10,022 million.

John Livesey
Fellow of the Institute and
Faculty of Actuaries
Mercer Limited
May 2018

Mark Wilson
Fellow of the Institute and
Faculty of Actuaries
Mercer Limited
May 2018

Governance statements

County Hall, Preston

Executive Summary

The Leader of the County Council (County Councillor Geoff Driver CBE) and Interim Chief Executive (Angie Ridgwell) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the County Council in delivering services to the communities of Lancashire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how the corporate governance arrangements have been working. To help do this both the Council's Corporate Management Team (CMT) and the Audit, Risk and Governance Committee undertake a review of the Council's governance framework and the development of the AGS.

On the 30 April 2018 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run.

The final statement is signed by the Leader of the Council and Interim Chief Executive.

Governance Issues

Overall it can be confirmed that the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these generally work well our review has identified the following issues:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Delivering the new Operational Plan: • Establish a new leadership and management team • Embed a focus on service delivery • Develop a sustainable financial strategy • Delivering economic growth and prosperity	Interim CEO/S151 Officer	 Autumn 2018 First component completed by September 2018 On-going On-going
Delivery of the Ofsted improvement plan	Executive Director - Children Services	March 2019
Special Educational Needs and Disability	Executive Director - Children Services	March 2019
Improving health and wellbeing	Executive Director – Adult Services	March 2019
Managing major projects	Executive Director -Growth Environment Transport and Community Services	March 2019
Core systems	Executive Director -Growth Environment Transport and Community Services	March 2019

Progress made against the issues identified in the 2016/17 AGS is reported in this year's statement.

We propose over the coming year to address the matters identified and will monitor implementation and operation as part of the performance management role of the Corporate Management Team and the Cabinet. The Audit, Risk and Governance Committee will also help us with independent assurance during the year.

---------- County Councillor Geoff Driver CBE
Leader of the Council

---------- Angie Ridgwell
Interim Chief Executive/S151 Officer

Signed on behalf of Lancashire County Council

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE "Delivering Good Governance in Local Government Framework" (2016) (the Framework) helps fulfil this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- Resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met.

What is Corporate Governance?

Corporate governance is about the systems, processes and values by which councils operate and by which they engage with, and are held accountable to, their communities and stakeholders.

The Council has adopted a Code of Corporate Governance which follows the CIPFA/Solace guidance 'Delivering Good Governance in Local Government' (2016) which defines the seven core principles that should underpin the governance framework of a local authority:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the Council's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Key elements of the Council's Governance Framework

Leader, Cabinet and Council	Decision making	Risk and performance management
• The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets council tax and the policy framework	• Meetings are held in public and many are webcast • Decisions are recorded on the Council's website	• Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members (CCPI) • Directors complete assurance statements
Council's leadership team	**Scrutiny and review**	**External and internal audit and review**
• Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading Management Team • Chief Executive is the Council's s.151 Officer and is responsible for ensuring the proper administration of the Council's financial affairs • Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct	• Scrutiny Committees review Council policy and decisions • Work to deliver local public sector accountability	• External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources • Internal audit provides regular assurance on the governance, risk management and internal control framework • External inspections that provide an accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016
- a number of specific strategies and processes for strengthening corporate governance.

An updated Local Code of Corporate Governance can be found on our website. This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. It sets out the requirements underpinning these principles and how the Council ensures that it meets them along with the evidence base used to assess their effectiveness.

Managing Risk and Performance

Performance management is a key component of the Council's approach to achieving its outcomes. Part of this process involves identifying and where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with effective processes to ensure sound financial management. Managing risks is the responsibility of services. All service risks are scored on the same basis and the greatest risks are elevated onto the Corporate Register.

Service risk and opportunity registers are updated regularly and the Corporate Risk and Opportunity register is reported to Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee on a quarterly basis. A recent Internal Audit review gave full assurance over the process by which the corporate register is prepared. Corporate Management Team have recently reviewed and updated both the content of the register and the governance arrangements. The Corporate Risk and Opportunity register and further information about the approach to risk management can be found on our website.

Equality Impact Assessments are used throughout the organisation to assess the impact of service proposals and to inform decision making.

The budget setting process is well established, and services prioritise budgets and spending to achieve intended outcomes. In recent years the budget setting process has inevitably focused on achieving savings whilst still focusing on the priorities of the political administration.

The medium term financial strategy is updated and reported to Cabinet together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the Council operates. The quarterly report to Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme.

Quarterly performance monitoring reports are presented to both CMT and Cabinet Committee for Performance Improvement. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). An Internal Audit

review of the Performance Management Framework in March 2017 provided substantial assurance. Since then further work has been undertaken to develop a corporate performance dashboard that provides a snapshot of the 'health' of the organisation.

Managing our resources (value for money)

The Council's external auditors, in their assessment of 2017/18, regarded the following as the significant challenges that were faced by the Council during the year:

- Financial sustainability, and the
- Ofsted inspection of children's services

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and recommendations through the Corporate Management Team and the Audit, Risk and Governance Committee.

Financial Sustainability

Consultation on budget proposals were undertaken with a variety of stakeholders and partners including discussions with the Trades Unions prior to finalising the 2018/19 budget. A number of savings proposals included within the agreed 2018/19 budget were subject to specific consultation exercises, with decisions to be made at future Cabinet meetings as to their final implementation. Any changes to these proposals resulting from the consultation which reduces the level of savings achievable is planned to be covered by reserves.

The Council regularly monitors its medium term financial forecast. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels.

The forecast is necessarily underpinned by a range of estimates and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

The projections are reported to both Corporate Management Team and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The current budget strategy remains to use budget savings with the use of reserves and capital receipts to ensure funding requirements are met. Proposals to develop a sustainable financial strategy are set out in the Council's new Operational Plan (details of which are set out later in this statement).

The forecast will need to be reviewed in light of any central government funding proposals for local government, in particular the impact of a policy direction on business rate retention and a new fair funding formula.

The Financial management arrangements of the Council conform to the governance requirements of the CIPFA Statement on the *Role of the Chief Finance Officer in Local Government*.

How do we know our arrangements are working?

There are a number of ways we do this:

The role of management

The Corporate Management Team oversee the review of the Council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium Term Financial Strategy.

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2017/18 that reports on service compliance and they produce in-year quarterly service risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available improvement plans are in place.

The Monitoring Officer regularly reviews the Council's Constitution and ethical governance arrangements and there are regular briefings on key corporate governance issues to directors and heads of service.

During the year, a review of our governance framework was undertaken by the Internal Audit service. The outcome confirmed that we comply with current best practice – with strong governance arrangements in place that are up to date and relevant to the environment we work in. The review suggested several minor improvements that are being implemented.

The Role of the Audit, Risk and Governance Committee

The Council's Audit, Risk and Governance Committee plays a vital role in overseeing and promoting good governance, ensuring accountability and reviewing the way things are done.

The Committee provides an assurance role to the Council by examining such areas as audit, risk management, internal control, counter fraud, treasury management and financial accountability. The Committee exists to challenge the way things are done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment

Earlier in the year, the committee reviewed its term of reference and agreed some changes to further improve its effectiveness.

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. The Internal Audit Annual Report and opinion has been considered in the development of the Annual Governance Statement and any significant issues incorporated as appropriate.

Audit work has progressed throughout the year and almost 80% of the work completed by the year end has yielded substantial assurance over the design

and operation of the services, systems and processes audited. However, across the last two years we have identified through our assurance framework, service areas where improvements needed to be made. In these instances the Council has introduced improvement plans in the context of a new Operational Plan. Whilst the overall direction of travel in these areas is positive, the evidence needed to provide substantial assurance is currently not available.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that only limited assurance can be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2017/18.

External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance. For example, Government recently conducted a 'spot check' audit of our Troubled Families programme. The inspectors found high quality work and were confident that we were working within the terms of the programme's Financial Framework.

Scrutiny Committees

The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

Elections

All out County Council elections were held in May 2017. No petitions (challenges) were received and the election was delivered within budget.

Information Governance

The Council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer. Advanced plans are in place for the implementation of the new General Data Protection Regulations in May 2018.

Local Government and Social Care Ombudsman

During 2017/18 Full Council considered two public reports from the Local Government and Social Care Ombudsman. In both instances the Ombudsman found fault causing injustice in relation to adult social care. In both cases Full Council noted the actions already taken and endorsed further actions to remedy the complaints.

Looking back on 2017/18

A number of improvement actions were identified as part of the 2016/17 Annual Governance Statement. All of these risk areas have been the subject of detailed reports to Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

The Council's financial position

The Statement of Accounts for 2017/18 includes a narrative statement from the s151 Officer which highlights the most significant financial aspects of the year.

In 2017/18, the medium term financial forecast for the Council estimated that there would be a gap of around £144 million between forecast expenditure and income from 2021/22. This was after allowing for planned savings of £135 million which included £81 million of savings newly agreed.

The delivery of the savings programme has been identified as a key challenge for the Council and performance against the savings plans are subject to detailed and regular scrutiny by programme managers and the finance service.

The financial challenge facing the Council continues to be the key governance issue for 2018/19.

Delivery of the Ofsted improvement plan

Since the local authority was judged inadequate following an Ofsted review in September 2015, there have been six monitoring visits. The last monitoring visit took place in February 2018 and focused on the MASH (Multi-Agency Safeguarding Hub) and the interface with early help services.

Ofsted agreed with our self-assessment of the service and that significant progress has been made in the quality of service practice. They also agreed with our partnership priorities around responding to domestic abuse.
Prior to this, Ofsted undertook a monitoring visit at the end of October 2017. This focused on the quality of help and support given to children in need. It was noted that the authority continued to make progress in the improvement of services for children and the quality of auditing activity had improved significantly.

Lancashire's annual conversation with Ofsted took place in January 2018 to review progress and performance. In line with the introduction of a new inspection framework there was a particular focus on the quality and impact of social work practice, how this monitored and evaluated and the plans for the next twelve months to improve practice. An update was provided on what we are doing to improve practice and the findings of recent external reviews.

The Local Government Association have worked with us to provide challenge and scrutiny of our savings and service redesign proposals around adult social care.

Special Educational Needs and Disability (SEND) Inspection

In November 2017, Ofsted and the Quality Care Commission conducted a joint inspection of the local area of Lancashire, to judge how effectively we have implemented the special educational needs and disability (SEND) reforms, set out in the Children and Families Act 2014.

The inspection identified weaknesses in the local area's practice and the Council and clinical commissioning groups have been asked to write a joint written statement of action.

Partners are working together to deliver a SEND action plan to address the issues identified by the inspectors. To help achieve these improvements, we have taken a number of early actions that include:

- Improving governance arrangements by setting up a partnership board
- Changes to the local service offer
- Recruitment of Designated Clinical Officers
- Consultation with families to elicit their views
- Discussions to reduce school exclusions

Further information about what we plan to do during 2018/19 is in the next section of this statement.

Health and Social Care Integration

Further discussions have taken place with health colleagues on an integration agenda focused on joint commissioning, the proposed outcome being an improved service offer. Since the May 2017 elections regular meetings have taken place between the Cabinet and chief executives from across the Lancashire Health economy and an agreed priority is to improve the position for individuals whose discharge from hospital is delayed.

A Combined Authority for Lancashire

During 2017 the Shadow Combined Authority accepted that it was unlikely that all the constituent members would be able to secure approval to move to a fully constituted Combined Authority. It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and work collaboratively to improve economic development and public service outcomes.

Systems development and data quality

Good progress has been made on improving the quality of service data and update reports have been presented to Audit, Risk and Governance Committee throughout the year. Issues remain in some areas and action plans are in place to address them.

Governance challenges for 2018/19 and actions to be taken

The County Council's elections in May 2017 saw a change of political administration. This change has resulted in revised Council policies across several service delivery areas and the way in which political decisions are made. For example, a number of previously closed libraries have been reopened and the Council is consulting on its policy on the availability of halal meat in schools. In terms of decision making, all executive decisions (except urgent decisions) are made collectively by Cabinet.

Alongside of this there has been a senior management restructure. A new Interim Chief Executive/Section 151 officer has been appointed for 12 months until January 2019. The Deputy s151 Officer is the Director of Finance who is a member of Corporate Management Team. A new monitoring officer has also been appointed and several directors have assumed new responsibilities. All statutory posts have been appointed to. One of the three Executive Director posts is currently filled on an interim basis.

A new Operational Plan has been developed. The Plan summarises the priorities, delivery focus approach and aspirations for 2018/19. Building on past achievements the Council will pursue four operational priorities over the coming year:

1. Establish a new leadership and management team
   Current vacancies in the leadership team are being filled. It is expected that all posts will be filled by April 2018, acknowledging that in the case of Children and Young People, this will be covered by an interim appointment until the recruitment process is completed. A new Chief Executive will be recruited by autumn 2018. To provide visible leadership and engage the organisation, the management team will work closely together and undertake several individual and collective actions.

2. Embed a focus on service delivery
   The focus in 2018 is to view our services through the eyes of users and developing them to be the best they can. A 'service challenge' will be applied to each service area. This will seek to put users at the heart of the service and empower delivery staff to design the optimum solution. In all cases the objective of the service challenge will be to secure a better service at a lower cost.

3. Develop a sustainable financial strategy
   Like many councils, Lancashire County Council is facing significant financial pressures, and while good progress has been made in addressing the forecast financial shortfall over the medium term, further work is required to ensure the Council can achieve a financially sustainable position.

   To achieve a balanced budget from 2021/22 the Council will need to address a funding gap of around £144 million. It is proposed therefore to address the budget deficit through a number of work streams, which include:

   - Service challenges
   - Commercialisation
   - Taxation and grants
   - Productivity
   - Commissioning and third sector

Each work stream will have a nominated senior responsible officer who will be responsible for developing detailed plans and putting together a team to support them in their task.

4. Delivering economic growth and prosperity
   A thriving economy that improves the productivity and earning power of all residents is key if we are to deliver inclusive growth. To do this we will work collaboratively with partners on a number of fronts that include:

   - The Lancashire Enterprise Partnership (LEP) on its substantial growth programme. However, to realise its full potential its 15 authorities must demonstrate strategic leadership and help to deliver transformational change
   - Working with a range of public sector partners to improve public service outcomes, especially around health and social care
   - Engaging with government to take advantage of new strategic place making initiatives
   - A more prominent leadership role in the Northern Powerhouse and influencing the priorities of bodies such as Transport for the North
   - Refreshing the Strategic Economic Plan
   - Agreeing a new Local Industrial Strategy with Government

Continue to improve children's services following Ofsted inspection

The focus for improvement activity will continue to be driven through the refreshed Improvement Plan and the cycle of 12-week Improvement Plans. This will continue to be overseen by the Improvement Board. The following are the overarching outcomes for the future:

- Prevention
- Purposeful practice
- Permanence

The delivery of priorities and actions detailed in the refreshed Plan will embed improvements for vulnerable children and this will be underpinned by more detailed implementation plans for each of the following areas:

- Prevention and Demand Management
- Purposeful Practice
- Permanence and Corporate Parenting
- Workforce Strategy
- Children with Special educational Needs and Disabilities
- Youth Justice

A new governance structure has been established to streamline the existing arrangements.

It is anticipated that Ofsted will undertake a full four-week final inspection in the spring/early summer of 2018.

Improving Health and Wellbeing

Health and social care integration is seen as one of the key drivers for public sector reform whilst also providing a means by which the demand pressures experienced by Health and Social care can be managed within constrained budgets. Collaborative working must be underpinned by appropriate

strategic alignment across all the relevant organisations that can lead change. However, the organisational landscape in Lancashire is complex, with six Clinical Commissioning Groups and other health economies that overlap into the County Council's responsibilities. The improved Better Care Fund (iBCF) continues to be supported by government to provide a formal platform from which some aspects of funding can be pooled and services jointly managed.

The iBCF paid to a local authority may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

The Lancashire Health and Wellbeing Board has agreed that iBCF monies will be used in line with the following overarching principles, which are consistent with the Grant conditions:

- Improving all aspects of Assessment
- Making Home 1st work
- Creating appropriate and effective 7-day services and aligned Integrated Discharge Services.

Governance arrangements for the Lancashire Health and Wellbeing Boards are also being reviewed and membership is being strengthened by making links to the housing sector, economic development and fire and rescue service. The board also convened a check and challenge session to review expenditure and delivery of the high impact changes known to be effective in reducing delays in discharges as part of its assurance process.

The Council is also engaged in the development of the integrated care system across Lancashire and South Cumbria.

Respond to SEND inspection

As stated earlier in the statement, work has already begun on addressing the issues found by the inspectors. The main issues we will be working on are as follows:

- Ensuring children and families are at the heart of all we do
- Robust and comprehensive assessments of children who have SEND are carried out in a timely way
- Developing a strategic oversight of SEND across the local area
- The appointment of designated clinical officers to fulfil the designated medical officer function
- Developing what support and services are needed and put in place with children, young people and their families
- Refreshing and publicising the Lancashire local service offer
- Further development of pathways for Autistic Spectrum Disorder including diagnosis across the local area
- Collaboration with school leaders to reduce the exclusion of pupils with SEND

The development and delivery of an improvement plan will be closely monitored by the DfE and Lancashire Improvement and Accountability Board. The Written Statement of Action was submitted in April 2018. The effective implementation of the improvement plan will be critical to achieving an improved outcome when Ofsted undertakes a further, shorter inspection of these services in due course.

Managing major projects

The Council is currently involved in several major projects such as the development of the Preston Youth Zone. Significant risks can be associated with such projects and the Council will be implementing steps to ensure robust risk management practices are in place.

Core Systems

During 2017/18 work to improve the quality of data in core systems continued at a pace. In Children's Services the improved confidence in the quality of the data in Lancashire Children's System led to a refocusing of the 'Accuracy Working Group'. It was renamed 'Performance and Data Quality Group' and the emphasis switched from dealing with data quality problems to using data to manage Performance. Although data quality issues continue to be identified and resolved by this group they are now relatively minor.
In Adults Social Care, there has been a significant improvement in the quality of data within the systems as a result of data cleansing exercises undertaken throughout the year. An Accuracy Working Group in this services area has also been established which is looking at further improving data quality, developing exception reports and establishing processes to improve the quality of data by dealing with issues before they've caused a problem.

Concerns remain about the quality of data in other core systems, primarily the Highways Asset Management System and the Project and Portfolio Management System. Governance arrangements have been put in place to oversee progress and set targets.

Monitoring implementation

The key governance challenges facing the Council in 2018/19 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register.

The governance arrangements relating to the Register involve its review by the Corporate Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit, Risk and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a 'risk score' and a residual score after mitigating actions have been applied.

Conclusion

Overall, the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work generally well, the Council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the Council will continue to be monitored by the Audit, Risk and Governance Committee, Cabinet and Corporate Management Team.

Lancashire County Pension Fund - annual governance statement

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 31 March 2018 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 172,074 members across 287 organisations with active members and a range of other organisations with only deferred or pensioner members.

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. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition). The Framework defines the 7 core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;

- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

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

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 2018.

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 a clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Local Pension Board.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

The Head of Fund reviews 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 are responsible for establishing the strategic

objectives of the Fund through a rolling 3 year strategic Plan and for monitoring the 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. Many of these functions are now performed under contract by Local Pension Partnership (LPP). These and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance of the Investment Strategy 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.

The administration service is now undertaken by LPP. As part of its responsibility for the Governance of the Fund the Pension Fund Committee are responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPP.

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

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely 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, meet the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

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 the Fund has continued to develop and update its risk register. Key areas of risk include:

- Investment and Funding Risk – all financial risks associated with the Fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – the temporary risks associated with change. Once the change is embedded, the risk lies in one of the other categories above.

Through the use of a detailed Risk Management Framework, LCPF maintain a detailed risk register covering all the risks identified within the four main risk groups. Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed and risk ratings are updated accordingly.

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit, Risk 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 pension's 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 by either the Fund's or LPP's custodian. LPP investments is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance Team which is independent from the Investment Management.

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 Fund participates in the National Fraud Initiative, 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.

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, Risk 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 Chartered Institute of Public Finance and Accountancy (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 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.

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 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.
- An annual members meeting focussed on the performance of the fund.
- 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 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. The main arrangement which involves the pension fund is LPP. 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, 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. The responsibility for fulfilling the County Council's functions as administering authority rests with the Head of Fund.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Chief Internal Auditor's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2017/18 were:

- To support the new Committee especially by providing appropriate training for new members.
- The review and amend the Admissions and Terminations Policy for implementation from 1 April 2018.
- The production of a new 3 year Strategic Plan.
- The Investment Panel completed a full review of the Fund's investment strategy and recommended some small changes to the asset allocations.

Actions Planned for 2018/19

The following specific actions are proposed for completion during 2018/19.

- Review the Communications Policy
- Continued development of a socially responsible investment policy
- Monitor Pensions administration including impact of LPP's administration transformation plan
- To review the compliance of employers and undertake an assessment of the risk they pose to the Fund.

County Councillor Eddie Pope
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Independent auditor's report

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Independent auditor's report

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Lancashire County Pension Fund - independent auditor's report

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Lancashire County Pension Fund - independent auditor's report

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Lancashire County Pension Fund - independent auditor's report

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Glossary of terms and contact information

Gawthorpe Hall

A

Accounting policies

The rules and practices applied by the Council that determine how the transaction and other events are reflected in the financial statements.

Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred (known as experience gains and losses) or because the actuarial assumptions have been changed.

Associate

An associate is an entity over which an investor (the Council) has significant influence.

C

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads, and computer equipment.

Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the comprehensive income and expenditure statement and transferred into capital grants unapplied via the movement in reserves statement.

Capital receipts

Income received from the sale of land, buildings or equipment.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a 'true and fair' view of the financial position, financial performance and cash flows of the Council.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Creditors

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

D

Debtors

Amounts owed to the Council for goods and services provided but where the income had not been received by 31 March.

Depreciation

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the Council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

E

Earmarked reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

F

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

I

Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

Intangible assets

Assets which do not have a physical substances for example computer software licences.

International financial reporting standards (IFRS)

Defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

J

Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

M

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Minimum revenue provision

The minimum amount that the Council must charge to the accounts to provide for the repayment of borrowing associated with capital expenditure.

N

Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

O

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Assets used by the Council in the delivery of services for which it has responsibility.

P

Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of errors.

Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

R

Related party

Related parties are bodies or individuals that have the potential to control or influence the Council or be controlled or influenced by the Council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Members, and senior officers and their close family members.

Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the Council. Examples include works on property owned by other parties and capital grants to other organisations.

S

Subsidiary

A subsidiary is an entity that is controlled by another entity (the Council).

Contact details

I would like to thank you for showing an interest in the Council's finances and hope you find this information useful. We feel it is important that residents or businesses in the County 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

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Review of Treasury Management Activity 2017/18
(Appendix 'A' refers)

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

The report set out at Appendix 'A' is a review of the council's treasury management activities in 2017/18. The activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is considered good practice for the committee to review the council's treasury management activities on a regular basis.

The review at Appendix 'A' covers the economic conditions during 2017/18, the borrowing activity, the investment activity and the actuals measured against 2017/18 Prudential and Treasury Management indicators.

The review confirms that the treasury management activity undertaken during the financial year complied with the CIPFA Code of Practice. Also, that the council complied during the year with its Treasury Management Policy and Practices statements.

Recommendation

The committee is asked to note the review of treasury management activities for 2017/18.

Background and Advice

As part of the council's governance arrangements for treasury management, the Audit, Governance and Risk Committee is charged with the oversight of the council's treasury management activities. To enable the committee to fulfil this role, it receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Director of Finance and the content of these are used as a basis for this report to the committee.

The review at Appendix 'A' covers the economic conditions during 2017/18, the borrowing activity, the investment activity and the actuals measured against 2017/18 Prudential and Treasury Management indicators.

Lancashire County Council

The review confirms that the treasury management activity undertaken during the financial year complied with the CIPFA Code of Practice. Also, that the council complied during the year with its Treasury Management Policy and Practices statements.

Consultations

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

Implications:

This item has the following implications, as indicated:

Risk management

The council's Treasury Management Strategy sets out a policy in respect of managing the risks associated with the council's borrowing and investment activity. The review at Appendix 'A' sets out how the council performed in relation to this strategy in 2017/18.

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

Paper	Date	Contact/Tel
Treasury Management Policy and Strategy 2017/18	February 2017	Paul Dobson/ (01772) 534725
CIPFA Treasury Management Code of Practice	2011	Paul Dobson/ (01772) 534725

Reason for inclusion in Part II, if appropriate

N/A

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Review of Treasury Management Activity 2017/18
(Appendix 'A' refers)

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

The report set out at Appendix 'A' is a review of the council's treasury management activities in 2017/18. The activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it is considered good practice for the committee to review the council's treasury management activities on a regular basis.

The review at Appendix 'A' covers the economic conditions during 2017/18, the borrowing activity, the investment activity and the actuals measured against 2017/18 Prudential and Treasury Management indicators.

The review confirms that the treasury management activity undertaken during the financial year complied with the CIPFA Code of Practice. Also, that the council complied during the year with its Treasury Management Policy and Practices statements.

Recommendation

The committee is asked to note the review of treasury management activities for 2017/18.

Background and Advice

As part of the council's governance arrangements for treasury management, the Audit, Governance and Risk Committee is charged with the oversight of the council's treasury management activities. To enable the committee to fulfil this role, it receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Director of Finance and the content of these are used as a basis for this report to the committee.

The review at Appendix 'A' covers the economic conditions during 2017/18, the borrowing activity, the investment activity and the actuals measured against 2017/18 Prudential and Treasury Management indicators.

Lancashire County Council

The review confirms that the treasury management activity undertaken during the financial year complied with the CIPFA Code of Practice. Also, that the council complied during the year with its Treasury Management Policy and Practices statements.

Consultations

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

Implications:

This item has the following implications, as indicated:

Risk management

The council's Treasury Management Strategy sets out a policy in respect of managing the risks associated with the council's borrowing and investment activity. The review at Appendix 'A' sets out how the council performed in relation to this strategy in 2017/18.

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

Paper	Date	Contact/Tel
Treasury Management Policy and Strategy 2017/18	February 2017	Paul Dobson/ (01772) 534725
CIPFA Treasury Management Code of Practice	2011	Paul Dobson/ (01772) 534725

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management 2017/18

Introduction

The county council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which recommends that committee members review a treasury management report after the end of each financial year.

Economic Summary 2017/18

Treasury management activity is influenced by the actual and forecast economic position. During 2017/18 the UK economy showed signs of slowing economic growth with latest estimates showing GDP grew by 1.7% in the calendar year 2017, with growth for 2016 and 2015 being 1.8% and 2.3% respectively. This was a far better outcome than the majority of forecasts following the EU referendum in June 2016 and reflected the impact of the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The year saw an increase in inflation with the Consumer Prices Index (CPI) rising to 3.1% in November partly due to the impact of the falling exchange rate before returning back to 2.7% in February 2018.This is above the Bank of England's target which has been set by the Government at 2%. Data on the unemployment rate was positive with the rate falling to 4.3% in January. However there still remained concerns over the strength of the economy. Average real earnings growth, i.e. after inflation, turned negative before slowly recovering which indicated a potential weakness in consumer spending, an important source of economic growth. There were also signs of weakness in UK business investment which was not helped by political uncertainty following the general election in June 2017 and by the lack of clarity on Brexit. Although the UK and the EU reached an agreement in March 2018 on a transition which will run to the end of 2020, there is still significant uncertainty over the long term trade arrangements.

With concerns over inflation being above its target the Bank of England's Monetary Policy Committee (MPC) increased the bank rate by 0.25% in November 2017. This was the first rate increase in ten years, although in essence the MPC only reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 months) horizon and indicated there would be 'gradual' and 'limited' increases in rates.

However, the reduction in inflation and the timing of increases in interest rates are not certain as changes in the economy may impact on the policy. For example, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate increases.

Interest Rate Environment

Short term interest rates continue to be at historically very low levels. 2017/18 saw the first increase in interest rates for a decade when in November the base rate was increased to 0.50% from 0.25%. The expectation during the year was that interest rates would remain low for the rest of the financial year and beyond. It is anticipated that although rates may increase they will remain at low levels. Arlingclose are forecasting two small increases in 2018/19 with base rates being at 1% in March 2019.

Credit environment

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. Under these rules the largest UK banks will be required to separate their retail banking services to individuals and small businesses from their investment banking activities with the retail bank being referred to as the ring-fenced bank. As it was unclear which banking entities the council would be dealing with once ring-fencing was implemented in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities. This uncertainty around the banking sector has a limited impact on the council as the policy is not to have long term fixed investments with the banks. However, the council will continue to need short term or call accounts and the banks used will be kept under review.

Credit Rating developments

The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2. Following this, Moody's downgraded UK local authorities, reflecting the close economic, financial and institutional linkages between the sovereign and sub-sovereign sectors. This credit rating downgrade for the county council, to Aa3 from Aa2, has no expected practical implications based on current plans.

Other developments

Although there was no ongoing lending to Northamptonshire County Council (NCC), in February, Arlingclose advised against lending to this Council. NCC issued a section 114 notice in light of the risk that it would not be in a position to deliver a balanced budget. The guidance has now been revised to "Arlingclose is now comfortable with clients lending to Northamptonshire County Council for treasury management purposes for a maximum duration of 12 months".

Treasury Management Activity 2017/18

Treasury Management activity is undertaken in accordance with the council's Treasury Management Strategy. Full Council approved the 2017/18 Treasury Management Strategy at its meeting on 9 February 2017. The council's stated investment priorities were maintaining:

(a) Security of capital and
(b) Liquidity of investments

The council has a "low credit risk" investment policy. Therefore investments are primarily in bonds issued by governments, government agencies, government guaranteed bodies, supranational bodies and covered or collateralized corporate bonds. The council's position is not to invest in banks, other than call accounts, and therefore it is substantially insulated from the effects of an individual or systemic banking "credit event". This management of credit risk was a key driver in the treasury activities undertaken in 2017/18. With the forecast reduction in reserves, moves were made to reduce long term investment holdings to reduce market risk too.

The council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. 2017/18 saw continued low interest rates with significant economic uncertainty.

The council's stated borrowing strategy is to fund its capital expenditure in a cost effective manner. This will involve using short term and variable rate loans when these are seen as being the most beneficial. However, consideration is also given to the long term funding needs of the council and the stability provided to budgets through fixed interest loans. The council also regularly evaluates debt restructuring opportunities of the existing portfolio. With low interest rates it was considered that renewing to short term borrowing continued to be the most appropriate strategy in 2017/18 and will likely continue to be the most cost effective financing method until there is a significant increase in interest rates.

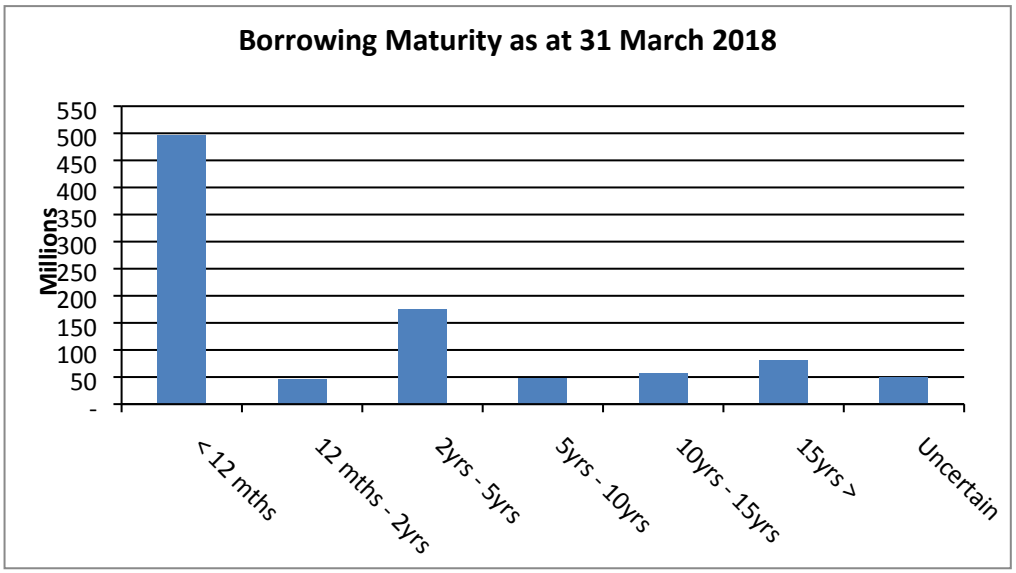
Borrowing Activity

During the year borrowing was undertaken to finance new capital investment, to replace maturing debt and to cover short term cash-flow variations. In summary the holdings were:

	Debt 31/03/2017		**Borrowing**	**Repayments**	**Debt 31/03/2018**	
	£m	**%**	**£m**	**£m**	**£m**	**%**
Fixed Rate Funding						
Public Works Loan Board	213.1	20.5	0	0	213.1	22.4
Market Borrowing	590.0	56.8	512.5	(584.0)	518.5	54.4
Total Fixed Rate	**803.1**	**77.3**	**512.5**	**(584.0)**	**731.6**	**76.8**
Variable Rate Funding						
Public Works Loan Board	125.7	12.1	0	0	125.7	13.2
LOBO *	50.0	4.8	0	0	50.0	5.3
Shared Investment Scheme	60.8	5.8	496.9	(512.5)	45.2	4.7
Total Variable Rate	**236.5**	**22.7**	**496.9**	**(512.5)**	**220.9**	**23.2**
Total Borrowing	**1,039.6**	**100.0**	**1,009.4**	**(1,096.5)**	**952.5**	**100.0**

*Lender option borrower option

With the low interest rates anticipated to continue the council maintained its policy of taking short term market borrowing and this is reflected in the activity in the year and the structure of the debt at 31 March 2018. The maturity profile of borrowing at the end of the year was as follows:



In the chart, the 'uncertain' category refers to the lender option borrower option (LOBO) loan. This matures in November 2060. However, within the contract there is an option every 5 years for the bank to change the interest rate which if the council does not consider acceptable then it can repay the loan without incurring any penalties.

With short-term interest rates being lower than long-term rates, it was more cost effective in the short-term to borrow short-term loans from the market, mainly from other local authorities. Whilst such a strategy is most likely to be beneficial over the next year as official interest rates remain low, it is a situation that is regularly reviewed. The Director of Finance will, in conjunction with Arlingclose, continue to closely monitor interest rate forecasts in order to establish when the strategy should be adjusted.

Overall the average rate of interest paid in 2017/18 on the debt administered by the council was 2.07% compared with an average rate of 2.12% in 2016/17. The council did not enter into any new other long term liability arrangements in the year. The outstanding PFI liability at 31 March 2018 was £152.4m.

Investment Activity

The council holds investments as it has reserves and other cash balances in its balance sheet. The total amount of investments (excluding fair value adjustment), held at 31 March 2018 was £320.8m. This is £253.8m lower than at 31 March 2017 and the movements are detailed in the following table. The overall reduction shown is largely due to the sale of bonds towards the end of the financial year, with funds reinvested early in 2018/19 in line with the approved investment limits for 2018/19.

Maturity Range	Position as at 31 March 2017 £m	2017/18 Movement £m	Position as at 31 March 2018 £m
Call, Money Market Funds & Under 1yr	147.7	-34.6	113.1
Bank Deposit 1-2 Years	36.5	-36.5	0.0
Bank & Local Authority Deposits 2-3 years	0.0	1.3	1.3
Bank & Local Authority Deposits 3-5 Years	0.0	0.0	0.0
Bank Deposit 5 Years +	10.0	0.0	10.0
Local Authority Bonds	35.9	-0.2	35.7
UK Government and Supranational Bonds	344.5	-183.8	160.7
Total	**574.6**	**-253.8**	**320.8**

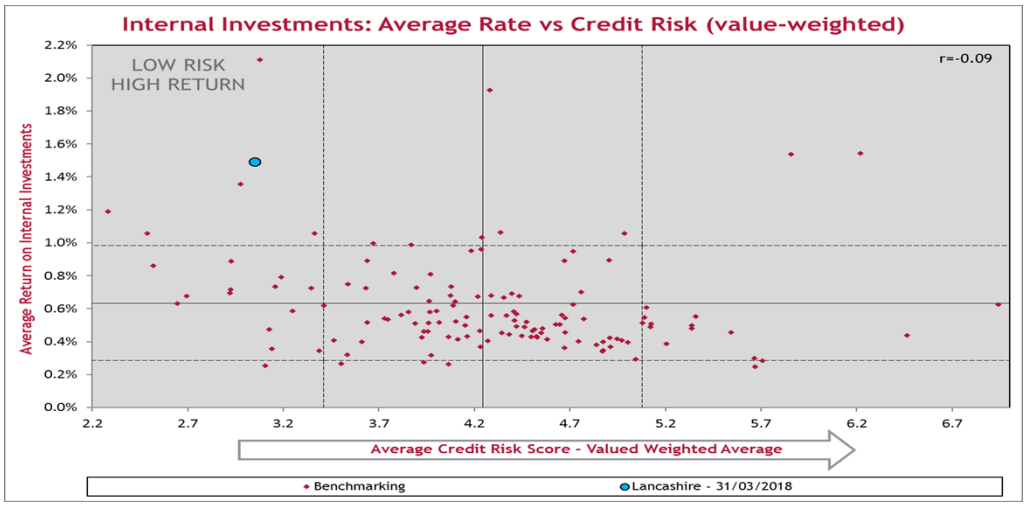
The investments are considered to be very secure, with 94% credit rated at least AA- with the others rated at A+. The average credit score is well within the policy limit.

Security of capital remained the council's main investment objective. This was maintained by following the council's Counterparty Policy, as set out in its Treasury Management Strategy Statement for 2017/18. This defined "high credit quality" organisations as those having a minimum long-term credit rating of A+. In practice the average credit rating in 2017/18 was higher at AA.

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

Credit Risk Comparisons

The following chart shows the credit risk scores of all Arlingclose clients. This comparison shows that at 31 March 2018 the council has one of the lowest credit risk scores in this population along with one of the best returns.



Liquidity Management

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

Cash flow forecasting spreadsheets are used to determine the maximum period for which funds may prudently be committed allowing the council to meet its payment obligations.

Yield

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

Overall the investment portfolio returned an average rate of 2.3% in 2017/18 which can be attributed to the categories as follows:

	Average Balance £m	**Average Rate**
Call, Money Market Funds & Under 1 year	164.5	0.50%
Bank & Local Authority Deposits 1-2 years	0.0	0.00%
Bank & Local Authority Deposits 2-3 years	1.3	0.88%
Bank & Local Authority Deposits 3-5 years	0.0	0.00%
Bank & Local Authority Deposits 5 Years +	10.0	2.95%
Local Authority Bonds	37.3	3.55%
UK Government & Other Bonds	281.8	3.17%
Total	**494.9**	**2.30%**

Impact of Treasury Management activity on the Council's revenue budget

The following table shows a net underspend of £8.9m on the financing charges budget. Income received in the year was £8.1m higher than anticipated in the budget. With the markets responding to economic and political events there was volatility in the price of gilts and other bonds. The increase in the price of gilts enabled some to be sold resulting in a net gain of £5.8m. There have also been net gains of £0.9m resulting from sales from the corporate bonds portfolio. Other interest received was £1.4m higher than anticipated due to the higher level of balances and interest rates while reductions arose with interest paid on debt of £0.7m with debt levels and interest rate being lower than forecast.

Cabinet have considered a change to the minimum revenue provision (MRP) policy for 2017/18 which is subject to approval by the Full Council on 19 July. The new policy reflects a revised calculation method and will reduce the MRP charge for 2017/18. The reduction will see a contribution to reserves for an equal value thereby having no impact on the overall net expenditure of the authority.

	Budget 2017/18 £m	**Year End Position £m**	**Variance £m**
MRP	21.383	21.337	(0.046)
Interest Paid	22.758	22.010	(0.748)
Interest Received/surplus on sale	(7.423)	(15.487)	(8.064)
Total	**36.718**	**27.860**	**(8.858)**

Treasury Management and Prudential Indicators 2017/18

The Local Government Act 2003 and supporting regulations require the council to have regard to the Prudential Code and to set prudential indicators to ensure the council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31 March 2018 compared to the indicators set in the Treasury Management Strategy for 2017/18 is set out as follows.

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	**2017/18 £m**	**31st March Actual £m**
Borrowing	1,100	950
Other long term liabilities (PFI schemes)	200	157
TOTAL	**1,300**	**1,107**

Operational boundary for external debt The Operational Boundary is a prudent estimate of debt with no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the council's current plans	**2017/18 £m**	**31st March Actual £m**
Borrowing	1,075	950
Other long term liabilities (PFI schemes)	170	157
TOTAL	**1,245**	**1,107**

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	**2017/18 £m**	**31st March Actual £m**
Capital Financing Requirement	843	843
Estimated gross debt	1,003	950
Debt to Capital Financing Requirement	119%	113%

Gross borrowing appears higher than the capital financing requirement because the shared investment scheme is accounted for as borrowing, but it does not form part of the capital financing requirement calculation. Adjustments are also required for premiums, long term debtor and transferred debt. The adjusted gross debt is slightly above the CFR which represents borrowing in advance for capital which is allowable within the Code.

	Estimate %	**Actual %**
Ratio of financing costs to net revenue expenditure This indicator provides information on the impact of borrowing on the revenue budget and the long term affordability of the Capital Programme.	5.19	3.84

Interest Rate exposure The limit measures the council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year	**Upper Limit £m**	**Actual £m**
Net Interest Payable – Fixed Rate	50.40	9.80
Net Interest Payable – Variable Rate	5.00	3.20
1 year impact of a 1% rise	10.00	2.90

Maturity structure of debt The limit on the maturity structure of debt helps control refinancing risk	**Upper Limit %**	**Actual %**
Under 12 months	75	0
12 months and within 2 years	75	61
2 years and within 5 years	75	12
5 years and within 10 years	75	8
10 years and above	50	20

Investments over 364 days The limit on the level of long term investments helps to manage liquidity, although the majority of these investments are currently held in available for sale securities	**Upper Limit £m**	**Actual £m**
Total invested over 364 days	450	208

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

The council complied with its Prudential Indicators for 2017/18, which were approved as part of its Treasury Management Strategy Statement.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Grant Thornton Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2018/19
(Appendix 'A' refers)

Contact for further information:
Mike Thomas, Tel: 0161 214 6368, Director, Grant Thornton UK LLP,
mike.thomas@uk.gt.com

Executive Summary

This report sets out details of the planned fees for the audit work to be undertaken by Grant Thornton in respect of Lancashire County Council and the Lancashire County Pension Fund for 2018/19.

Recommendation

The Committee is asked to approve the fees for 2018/19 as set out at Appendix 'A'.

Background and Advice

Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted-in local government bodies from 2018/19.

For opted-in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work.

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23% from the fees applicable for 2017/18. The Council's scale fee for 2018/19 has been set by PSAA at £87,006.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

Lancashire County Council

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as work progresses.

PSAA has also established a scale of fees for pension fund audits. The scale fee for the audit of the pension fund is £26,310, which also reflects a 23 per cent reduction on last year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

Ms Angie Ridgwell
Interim Chief Executive and Director of Resources
Lancashire County Council
PO Box 100
County Hall
Preston
PR1 0LD

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

T +44 (0)151 224 7200

www.grant-thornton.co.uk

20 April 2018

Dear Ms Ridgwell

Planned audit fee for 2018/19

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the PSAA website.

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the PSAA website. The Council's scale fee for 2018/19 has been set by PSAA at £87,006.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken

under this Code. Further information on the NAO Code and guidance is available on the NAO website.

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether 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.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance 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.

Pension Fund audit

PSAA has also established a scale of fees for pension fund audits. The scale fee for the audit of the pension fund is £26,310, which also reflects a 23 per cent reduction on last year. Our work on the pension fund will be undertaken by our specialist pension fund audit team, led by Michael Thomas.

Billing schedule

Fees will be billed as follows:

Main Audit fee	**£**
September 2018	21,752
December 2018	21,752
March 2019	21,751
June 2019	21,751
Total	**87,006**
Pension Fund audit	
March 2019	26,310

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2018 to March 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VfM conclusion and work on the whole of government accounts return will be completed by 31 July 2019.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2018 to March 2019	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2019	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	December 2018 to July 2019	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2019	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2019	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2018/19 are:

	Name	Phone Number	E-mail
Engagement Lead	Michael Thomas	0161 214 6368 / 07880 456173	Mike.Thomas@uk.gt.com
Engagement Manager	Richard McGahon	0141 223 0889 / 07880 456156	Richard.A.McGahon@uk.gt.com
Lancashire In-Charge Auditor	Richard Tembo	0161 234 6352	Richard.Z.Tembo@uk.gt.com
Pensions In-Charge Auditor	Mark Stansfield	0161 234 6356	Mark.Stansfield@uk.gt.com

Additional work
The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance
We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Public Sector Assurance regional lead partner, via Sarah.Howard@uk.gt.com.

Yours sincerely

Michael Thomas
Engagement Lead

For Grant Thornton UK LLP

cc Neil Kissock, Director of Finance

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected: (All Divisions);

Corporate Risk and Opportunity Register Quarter 1
(Appendix 'A' refers)

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

Executive Summary

This report provides an updated (Quarter1) Risk and Opportunity Register for the committee to consider and comment upon.

Recommendation

The committee is asked to note the updated Corporate Risk and Opportunity Register at Appendix 'A'.

Background and Advice

Following the corporate approach to reporting on risk and opportunity the quarter 1 Corporate Risk and Opportunity register was recently reported to Corporate Management Team following a review of the register. The register has now been updated to reflect changing priorities and the budget. It has also been aligned to the Annual Governance Statement (AGS) and it is the primary means of reporting progress for the main issues raised in the AGS. The Register was considered by the Cabinet Committee for Performance Improvement on 27 June 2018. An updated Corporate Risk and Opportunity Register is attached at Appendix 'A'.

As stated above, it was decided at Corporate Management Team to undertake a full review of the Risk and Opportunity Register and to update it for the new financial year and new budget. Allowing for mitigating actions, the residual risk score for the following entries are 12 or above.

Lancashire County Council

Risk Identification Number (RIN)	Risk Description
CR1	Delivering the Operational Plan to ensure a strong and sustainable County Council • Establishing a strong and visible leadership team • Embed a focus on service delivery to secure a better service at a lower cost • Develop a sustainable financial strategy Allowing for mitigating actions the residual score is 16
CR2	Protect and safeguard children. Further mitigating actions added. Residual risk score remains unchanged.
CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care. Score remains unchanged.
CR4	Recruit and retain experienced staff within Children's Services. Further mitigation actions added. Residual risk remains unchanged
CR5	Managing our data well and producing effective management information. Allowing for mitigating actions the residual score is 12.
CR6	Implement/maintain core systems that support the organisation, deliver transformational change and deliver efficiencies, cost reductions and produce effective management information that supports management decision making. Allowing for mitigating actions the residual score is 12.
CR7	Delivering major projects/schemes on time and within budget. Allowing for mitigating actions the residual score is 12.
CR8	Delivering a statutory service for children and young people with special educational needs and/or disabilities. Allowing for further mitigating actions the residual score remains at 16.
CR9	Discharge of patients from hospital into their own home or enablement/short term care in a safe and timely manner. Allowing for mitigating actions residual score remains at 20.
CR10	Adult social care provision is adequate and responsive to meet current and future demand. Allowing for further mitigating actions the residual score remains at 12
CR11	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme. Allowing for further mitigating actions the residual score remains at 16
CO1	Delivering the Operational Plan to ensure a strong and sustainable County Council • Delivering growth and prosperity for the whole of Lancashire This opportunity has a score of 16
CO2	Apprenticeship Levy and Apprentice % in Public Sector. This has an opportunity score of 15
CO3	Develop and implement improved recruitment and retention practices to address increasing challenges. This has an opportunity score of 16.

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.

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 Q1 2018/19

Risk Identification Number (RIN)	Description	Risk Type	Possible Risk Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel

CR1	**Delivering the Operational Plan to ensure a strong and sustainable County Council**
	
	1. Establishing a strong and visible leadership team
		Economic	• Inability to deliver a balanced budget from 2021/22
			
			• Inability to attract high calibre candidates for the positions of chief Executive and Executive Director of Children's Services leading to less effective governance arrangements
			• Lack of buy-in/engagement from staff
			• Managers do not possess the leadership skills required, leading to demotivated staff and poor service delivery
			• The organisation does not have the right people in the right jobs leading to service failure
			• Staff do not know what is expected of them and they do not possess the skills to adequately do their job
			• Unable to meet Terms and Conditions savings targets
				• Priorities Board established comprising work stream leads and chaired by the Chief Executive
				• Time table for each work stream has been developed and agreed
				• Programme Office is managing the overall programme of activity
				
				• Employment Committee have considered the process for the recruitment to the Corporate Management Team posts
				• Revised recruitment process rolled out
				• Draft Corporate dashboard presented to Corporate Management Team
				• Corporate Management Team (CMT) development
				  ○ Structured weekly meetings arranged
				  ○ Individual 121s in place with Chief Executive
				  ○ CMT members seeking external coach/mentor
				• Draft People Strategy
				• Draft values and behaviours
				• Implementing a visibility campaign
				  ○ Weekly core brief
				  ○ Monthly 'back to the floor'
				  ○ Regular web casts
					20	• A further report to Employment Committee setting out next steps for recruitment
						• Work stream timeline to be reconsidered with reference to the draft People Strategy and actions re-prioritised
						• Roll out revised Personal Development Reviews
						• Agree approach to talent planning
						• Agree approach to succession planning
						• Develop management development programme
						• Undertake baseline staff survey
						• Draft People Strategy to be shared with wider leadership group
						• A refreshed intranet that establishes clear messages and a real sense of purpose
							16	Overall Risk Owner is CMT however there is a lead officer for each work stream	This is a new risk that is being monitored by both the Priorities Board and CMT

	2. Embed a focus on service delivery to secure a better service at a lower cost		• Services become unsustainable and we cannot fulfil our statutory duties • Compounds ability to set balanced budget	• Service challenge information consulted upon and distributed • Progress made with Local Government Association regarding external challenge		• Service challenge process has commenced in 10 service areas • Mid-point review meetings being scheduled			
	3. Develop a sustainable financial strategy		• Unable to deliver a balanced budget from 2021/22 • Insufficient reserves • Services become unsustainable and we cannot fulfil our statutory duties	• CMT have agreed financial targets for Executive Directors based on financial analysis • Targets based on median county council spend • Early outcome from service challenges to be reported back to CMT		Commercialisation • Commercialisation strategy being drafted • New income streams being identified and current streams maximised • Identification of new traded services • Review of charging policy • Spend analysis of current contracts to ascertain value for money Taxation & Grants • Seek to increase tax base • Working in partnership with district councils to maximise collection rates • Work with partners to secure grants for growth • Consider opportunities for involvement in future business rate retention pilots • Seek to influence new local government funding formula methodology • Horizon and current scanning to identify additional sources of funding Staff Productivity • Undertake external benchmarking • Maintain health & wellbeing of workforce • Focus resources on delivering priorities Commissioning & Third Sector • Undertake analysis of current spend with the sector • Develop and implement clear commissioning strategies • Identify services that could be delivered by the sector at either a reduced or no cost			

CR2	Protect and safeguard children	Social	Children are put at risk of harm.	• MASH (Multi-Agency Safeguarding Hub) arrangements strengthened to ensure an appropriate multi-agency response where there are safeguarding concerns about a child. • Serious incident reporting in place with senior management line of sight to front-line practice. • Quarterly safeguarding meetings including the Chief Executive, Director of Children's Services (DCS), Leader, Cabinet Member for Children, Young People & Schools, LSCB Chair and the Police. DCS meets with Cabinet Member and lead member on a fortnightly basis re current issues/developments. • Serious Case Review learning shared to improve safeguarding practice. • Effective audit framework in use. This has strengthened management grip and the quality assurance of practice. • External reviews of front-line practice completed including quarterly monitoring visits by Ofsted, the LGA peer review and six monthly DfE reviews. • Performance monitoring - action taken to address areas of underperformance via Data Quality and Performance Group. • Locality performance clinics chaired by CSC Heads of Service to address poor performance and reinforce good practice. • Monthly reports by the DCS to the Improvement Board on the quality of practice. • Increased Independent Reviewing Officer capacity and IRO completion of mid-point checks on case files to ensure timely progression of care plans for children looked after and subject to a child protection plan. • 12 Advanced Practitioner posts within the Audit Team provide advice and support to social workers & particularly ASYE's (Assessed & Supported Year in Employment) in respect of practice improvement. • Monthly compliance reporting of Strategy Discussions. • Social Work Academy established providing robust induction and	25	• Caseloads are mostly in line with Improvement Board targets for "good and outstanding", but slight increase in Assessed and Supported Year in Employment (ASYE) caseloads (now rated Requires Improvement). • Multi Agency Sharing Hub redesign completed - 3 virtual locality teams now in place and consistent working practices established. Report going to Cabinet on the 14/04/2018 with proposal to make temporary posts permanent. • DCS "line of sight" to frontline practice to ensure adequate protection and safeguarding of children in place. • Number of inexperienced workers in post continues to decrease: ASYE - 26.8% -March 2018. (April 2017: over 50%). • The proportion of social workers with 1-3 years' experience remains rated outstanding, as staff retention improves, with 73.2% of qualified workers being non ASYEs. • Ofsted Monitoring Visit in Feb 2018 noted improvements in the MASH - all contacts reviewed by a qualified Social Worker, appropriate application of thresholds and good management oversight. • Work in line with the residential and sufficiency strategies has been delayed as property works to the Bungalow (which will be the complex needs unit), Slyne Road (the Adolescent Support Unit), and South Avenue (the crisis unit) is not yet complete. • DfE six month review in November 2017 similarly noted that the quality of practice was improving and plans were in place to embed and sustain improvement, although there remained inconsistency in the quality of practice. This is also reflected in audit findings.	16	Director of Children's Services	The risk is being managed

				continuous professional development for social workers. • Heat maps used to monitor performance and report on Annex A requirements in preparation for inspection by Ofsted.					
CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care.	Legal/ Political	Local Authority is legally and possibly financially liable, judicial review. Further OFSTED intervention.	• Corporate legal oversight. • Quarterly Safeguarding Report. • Serious incident reporting to ensure appropriate management oversight. • Serious Case Review learning shared. • Peer Review and Challenge. • Stronger management oversight in Districts. • Advanced Practitioners in post. • Case file audits check compliance and quality of practice. • Multi-agency inspections. Sector led Peer Review. • Performance monitoring - action taken to address areas of underperformance.	25	• Ofsted Monitoring Visit October 2017 - improvements noted in quality of practice - "good to requires improvement"; practice is compliant with statutory requirements; audit effective and leads to actions (Focus on CIN). • Work in line with the residential and sufficiency strategies has been delayed as property works to the Bungalow (which will be the complex needs unit), Slyne Road (the ASU), and South Avenue (the crisis unit) is not yet complete. • DfE six month review in November 2017 similarly noted that the quality of practice was improving and plans were in place to embed and sustain improvement, although there remained inconsistency in the quality of practice. • Leaving care performance indicators show improvement.	16	Director of Children's Services	The risk is being managed
CR4	Recruit and retain experienced staff within Children's Services	Organisational	Inability to deliver effective services. High caseloads. Lack of management oversight. Increased staff turnover. Increased agency spend.	• Additional funding envelope. • Enhanced recruitment including children's services recruitment evenings and use of social media. • Agency social work team is currently providing additional capacity in the North Locality. • Weekly monitoring of SW workforce position and social work caseloads. • Increased focus on retention and conditions. • Additional temporary capacity provided for MASH. • Workforce Strategy Board established to ensure strong focus on recruitment and retention and workforce development. Leadership Academy in development with a particular focus on skilling up first line managers to strengthen leadership of practice.	25	• Number of experienced workers in post continues to increase - there has been a reduction in the proportion of newly qualified (ASYE) Social Workers: ○ April 18 – 26.8% • The proportion of social workers with 1-3 years' experience has increased, as staff retention improves, and experienced workers now account for 73.2% of all qualified social workers.	16	Director of Children's Services	The risk is being managed

CR5	Managing our data well and producing effective management information	Organisational	Ineffective collection, collation and input of data Failure to improve quality of data in council systems including those that have already been implemented and those that are being implemented. 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 demand management e.g. around demographics and ageing population profile Ineffective reporting arrangements. Statutory returns will be compromised, so incorrect performance will be reported nationally, with potential for negative financial consequences OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance. Service planning and management will be severely compromised. Potential for incorrect payment of providers, staff etc	• Information Management Strategy. • Accuracy Steering Group chaired by Director of Adult Services oversees a programme of work to improve data quality within systems used by Adult Services • Data Quality and Performance Group oversees quality of information in systems for children's services • Regular provision of management information to staff at all levels across adults and children's services helps to embed ownership of data and improve recording. • Use of 'exception reports' which proactively highlights data anomalies and inconsistencies. • Development of a Corporate Performance Dashboard is facilitating a council-wide view of all services, which will improve the quality of reported data as anomalies will be highlighted.	16	• 'Project Accuracy' for Adults Services focussing on procedures and data quality is now underway. • Significant inroads made in improving data accuracy in children's services; this work is ongoing. • Clear governance structure in place to ensure a continued focus on data quality/accuracy: • Data Quality and Performance Group. • LCS Systems Steering Group - provides governance to the DQP Group. • Practice Improvement Meetings (PIMs) looking at performance and data quality. • Children's Portfolio Review Board - development of systems within Children's Services. Governance Boards established for Early help Module, Education, Health and care Plans module and the Education Management System. • Draft Digital Strategy – information architecture for the organisation. Clarify roles and responsibilities around data management and storage. Develop a corporate data warehouse. • Landscape review of business intelligence is currently being undertaken which will highlight opportunities for development and improvement of reporting systems.	12	CMT	Level

CR6	Implement/maintain core systems that support the organisation, deliver transformational change and deliver efficiencies, cost reductions and produce effective management information that supports management decision making.	Organisational/Reputational	Front line service delivery impeded because new/old systems are not fit for purpose Back office unable to function Failure to maximise use of new technology, including mobile devices to deliver savings and to operate in a more effective way, including integration with partners. New systems are implemented without full transformational and operational processes being defined and tested that impact on service delivery. Lack of management buy-in from service areas to drive forward change and ensure services work to new practices in a consistent way so that system implementation is as smooth as possible and the council maximises the benefit from its investment in new technology. Service planning and management will be 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	• Significant number of core systems in place and associated integration technology. • Greater investment in mobile devices to support the property strategy and new ways of working - Social Care/Highways etc. • Monitoring and performance information available. • Digital board established with engagement from key senior managers - targets in place and roadmaps developed for the rollout of key initiatives and priority areas. Savings tracker in place. • Digital Health Board representation and at operational group level. • Integration tools with health developed and others under development. • Integration tools with police in development. Significant potential needs to be maximised - focus on channel shift with required changes to internet site and approach to mobile applications to maximise the potential. • New web tools available through the new customer access system being rolled out and once proof of concept tested will be rolled out in a targeted way.	16	• In relation to core systems, boards and working groups established to oversee progress and to set targets. Ongoing engagement with services to identify major benefits and to support implementation. • Post system implementation groups in place to identify areas for development/opportunity and then be linked to system roadmaps and transformation change. • Highway Asset Management System - Business Analyst to be assigned to support solution design • Draft Digital strategy • Corporate wide approach implemented for all system changes involving services, L&D, BI etc. on wider impacts and how system changes are managed into the business. • Sign off arrangements for roadmaps, including prioritisation of work, are in place. • Implementations are: Early Help Module, Education, Health and Care Plans Module, On-Line School Admissions, Education Management system. Information management strategy and approached being rolled out with all new systems. • Small transformation team available to support system changes and implementations supplemented by relevant service areas to encourage ownership, super users etc. • Data Quality processes in place and exception reporting produced but local systems are dependent upon processes within individual services. Local Information Systems still exist but are being replaced over time with new core systems and other corporate solutions, i.e new Highways solution has replaced 23 existing systems. • Corporate performance information being developed as part of systems implementations though long term reporting tool needs developing and implementing. JSNA and other needs assessments. • New ICT technology rolled out to staff to support mobile working and integrated working. Mandatory training provided before devices issued and monitoring reports issued on devices used/not used and extent of functionality that is being utilised. Discussed with various management teams on a ongoing basis.	12	Director of Programmes & Project Management	The risk is being managed

						• Weekly provision of information to operational managers for LCS. Monthly Performance Books or dashboards provided to Start Well Management Team and Adults Leadership Team. • T101 data centre has been upgraded t address key risks and improve reliability. Ongoing assessment of remaining and emerging risks carried out - may require further investment subject to the outcome of the review.			
CR7	Delivering major projects/schemes on time and within budget	Economic/ Political/Social/reputational	Scheme viability in doubt due to speculative estimating and project management Pressure on capital programme	• Capital Board • Capital Programme reports to Cabinet • Active project and programme management	16	• Initial review work undertaken of a sample of major capital schemes to improve the estimating and testing of current and future scheme costs. These include: ○ Reporting of cost ranges for new schemes ○ Routine updating of cost estimates ○ Inclusion of contingency at industry standards and benchmarks • Governance arrangements improved to provide structured challenge. Capital Board now has oversight of estimates as well as capital budgets so it can manage both through the life cycle of the project	12	Exec Director Growth, Transport and community services	Level
CR8	Delivering a statutory service for children and young people with special educational needs and/or disabilities.	Organisational/social	Not providing adequate service which places the LA at risk of appeals to SENDIST Tribunal, increased reputational risk via complaints corporately and to LGO. Unmet need will result in CYP failing to meet their potential and therefore not be supported as positively as possible into adulthood. The failure to recruit and retain staff. Lack of confidence in council services. The lack of accessibility and quality of information on the local offer	• Following the SEND Local Area Inspection a WSA has been submitted identify improvements to the service offered by LCC and the Clinical Commissioning Groups. The following areas were identified as requiring action: ○ The lack of strategic leadership and vision across the partnership ○ Leaders' inaccurate understanding of the local area ○ Weak joint commissioning arrangements that are not well developed or evaluated ○ The failure to engage effectively with parents and carers ○ The confusing, complicated and arbitrary systems and processes of identification ○ The endemic weaknesses in the quality of EHC plans ○ The absence of effective diagnostic pathways for ASD across the local area, and no diagnostic pathway in the north of the area ○ No effective strategy to improve the outcomes of children and young people	25	• Implementation of the early help (IT) module. • Recruitment of qualified staff funded by the SEND reform grant. • Commissioning arrangements with Health being reviewed. • The actions to implement the Written Statement of Action. • Strategic reporting and monitoring of improvement plan at Cabinet and CMT level. • Active leadership of Health and Wellbeing Partnership is leading SEND improvement plan.	16	Director of Children's Services	The Local Area SEND Inspection identified serious weakness in delivery of the SEND Reforms.

				who have SEN and/or disabilities ○ Poor transition arrangements in 0–25 healthcare services ○ The disconcerting proportion of children and young people who have an EHC plan or statement of SEN who are permanently excluded from school ○ The inequalities in provision based on location •					
CR9	Discharge of patients from hospital into their own home or enablement/short term care in a safe and timely manner	Organisational	Service users staying longer in an acute hospital setting leads to deconditioning of service user (older people often lose skills and the physical ability to undertake activity), which increases reliance on social care post discharge and as a result an increased cost. Increased pressure on adult social care. Cost to the health economy, as prolonged hospital stay, will increase tariff. Effect on relationships with health economy. Risk that pressure to deliver targets results in expedient decisions which sees individuals discharged but not with the most suitable care package and thus recovery and independence not promoted and risk of readmission Inability to agree or deliver challenging Delayed Transfer of Care (DTOC) national targets. Inability to manage short term pressure for reablement services.	• Regular data set produced and analysed by business information. • Cluster boards for P2I for reablement and acute joined to ensure good communications. • Focus at Better Care Funds meetings. iBCF spending plan, which is intended to have positive impact on DTOC, agreed by HWBB in August 2017.	20	• Commissioned home care framework. • Increased capacity of reablement service including development of options to manage short term pressures. • Weekly "winter" ops and commissioning meeting. Implementing of eight High Impact changes using iBCF monies to facilitate. • Roll out of passport to independence in an acute setting. • Development of dashboard to provide better MI within LCC and staff appointed to tracka and grip cases in each of acute settings • Discussions to ensure that activity related to DTOC Dashboards is joined up across the STP. • DTOC Board established. • Programme Office defined future governance and programme management arrangements for BCF/iBCF/DTOC in LCC. • Continued scrutiny by elected members. Mitigating actions above will not enable DTOC targets to be met within agreed timescales.	20	Exec Director of Adult, Health and Wellbeing Services	Level
CR10	Adult social care provision is adequate and responsive to meet current and future demand	Organisational/social/economic	People's' needs are not met due to non-availability of care provision. The market is not responsive enough to respond to demand. People living in	• The Homecare Framework has commenced and care provision is tendered in 'lots' covering all areas of the County. Care is sourced and awarded on a rotational basis across all providers for that area to	15	• Weekly Homecare mobilisation operational meetings to review progress/raise challenges/agree actions. Board oversight.	12	Director of Adult Services	Level

			rural areas or with very complex needs are difficult to find appropriate support for. Delays to Hospital discharge, blocking moving on from enablement or Short Term Care, people remain at home without support. People with complex health and social care needs cannot be supported appropriately.	guarantee adequate volumes of work and create sustainability. • Work needs to be undertaken around the residential care market. • Through the work of P2I, people are able to optimise their independence, access the right service at the right time, and reduce dependency on formal support as appropriate. This in turn will support the demand on the market.		• Weekly domiciliary care delays circulated for information across ops/Commissioning/Contracts			
CR11	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	Organisational/economic /social	Failure to achieve Payment by Results targets due to specific requirements of the programme. Failure to accrue maximum income from the programme for the authority. Failure to meet savings target attributed to the service for current financial year. Possible reputational risk as a result of missing a national target. Possible reputational risk if progress not made with the TFU Maturity Model and service transformation with partners. Risk of additional scrutiny of programme	• Robust tracking processes in place with view to maximising payment by result claim opportunities. • Ongoing data matching to identify new eligible families • The target in the MTFS for TFU Payment by Results (PBR) claims for 2017/18 was for 1,500 PBR claims to be made and this target has been exceeded. The position as at 22/03/2018 is that 22% of the PBR claims available have been claimed with just over 2 years of the programme remaining. • The current positive trajectory is anticipated to continue to improve with the team ensuring that all available data and information systems are fully utilised to maximise PBR claim opportunities	20	• Development of reporting processes to ensure monthly progress checks against targets • Redesigning of outcomes plan to set more achievable/realistic targets • Review of Governance Arrangements commissioned. • Districts supported to identify families where potential claims can be made • Workforce development complete for shared assessment. Lead Professional and Risk Sensible approach. • Revised assessment CAF documentation, Quality Assurance and processes to assist in meeting requirements. • TFU Maturity Model self-assessment completed and developed action plan to support delivery and improvement.	16	Director of Public Health	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	**Delivering the Operational Plan to ensure a strong and sustainable County Council**
	
	Delivering growth and prosperity for the whole of Lancashire
		Economic/ Political/organisational	Self-sustaining organisation
			
			Stronger and growing economic base
			
			Ability to deliver affordable high quality services with outcomes relevant to the needs of our residents, communities and businesses
			
			Improved productivity and earning power of all residents
			
			Continued successful delivery of the LEP's current strategic economic growth programmes.
			
			Successfully securing 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 (LEP) 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.
				
				• ESIF monies, both Regional Development Funds and Social Funds, totalling circa £200m are currently ring-fenced for use in Lancashire (LEP area) over the next 5 years. This supports business support initiatives, innovation investment, environmental and flood mitigation measures as well as skills development and employability work. Post Brexit vote, projects which have been through the full approval process are not able to sign a final contract with MHCLG and project funding is being restricted to spend prior to end 2018. Significant beneficiaries include the Council, other local authorities, Higher Education Institutes' and Colleges.
					12	• Work with local authority partners 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.
						
						• The County Council to give greater consideration to using its investment and prudential borrowing capacity and investment funds to bring forward a portfolio of strategic development opportunities
						
						• Recent Growth Deal settlement of circa £70m will provide resource for six key projects to advance over the next three years. The LEP has secured a £320M Growth Deal programme to be delivered by 2021.
						
						• Work with local authority partners and the LEP to agree:
						
						  ○ a Local Industrial Strategy (aim to be an early adopter)
						  ○ a new Lancashire Prospectus
						  ○ an approach to future growth initiatives and priorities
						
						the London School of Economics have been secured as a critical friend
						
						• Economic Development's main ERDF project Boost, has secured a Grant Funding Agreement and is applying for funding to the end 2021. Business Growth Service staff will, as far as possible, seek to frontload activity and spend within this project in-case funding or activity is prematurely curtailed. For the programme as a whole, we have issued calls in all measures in an effort to defray as much of the programme as early as possible. We are now looking to a further bid which could take the project to 2021.
						
						• Whilst the opportunity to secure EU funds (underwritten by HMG) looks more positive in the medium term, we are also preparing in the event that EU Structural funds are replaced with completive rounds of national or sectoral
							16	CMT	Level

						productivity funding. The development of a UK Shared Prosperity Fund could also create new funding opportunities for place-based growth strategies – though further details not expected until later in 2018.			
CO2	Apprenticeship Levy and Apprentice % in Public Sector	Political Economic Social Reputational Organisational	Increase in Apprentices in the workforce and use the Apprenticeship levy to its maximum benefit to support critical development needs in the County Council	The Apprenticeship Levy is live from April 2017 and the first payment from the digital account was in May 2017. Work is being undertaken across LCC with Heads of service or their representatives to discuss their overall workforce development and what part the Levy could play in this.	12	• Maximise the benefits of the Apprenticeship Levy within LCC by working in conjunction with Management Team, Finance and HR to embed this into structures across the organisation. • Working with services to identify the quick wins where these suit their business need and to thus eliminate training expenditure where we can, and link to Levy fund. • L&D are speaking to Heads of Service to see how their training needs can be creatively addressed to link with the Levy, where possible. • Heads of Service have been asked to report to L&D any current areas of training expenditure commitment that they have entered into. Heads of Services have been asked not to enter into any further financial commitments without speaking to L&D	15	Dir of Corporate Services	Upwards
CO3	Develop and implement improved recruitment and retention practices to address increasing challenges	Organisational	Reduced staff turnover, especially 'hard to fill' roles; improve staff morale; reduce costs; reduce sickness absence; improve productivity.	Draft action plan produced. Focus initially on Children's and Adult Services.	12	• Align to wider draft 'People Strategy'	16	Dir of Corporate Services	

Key to Scores

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

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected:
(All Divisions);

Chairman's Annual Report 2017/18
(Appendix 'A' refers)

Contact for further information:
Paul Bond, Tel: (01772) 534676, Head of Legal & Democratic Services,
paul.bond@lancashire.gov.uk

Executive Summary

Last year the committee agreed a number of actions to enhance its effectiveness as an element of the Council's governance framework. One of the actions agreed was that the committee should prepare an annual report of its activity to facilitate assessments of its effectiveness.

The first Annual Report is set out at Appendix 'A'.

Recommendation

The committee is asked to:

(i) Note the Chairman's Annual Report;
(ii) Consider and agree the draft knowledge and skills framework set out at Annex 2 to the Chairman's Annual Report.

Background and Advice

Last year the committee agreed a number of actions to enhance its effectiveness as an element of the Council's governance framework. One of the actions agreed was that the committee should prepare an annual report of its activity to facilitate assessments of its effectiveness.

The first Annual Report is set out at Appendix 'A'.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

Good governance enables an authority to pursue its priorities effectively as well as underpinning those priorities with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements. The annual report provides a means by which the committee can review its own effectiveness.

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'

Chairman's Annual Report 2017/18

Audit, Risk and Governance Committee

Lancashire County Council

Lancashire County Council

www.lancashire.gov.uk

Contents

Chairman's Introduction

As the Chairman of the Audit, Risk and Governance Committee I am very pleased to present the first annual report which sets out the role of the Audit, Risk & Governance Committee, and summarises the work we have undertaken during the financial year 2017/18.

The Committee operates in accordance with the good practice guidance produced by the Chartered Institute of Public Finance Accountancy (CIPFA) and continues to be well supported by Officers, providing a high standard of reports and presentations. In particular I wish to thank the County Council's Finance and Internal Audit services and the Grant Thornton External Audit team.

I should like to take this opportunity to give my personal thanks to all the officers, my Deputy Chairman County Councillor Edward Nash and without exception, all fellow Committee members who have contributed and supported the work of the Committee in any meaningful and positive way throughout the past year.

County Councillor Alan Schofield
Chairman, Audit, Risk & Governance Committee

Role of the Audit and Governance Committee

The Audit, Risk and Governance Committee operates in accordance with the “Audit Committees, Practical Guidance for Local Authorities” produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2013. The Guidance defines the purpose of an Audit Committee as follows:

1. Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.

2. The purpose of an Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

In essence, the Audit, Risk and Governance Committee provides an independent oversight of the adequacy of the Council's governance, risk management and internal control framework; and oversees the financial reporting process.

As reflected in its terms of reference, the Committee has a scrutiny and monitoring role in the oversight of, and proposed changes to, the Council's borrowing, investment and other cash-related strategies and management.

The Audit and Governance Committee replaced the Audit Committee from 2012 and in October 2017, the Full Council approved a proposal to change the name of the committee to the Audit, Risk and Governance Committee to reflect a change in its terms of reference.

Further guidance has recently been published by CIPFA, 'Audit Committees: Practical Guidance for Local Authorities and Police 2018'. This replaces the position statement referred to above and I will, in due course, ask the Committee to consider the new guidance as part of a future effectiveness review.

The key functions of the Audit, Risk and Governance Committee are defined within the Council's Constitution; the relevant extract is attached as Annex 1 to this report.

Key Activities

In this section the activities of the Committee during 2017/18, are summarised under the headings of the key functions.

Internal Control

The Audit, Risk & Governance Committee approved the Annual Governance Statement (AGS) for 2016/17 in June 2017. This included actions for 2017/18, within the following areas, to improve existing governance arrangements.

- The County Council's Financial Position
- Delivery of the Ofsted Improvement Plan
- Special Educational Needs and Disability Inspection
- Health and Social Care Integration
- A Combined Authority for Lancashire
- Systems Development & Data Quality

The Committee actively monitors progress through the Corporate Risk and Opportunity Register and specific reports especially in reviewing key risks and opportunities.

The Committee received and considered required updates from directors or heads of service in the following areas:

- Liquid Logic System Upgrade
- Actions to enhance the Committees effectiveness as an element of the Council's governance framework
- Health, Safety and Resilience
- Standards and Code of Conduct
- Overpayment of Salaries

The Committee receives regular progress reports from the Head of Internal Audit, including the summaries of the findings and outcomes of Internal Audit work.

In June 2017, the Committee approved an updated Local Code of Corporate Governance and recommended its adoption to Full Council.

Risk Management

The Committee has continued to receive quarterly updates from the Head of Legal and Democratic Services on the Corporate Risk & Opportunity register. The register is signed off by the Corporate Management Team and is then presented to the Cabinet Committee on Performance Improvement before it is presented to this committee. The reports reviewed have demonstrated good progress in the alignment between risk and performance reporting and the link to key issues identified in the AGS.

An Internal Audit review gave full assurance over the process by which the corporate register is prepared.

A training session on Risk Management was held for committee members in June 2017.

Internal Audit

In April 2017 the Committee considered the draft Internal Audit Plan 2017/18, which provides members with the opportunity to challenge and influence the plan where they have identified areas of concern. The full Plan was approved by the Committee in July 2017.

The regular update reports of the Head of Internal Audit to the Committee have enabled emerging issues arising from Internal Audit activity to be considered on a timely basis, including where appropriate working with the Senior Officers to seek assurance that matters are being dealt with promptly and effectively.

The Internal Audit Annual Report 2016/17 was presented to the Committee in June 2017 and that for 2017/18 was presented in April 2018. These reports summarised the work undertaken by the Internal Audit Service and the key themes arising in relation to internal control, governance and risk management across the County Council. However, during both years our assurance framework identified service areas where improvements needed to be made. The council has introduced improvement plans and whilst the overall direction of travel in these areas is positive, the evidence needed to provide substantial assurance was not available. As a result, the Head of Internal Audit's overall opinions as set out in the Annual Reports is that only limited assurance can be given regarding the adequacy of the design and effectiveness in operation of the organisations framework for governance, risk management and control for 2016/17 and for 2017/18.

External Audit

The Council's external auditors, Grant Thornton LLP, attended all the committee meetings during 2017/18, providing regular updates on their work plan and any matters arising. In addition they have provided the Committee with sector updates for consideration that highlight key themes, issues and priorities for local government. These have been well received and are helpful to the Committee. The Committee received and reviewed the External Audit Annual Letter.

Last July the Committee considered a report on the External Auditor appointment process. Previously, full council had agreed to opt into an approved sector led body approach to appointing its external auditor for the five years commencing 1st April 2018. This allowed Public Sector Audit Appointments Limited (PSAA) to act as the appointing person for the county council. The council had to secure an external auditor by December 2017. As part of the process, PSAA started consulting audited bodies on proposed appointments in August 2017. The consultation period was five weeks. Where a body accepts the proposed appointment no further action is needed. If the body does not accept the appointment it has the opportunity to make further representations. In this instance, the Chair of the committee would advise members accordingly.

It was agreed that the Director of Financial Resources in consultation with the Chair of the Committee be authorised to respond to the PSAA's consultation on the proposed appointment of an external auditor for the council, and subsequent consultations as necessary.

Counter Fraud and Anti-Corruption

The Committee receive regular updates from the Head of Internal Audit on any reported matters of suspected fraud, including investigations. Outcomes of investigations are reported to and monitored by the Audit, Risk and Governance Committee.

In June 2017, we received a report on Whistleblowing, Special Investigations and Counter Fraud from the Head of Internal Audit, that highlighted there have been very few cases. Whilst it is not unexpected there is very little fraud identified, nationally statistics show that fraud is on the increase, so it is important that we all remain vigilant.

Annual Accounts Process

The 2016/17 Statement of Accounts (including Pension Fund accounts) were prepared on time and as an advance timeline of the shortened timescale for 2017/18 accounts onwards, and presented to the Committee for approval. The External Auditor concluded that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
A dedicated advance session on the draft Statement of Accounts was held for the committee in June 2017.

Treasury Management

The Committee receives reports on Treasury Management throughout the year, exercising its stewardship role. The Committee reviewed:

- Treasury Management Activity 2016/17
- Lancashire County Council Treasury Management Investment Policy
- Treasury Management Activity 2017/18 Update
- Treasury Management Policy and Strategy 2018/19

A briefing session on treasury management by Arlingclose was held in June 2017.

Governance

The committee agreed the Annual Governance Statement 2016/17 that explained how the County Council had complied with the Local Code of Corporate Governance. The Committee reviewed the Local Code of Corporate Governance in June 2017 and recommended it to Full Council for approval.

The Committee has not received any reports in respect of investigations into allegations of misconduct under members' code of conduct. The Committee has not granted any dispensations from requirements relating to interests as set out in the code of conduct for members.

Effectiveness of the Audit, Risk and Governance Committee

At its meeting in July 2017, the Committee considered a report from the Head of Internal Audit on 'Actions to enhance the committee's effectiveness as an element of the Council's governance framework'. The Committee agreed to the following actions:

1. The governance framework for the Council overall should be reviewed to ensure that the roles of and relationships between its various elements are coordinated.

   Action

   In 2017, the Internal Audit Service completed a review of the Council's governance arrangements and the outcome confirmed that we largely comply with best practice. Further to this a member led governance review did not identify any changes to the current arrangements and the constitution was agreed at Full Council in May this year. However, work is underway to examine how the scrutiny function currently functions and recently the Committee

suggested some improvements to help Scrutiny Committees with their future work plans. As a result, both the Internal Audit Annual Report and future work plan were circulated to Chairmen and Deputies to aid their deliberations.

2. The revised/ clarified role and responsibilities of the Audit and Governance Committee within the council's governance framework should be reflected in its terms of reference.

Action

Revised terms of reference were presented by the Head of Legal and Democratic Services to the committee on 31 July 2017. These were subsequently adopted at the following meeting of Full Council.

These will be considered annually.

3. The committee's terms of reference should be reviewed and, if required, revised annually to ensure alignment with the council's governance framework and compliance with current good practice.

Action

New guidance on audit committees has recently been published by the Chartered Institute of Public Finance & Accountancy. The Head of Legal and Democratic Services will, in consultation with the Committee Chairman review the guidance. If applicable, a future report outlining any recommended changes to further improve the Committees effectiveness will be presented in due course.

4. A clear direction, supported by the terms of reference, should be given annually that committee members should act objectively and independently, and that substitutions should not generally be made.

Action

This was done by the chair of the committee supported by the monitoring officer at the same time as the terms of reference and membership were confirmed.

5. In appointing the committee's members the political groups should consider members' skills and expertise, and their wishes.

Action

The Democratic Services Manager wrote to the political groups ahead of the annual general meeting of Full Council.

6. Skills specifications should be developed and agreed for the committee's chairman and members.

Action

A knowledge and skills framework has recently been published as part of the recently updated Cipfa guidance on Audit Committees. This is attached at Annex 2. It sets out what knowledge areas are required and suggests how the Committee member is able to apply the knowledge. The framework also sets out the core skills needed by Committee members. The Committee is asked to consider and agree the draft framework set out at Annex 2.

7. Renewed consideration should be given to the training required by members and particularly the chair, and appropriate training provided.

Action

Once the draft knowledge and skills framework has been agreed, the Head of Legal and Democratic Services will, in conjunction with member development, ask Committee members to complete a training needs analysis to identify skills and knowledge gaps so that appropriate training and development sessions can be arranged.

8. A schedule of meetings and their agendas should be established at the start of each year and reviewed in advance of each meeting.

Action

A schedule of meetings and the proposed agendas will be presented to the first meeting of the municipal year for comment and consideration.

9. As members are more effectively trained to understand their role, the committee should periodically undertake a self-assessment exercise.

Action

Committee members have been asked to complete a self-assessment questionnaire to help review the effectiveness of the Committee. Further details are set out below.

10. The committee should prepare an annual report of its activity to facilitate assessments of its effectiveness.

Action

An Annual Report will be considered at its meeting in July 2018.

Self-Assessment on the effectiveness of the Audit, Risk and Governance Committee

Members who served on the Committee for the municipal year 2017/18 were asked to complete a self-assessment questionnaire (see Annex 3). The evaluation will support an assessment against recommended practice to inform and support the Committee. A summary of the responses is set out below. 6 members completed the questionnaire (75%).

Overall, members thought that the committee was effective in fulfilling its duties (although one member indicated that they thought the committee was ineffective by scoring 1 (hardly ever/poor) for every question). However, there were a few areas identified for improvement. These include:

1. Structured and appropriate annual agenda
   There needs to be a structured annual agenda of matters to be covered, with focus on the right areas

   A report setting out a proposed work programme for the year will be presented to the committee at its meeting on 30th July 2018.

2. Attendance and contribution to meetings
   All committee members attend and actively contribute at meetings

   Attendance (or non-attendance) at committee is a matter for the political groups. Further training may help facilitate active contributions from members of the committee.

3. On-going personal development
   Committee members have access to ongoing development activities to update their skills and knowledge.

   Training events have been held for members throughout the year but they have not always been well attended. However, it is intended that a knowledge and skill framework is developed and used via a training needs assessment questionnaire to identify gaps that members need addressing. From this appropriate training and development plans be agreed either for the committee or individual members.

Other areas for improvement identified by members included:

- Directors asked to attend committee to present improvement plans were internal audit have given limited or no assurance
- Further work around assessing the impact of the committee
- Promoting risk management

- Making the work of the committee more accessible to councillors and citizens
- Greater scrutiny of the issues presented

Membership, Meetings & Attendance

Audit, Risk and Governance Committee

The Audit, Risk and Governance Committee comprises eight elected members representing the two main political parties.

Officers

The Audit, Risk and Governance Committee continues to be well supported by Officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee.

In 2017/18 the Interim Chief Executive and S151 Officer, Director of Finance, Director of Corporate Services (& Monitoring Officer), Head of Legal and Democratic Services (& Deputy Monitoring Officer), Head of Internal Audit and Head of Corporate Finance routinely attended the meetings.

External Audit

The External Auditors, Grant Thornton, have attended all the Audit, Risk and Governance Committee meetings.

Meetings

The Audit, Risk and Governance Committee met five times in 2017/18.

Annex 1

Terms of reference for Lancashire County Council's Audit, Risk and Governance Committee

Statement of purpose

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

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

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

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

Governance

The committee will:

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

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

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

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

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

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

Risk management and control

The committee will:

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

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

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

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

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

Internal audit

The committee will:

16 Approve the internal audit charter.

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

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

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

20 Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

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

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

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

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

b. The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the

summary of the work supporting the opinion, which will assist the committee in reviewing the annual governance statement.

22 Consider summaries of specific internal audit reports as requested.

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

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

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

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

External audit

The committee will:

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

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

29 Consider specific reports as agreed with the external auditor.

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

31 Commission additional work from the external auditor as necessary.

Financial reporting

The committee will:

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

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

Accountability arrangements

The committee will:

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

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

Treasury management

The committee will:

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

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

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

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

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

Annex 2

Audit, Risk & Governance Committee members – Draft knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes Knowledge of the organisational objectives and major functions of the authority	This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions	An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements Knowledge of the purpose and role of the audit committee	This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance	Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS Knowledge of the local code of governance	The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework The committee will plan the assurances it is to receive in order to adequately support the AGS The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit	An awareness of the key principles of the PSIAS and the LGAN Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled	The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting	Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them Understanding of good financial management principles Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018)	Reviewing the financial statements prior to publication, asking questions Receiving the external audit report and opinion on the financial audit Reviewing both external and internal audit recommendations relating to financial management and controls The audit committee should consider the role of the CFO and how this is met when reviewing the AGS

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
External audit	Knowledge of the role and functions of the external auditor and who currently undertakes this role	The audit committee should meet with the external auditor regularly and receive their reports and opinions
	Knowledge of the key reports and assurances that external audit will provide	Monitoring external audit recommendations and maximising benefit from audit process
	Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken	The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service
Risk management	Understanding of the principles of risk management, including linkage to good governance and decision making	In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces
	Knowledge of the risk management policy and strategy of the organisation	Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee
	Understanding of risk governance arrangements, including the role of members and of the audit committee	The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud	An understanding of the main areas of fraud and corruption risk to which the organisation is exposed	Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy
	Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)	An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support

	Knowledge of the organisation's arrangements for tackling fraud	the audit committee member in reviewing that assessment

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Values of good governance	Knowledge of the Seven Principles of Public Life Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff Knowledge of the whistleblowing arrangements in the authority	The audit committee member will draw on this knowledge when reviewing governance issues and the AGS Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported
Treasury management	Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: regulatory requirements treasury risks the organisation's treasury management strategy the organisation's policies and procedures in relation to treasury management	Core knowledge on treasury management is essential for the committee undertaking the

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side tracked by detail	When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much

		time on detail
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations Challenging performance and seeking explanations while avoiding hostility or grandstanding	The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility	The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice	The audit committee should seek assurances that planned actions are practical and realistic
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc	The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity	The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views

Meeting management skills	Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting	These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

Annex 3

Audit, Risk and Governance Committee effectiveness

Assessment scores:

N/A = not applicable **1** = hardly ever/ poor **2** = occasionally/ inadequate

3 = most of the time/ satisfactory **4** = all of the time/ good

	N/A	1	2	3	4
1 Members with appropriate skills and experience The Committee comprises members with an appropriate mix of skills and experience, including some relevant financial experience					
2 Clear terms of reference There are clear, up to date terms of reference, with clarity as to the committee's role in relation to the council and other committees					
3 Structured and appropriate annual agenda There is a structured annual agenda of matters to be covered, with focus on the right areas					
4 Sufficient number of meetings and access to resources The number and length of meetings and access to resources is sufficient to allow the committee fully to discharge its duties					
5 Concise, relevant and timely information Committee papers are concise, relevant and permit timely resolution of the issues raised					
6 The right people invited to attend and present at meetings Senior officers and others are asked to present on issues as appropriate					
7 Attendance and contribution to meetings All Committee members attend and actively contribute at meetings					
8 Sufficient time and commitment to undertake responsibilities All Committee members have sufficient time and commitment to fulfil their responsibilities					
9 On-going personal development Committee members have access to on-going development activities to update their skills and knowledge					
10 Understanding the council's business All Committee members have a good understanding of the different risks inherent in the council's business activities					
11 Focus on appropriate areas The Committee focuses on the right questions and is effective in					

	N/A	1	2	3	4
avoiding minutia					
12 Understanding of how assurance is gained The Committee understands the interaction between the various sources of assurance available to it					
13 Quality of interaction with external auditors The Committee actively engages with the external auditors regarding the scope of their work and audit findings					
14 Quality of interaction with internal audit The Committee demonstrates an appropriate degree of involvement in the work of internal audit and its findings					
15 Frank, open working relationship with senior officers Committee members have a frank and open relationship with senior officers, whilst avoiding the temptation to act as officers					
16 Open channels of communication The Committee has open channels of communication with officers and other members to keep it aware of topical/ regulatory issues					
17 Rigour of debate Committee meetings encourage a high quality of debate with robust and probing discussions					
18 Reaction to bad news The Committee responds positively and constructively to bad news to encourage future transparency					
19 Perceived to have a positive impact There is an appropriate balance between the monitoring role and the Committee acting as an “influencer for good”					
20 Quality of chairmanship The Chair promotes effective and efficient meetings, with an appropriate level of involvement outside the formal meetings					

21 How do we know that we are being effective in achieving our terms of reference and adding value to the county council's corporate governance?

22 How do we know what impact we are having?

23 What do we do well as a Committee?

24 What could we do differently or better as a Committee?

Audit, Risk and Governance Committee
Meeting to be held on Monday, 30 July 2018

Electoral Division affected: None;

Committee Work Plan 2018/19
(Appendix 'A' refers)

Contact for further information:
Dave Gorman, Tel: (01772) 534261, Senior Democratic Services Officer, dave.gorman@lancashire.gov.uk

Executive Summary

The draft work plan for the Committee for 2018/19.

Recommendation

The Committee is asked to consider the draft work plan for 2018/19, as set out at Appendix 'A'.

Background and Advice

Appendix 'A' sets out a draft work plan for the Committee for the 2018/19 municipal year.

The work plan sets out those standard reports which are expected to be brought to the Committee during the course of 2018/19 from the following service areas:

- Internal Audit
- Legal and Democratic Services
- Corporate Finance
- Grant Thornton LLP

It is expected that, during the course of the year, the Committee will also identify other areas and issues for consideration as appropriate.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Audit, Risk and Governance Committee - Draft Work Plan 2018/19

Meeting	Internal Audit	Legal and Democratic Services	Corporate Finance	Grant Thornton LLP
July 2018	- Internal Audit Progress Report	- Corporate Risk and Opportunity Register - Committee Constitution, Terms of Reference and Membership - Chairman's Annual Report	- Financial Statement of Accounts - Treasury Management Activity - Letters of representation (committee and management)	- External Audit - Audit Findings Report (LCC and LCPF)
October 2018	- Internal Audit Progress Report	- Corporate Risk and Opportunity Register	- Treasury Management Activity	- External Audit Progress Report - External Audit - Annual Audit Letter
January 2019	- Internal Audit Progress Report	- Corporate Risk and Opportunity Register	- Accounting Policies to adopted for the Statement of Accounts - Treasury Management Activity - Treasury Management Strategy	- External Audit Progress Report

Meeting	Internal Audit	Legal and Democratic Services	Corporate Finance	Grant Thornton LLP
May 2019	- Internal Audit Progress Report - Internal Audit Annual Report - Internal Audit Annual Plan - Whistleblowing, Special Investigations and Counter Fraud Annual Report - Internal Audit Charter (if amendments are required)	- Corporate Risk and Opportunity Register - Draft Annual Governance Statement - Code of Corporate Governance	- Response from those charged with Governance (Management) - Response from those charged with Governance (Committee Chair)	- External Audit - Lancashire County Council Audit Plan - External Audit Progress Report - External Audit - Lancashire County Pension Fund Audit Plan