Lancashire County Council

Audit, Risk and Governance Committee

Monday, 29th July, 2019 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 2019/20**	(Pages 1 - 6)
4.	**Minutes of the Meeting held on 20 May 2019** To be confirmed, and signed by the chair.	(Pages 7 - 16)
5.	**Internal Audit Progress Report**	(Pages 17 - 50)
6.	**Internal / External Audit Protocol**	(Pages 51 - 56)
7.	**Approval of the County Council and County Pension Fund Letters of Representation 2018/19**	(Pages 57 - 66)
8.	**External Audit - Lancashire County Council Audit Findings Report 2018/19**	(Pages 67 - 104)
9.	**External Audit - Lancashire County Pension Fund Audit Findings Report 2018/19**	(Pages 105 - 130)
10.	**Approval of the Council's Statement of Accounts 2018/19**	(Pages 131 - 382)

Lancashire County Council

15. **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.

16. **Date of Next Meeting**

The next meeting of the Committee will be held on Monday 28 October 2019 at 2:00pm at County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston

Agenda Item 3

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected:
(All Divisions);

Constitution, Membership and Terms of Reference 2019/20
Appendix A refers

Contact for further information:
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Debra.Jones@lancashire.gov.uk

Executive Summary

The Constitution, Membership and Terms of Reference of the committee for 2019/20.

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 2019/20 municipal year;

(ii) Note the membership of the Audit, Risk and Governance Committee for the 2019/20 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 23 May 2019, 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 2019/20 municipal year:

J Berry, S Malik, T Martin, E Nash, J Rear, A Schofield, J Shedwick and A Vincent.

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 2019/20 municipal year.

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

Lancashire County Council

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, 20th May, 2019 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:
County Councillor Alan Schofield (Chair)

County Councillors

J Berry	M Parkinson
T Martin	J Rear
E Nash	J Shedwick

1. Apologies

None.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 28 January 2019

Resolved: That the minutes of the Audit, Risk and Governance Committee held on 28 January 2019 be confirmed and signed by the Chair.

4. Internal Audit Progress Report

Ruth Lowry, Head of Internal Audit, presented a report outlining the updates on the Internal Audit Service's work. The report included key findings, issues of concern and actions undertaken as a result of the work. It was highlighted that:

- Of the 79 audits planned, 58% had been completed and details of 19 were included in the report. A further 3 were almost ready to report. At the July meeting of the committee assurance would be provided for the Lancashire Pension Fund and the first ICT audit.

- The report included managers' progress in implementing agreed actions in response to audit work from 2016/17, 2017/18 and 2018/19. It was acknowledged that 86% had been completed or superseded, 3% were incomplete and 11% were awaiting a response.

In response to questions from members the following information was clarified:

- The increase in the number of planned audits from 2017/18 to 2018/19 from 51 to 79 was achievable as the newer members of the Internal Audit team had completed their training and coaching programme and so the team were now able to complete more audits.

- In terms of determining which local authority was responsible for meeting the care and support costs where a person moves between two local authorities; the specifics of who would be accountable for persons leaving Calderstones, Whalley when it closed was not known by the Internal Audit team. However the steering group set up to oversee such decisions had a negotiating strategy which followed a consistent approach to support the resolution of this type of issue and minimise the financial cost to the council. The Chair commented that the Health Scrutiny Committee had received information regarding closure of the Calderstone's site and this may be useful to the Internal Audit team.

- As detailed in the Corporate Risk and Opportunity register (item 7), it is likely that the European Structural and Investment Fund (ESIF) programme would continue to its planned conclusion at the end of 2020. The ESIF monies totalling circa £200m, were currently ring-fenced for use in Lancashire over the next 5 years.

- Action was underway to address the breaches to the council's contract and procurement financial limits that had occurred for the procurement of expert assessment and therapy provision.

- An action plan had been agreed with management in order to take steps to mitigate risks for those service areas with limited assurance. The responses to the action plan were discussed and followed up to ensure the agreed work had taken place as described.

- It was not necessarily typical for this number to be outstanding at this stage in the year, however as previously stated the Internal Audit service's productivity had now increased and the work would start earlier this year. In view of this it was anticipated that the plan would be at a better position this time next year.

Resolved: That the Internal Audit progress report as presented be noted.

5. Internal Audit Annual Report 2018/19

Ruth Lowry, Head of Internal Audit, presented the Internal Audit annual report for 2018/19 which summarised the work undertaken in this period and the key themes arising in relation to internal control, governance and risk management across the county council. It was highlighted that moderate assurance on the overall framework could be provided and there were no indicators to contradict this opinion.

This was based on assurance of individual systems and processes and the balance was weighed more toward substantial to moderate assurance. The county council continued to face financial pressures and there were some areas where improvements needed to be made. This included children's social care, which had seen a positive outcome when re-assessed by Ofsted and progress continued to be positive. The report included statutory reporting to comply with professional standards and informed the Annual Governance Statement.

Resolved: That the Internal Audit annual report for 2018/19 be noted.

6. The Council's Annual Governance Statement 2018/19 & Code of Corporate Governance

Paul Bond, Head of Legal and Democratic Services, presented the 2018/19 Council's Annual Governance Statement to be included in the Annual Statement of Accounts and the Code of Corporate Governance for annual review.

The following areas were highlighted:

- The draft Statement reflected the issues highlighted in the Internal Audit annual report and included: the key elements of the governance framework; the Council's approach to risk management and performance; an update on the budget setting process, reporting and performance management; the role of the corporate management team in receiving reports on service performance, risk and the budget and the work of the Committee throughout the year.

- The Information Commissioner's Office (ICO) had raised concerns regarding the time the Council was taking to process subject access requests. Members were assured that a recovery plan had been agreed with the ICO and good progress was being made in clearing the backlog.

- Issues from 2018/19 had been highlighted to the Committee via the review of the Corporate Risk and Opportunities Register throughout the year. In addition the reports regarding the Neighbourhood Wellbeing grants had been brought to the Committee separately and a key policy document was now in place for Our Vision for Lancashire, which provided an update on the corporate strategy and the performance framework.

- The key issues for the coming year were captured on the corporate risk register which was the action plan to monitor actions taken to mitigate risks. The register was presented and discussed at this Committee, the Cabinet Performance Improvement Committee and the Corporate Management Team.

- It was clarified that the Code of Corporate Governance included the new corporate strategy, actions to be taken to achieve the supporting principles and how this would be evidenced.

The chair commented that it was evident how the reported documents linked together and informed the Annual Governance Statement.

In response to a question it was confirmed that the hyperlinks to the Register and the Code would be inserted into the final document, once they had been agreed.

Resolved: That

(i) The draft Annual Governance Statement for 2018/19 be approved for inclusion in the draft Statement of Accounts.

(ii) It be noted that the Annual Governance Statement would be signed by the Chief Executive and Director of Resources (S151) and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts.

(iii) The Committee had considered the updated Code of Corporate Governance and had not proposed any amendments for recommendation to Full Council.

7. Corporate Risk and Opportunity Register Quarter 1 2019/20

Paul Bond, Head of Legal and Democratic Services, presented the quarter one Corporate Risk and Opportunity Register for 2019/20.

The following points were highlighted:

- It was confirmed that the Corporate Management Team had completed the annual review of the register which had been updated to reflect the current priorities and was aligned to the Annual Governance Statement.

- Corporate Risk (CR) 1: reshaping the County Council, replaced the previous risk regarding delivering the operational plan which had been given a 12 month timeframe. CR1 incorporated workforce planning and phase 2 of the service challenge process.

- CR5: recruit and retain experienced staff across the organisation which had replaced the risk focussed on Children's services staffing and had been broadened to include addressing skill shortages across the whole organisation.

- CR11: future provision of ICT services. This was a new risk relating to the work underway to address the upcoming expiration (2021) of the ICT contract with BTLS.

- There were two new Corporate Opportunities (CO) that had been identified: CO3, fair funding and business rate retention and CO4, working collaboratively with key health partners in order to develop our offer to the health economy.

In response to a question it was confirmed that with regard to CO3, Central Government had changed their interpretation of the criteria for assessment for the one year pilot for business rate retention. It was emphasised that other authorities were in the same position and the council would maintain the position of keeping to the original agreement when the county council began the pilot.

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

8. Internal Audit Annual Plan 2019/20

Ruth Lowry, Head of Internal Audit, presented a report explaining the approach to establishing the audit plan for 2019/20 and the work proposed to support the overall opinion for the year on the council's framework of governance, risk management and control. It was highlighted that the report sets out the context of the work to be undertaken and the actions required to improve the controls in place to mitigate risks. The report also included details of the spread of work across the organisation and its control areas according to the framework. The audit methodology was made up of different stages. Firstly an assessment of the adequacy of controls in place would be undertaken, this could then be progressed to testing the effectiveness of the controls, in most cases these were done together.

In response to a question it was confirmed that a number of the audits that were withdrawn the previous year would be addressed this year.

The Chair recommended that any members who had been unable to attend the internal audit training, review the presentation or attend the mop session (date to be confirmed).

Resolved: That the internal audit plan 2019/20 be approved.

9. Grant Thornton's Request for Information from Management

Khadija Saeed, Head of Corporate Finance, presented the management response to external auditors Grant Thornton's request for information.

Robin Baker, Director and Engagement Lead for Grant Thornton expressed thanks for the comprehensive response and confirmed that there was no information provided that would indicate that any changes were required to the planned external audit work.

Resolved: That the management response to Grant Thornton's request for information be approved.

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

Khadija Saeed, Head of Corporate Finance, presented the Chair of the Committee's response to external auditors Grant Thornton's request for information.

Robin Baker, Director and Engagement Lead for Grant Thornton expressed thanks for the comprehensive response and confirmed that there was no information provided that would indicate that any changes were required to the planned external audit work.

Resolved: That the Chair of the Committee's response to Grant Thornton's request for information be approved.

11. External Audit - Audit Progress Report and Sector Update 2018/19

This item was taken after 12 and 13 which were brought forward with the agreement of the chair.

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented an update in terms of progress in delivering the audit for both the County Council and the pension fund. It was explained that the auditors had undertaken an interim audit, updating their understanding of the control environment and undertaken early substantive testing to ease the work over the coming months. It was anticipated that the draft financial statements would be available by the end of this week and would be published on the Council's website by the statutory deadline. The final detailed audit report would be presented at the Committee meeting on 29 July 2019. It was highlighted that good progress had been made on the audit and there had been no adverse findings to date.

The Chair recommended that members attend the understanding financial accounts training course to be held on 24 June 2019.

Resolved: That the external audit progress report and sector update 2018/19 be noted.

12. External Audit - Lancashire County Council Audit Plan 2018/19

This item was brought forward with the agreement of the Chair.

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the annual audit plan for Lancashire County Council for 2018/19.
The plan set out the auditor's understanding of the issues and risks the council faced and the nature and scope of work that would be carried out to discharge their responsibilities.

It was clarified that:

- The risks around the audit opinion were consistent with local authorities of this size and nature.
- Materiality had been set at £32 million, which was the same as previous years.
- In terms of value for money responsibilities, the principal issues to be considered were regarding financial sustainability, which reflected the financial pressure all authorities currently faced. Another consideration was the internal controls which had previously been identified as a risk area and the positive opinion provided by the head of internal audit would be acknowledged.

Resolved: That the External Audit plan for the audit of Lancashire County Council for 2018/19 and the fees therein be approved.

13. External Audit - Lancashire County Pension Fund Audit Plan 2018/19

This item was brought forward with the agreement of the Chair.

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the annual audit plan for Lancashire County Pension Fund for 2018/19. The plan set out the risks and issues and had been agreed with officers and the Pensions committee earlier this year.

Resolved: That the External Audit plan for the audit of Lancashire County Pension Fund for 2018/19 and the fees therein, be approved.

14. External Audit - Fee Letter for Lancashire County Council and Lancashire County Pension Fund 2019/20

Robin Baker, Director and Engagement Lead and Angela Pieri, Engagement Manager, representing Grant Thornton, the county council's external auditors, presented the proposed fee letter for the audit work to be undertaken by Grant Thornton in respect of Lancashire County Council and the Lancashire County Pension Fund for 2019/20. It was confirmed that the fee would remain as 2018/19 at £87,006 for Lancashire County Council and £26,310 for the Lancashire County pension fund. This was in line with the scale fee set by the appointing body. The Chair asked members to note that this fee had been reduced from 2017/18 as a result of competitive tendering.

Resolved: That the fees for the audit work to be undertaken by Grant Thornton in respect of Lancashire County Council and Lancashire County Pension Fund for 2019/20 be approved.

15. Neighbourhood Wellbeing Grants Update

Josh Mynott, Democratic and Member Services Manager, presented an update on the monitoring activity in relation to the Neighbourhood Wellbeing Grants awarded in 2016/17.

It was highlighted that since the agenda had been published, additional information had been received. There had now been some contact with all recipients of the grant apart from 1 who had received £1,000. This was equivalent to 0.2% of the total amount of grant funding issued. It was noted that this recipient had since ceased operations.

Contact had also been made with an additional 2 organisations and the requested paperwork was anticipated. Partial monitoring information had been received for a further 5 organisations. In total this equated to less than 3% of the grant funding issued. An update would be provided on the progress of the remaining groups to members of the committee outside of the Committee meeting.

Thanks were expressed to the Democratic Services team for their work in tracking the recipients of the funding.

The Chair moved that press and members of the public be excluded from the remainder of the discussion of this item 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.

Resolved: That the press and members of the public be excluded from the meeting during consideration of the remainder of this item and item 19 (as notified on the agenda) 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.

(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 names of the organisations that had yet to provide monitoring information were shared with the committee.

16. Urgent Business

There was no urgent business to be considered.

17. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 29 July 2019 at County Hall, Preston.

19. Whistleblowing, Special Investigations and Counter Fraud Annual Report 2018/19

(Exempt information as defined in Paragraphs 2, 3 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interests in disclosing the information.)

Ruth Lowry, Head of Internal Audit, presented a report which reviewed the assessment of fraud risks and potential harm to the council from fraud and corruption. It was highlighted that the Internal Audit Service supported the council's management team in responding to instances of suspected fraud and undertook proactive work to identify and pursue indications of potentially fraudulent activity. This was done through corporate systems testing and via additional testing of other areas that are particularly susceptible to fraud.

Resolved: That the annual report for 2018/19 on whistleblowing, special investigations and counter fraud be noted.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
Appendices A, B, C and D refer

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Executive Summary

In the context of the committee's responsibility to consider updates on the Internal Audit Service's work including key findings, issues of concern and action being taken as a result of internal audit work, the committee is asked to consider the final internal audit progress report and outcomes of the work for 2018/19 for the period to 30 June 2019.

Recommendation

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

Background and Advice

This report sets out for the committee the internal audit work performed under the audit plan for 2018/19 approved in April 2018.

Appendix A highlights key issues that the Audit, Risk and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

Appendix B lists every audit on the plan for the year at this point, and the outcome of all the work completed.

Appendix C provides a summary of the key findings from each audit completed since 1 May 2019.

Appendix D sets out the audit assurance levels and classification of residual risks used by the Internal Audit Service.

Lancashire County Council

Consultations

The chief executive and director of resources, the director of finance, and each of the directors and/or heads of service who have sponsored the audit work reported here has been consulted.

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Matters arising from internal audit work for 2018/19 completed since 1 May 2019

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 2019 by the Internal Audit Service under the audit plan for 2018/19.

2 The assurance now available to the committee for 2018/19

2.1 A summary of all the assurance we have provided during 2018/19 to the end of June 2019 is set out in the table below, including each internal audit assignment directed to providing controls assurance. The figures for 2017/18 and 2016/17 are provided for comparison.

2018/19 assignments addressing:	Total	Assurance			
		Substantial	Moderate	Limited	None
Governance and democratic oversight	1	-	-	1	-
Business effectiveness	4	2	2	-	-
Service delivery	50	13	29	8	-
Service support	6	2	2	2	-
Business processes	16	8	6	2	-
2018/19 assignments	**77**	**25**	**39**	**13**	**0**
	100%	32%	51%	17%	-
2018/19 assignments as reported in May 2019	46	18	19	9	0
	100%	39%	41%	20%	-
2017/18 assignments	**51**	**5**	**34**	**12**	**0**
	100%	10%	67%	23%	-
2016/17 assignments	**31**	**3**	**24**	**4**	**0**
	100%	10%	77%	13%	-

2.2 As can be clearly seen, a further 31 audits have now been reported and the overall balance of assurances still strongly supports the moderate assurance already given for the year in May, and reinforces the assessment made then that the council's direction of travel is positive.

2.3 The full list of audits completed under the plan for 2018/19, and the assurance provided for each, are shown in appendix B to this report.

2.4 Summaries of the findings from each of the audit engagements completed since 1 May 2019 are included in appendix C to this report.

2.5 An explanation of the assurance provided in 2018/19 is provided in appendix D. This also includes the definitions of the assurance used by Deloitte in respect of its work on Local Pensions Partnership Ltd (LPP) which administers the Lancashire Pension Fund and manages investments its behalf, since Deloitte's classification scheme differs slightly from that used by the Internal Audit Service.

Lancashire Pension Fund

2.6 In addition to the work managed and undertaken by the council's Internal Audit Service on the council's governance of the Fund and other operational matters, Deloitte has completed five of the seven planned audits of LPP. Deloitte disclaims any liability to the council for any reliance it may place on this work but has agreed that its conclusions may be reported to the Audit, Risk and Governance Committee, and these are as follows:

Control area	Assurance
Benefits administration	Ineffective
Investments: legal and regulatory compliance	Ineffective
Investments: Markets in Financial Instruments Directive (MIFID II) compliance	Effective
Third party oversight of investments	Effective with scope for improvement
General Data Protection Regulation readiness	Effective with scope for improvement
Cyber security	Ineffective
Core financial controls: management information and reporting (within LPP)	Ineffective

2.7 We understand that these assessments were not necessarily unexpected by LPP's senior management team, as it has worked through on a period of significant adjustment to its business that will continue into 2019/20. Some of the issues raised by the audits had already been recognised and we understand that work has begun to address them. We also understand that action has been taken to address many of the matters arising from earlier audits and any future internal audit work plans will firstly seek assurance that the 'ineffective' functions will be re-tested to ensure the risks have been mitigated.

3 Completion of the internal audit plan for 2018/19

3.1 As previously reported, audit work has progressed well against an ambitious plan for the year. Of the 79 audits on the audit plan, 77, (97%) are complete. Two audits remain incomplete (both addressing ICT risks) and will be reported during 2019/20.

4 Follow up work

During 2018/19 the Internal Audit Service undertook no independent follow-up work to confirm whether the remedial action agreed by managers had been taken. However managers' own assessments whether action has been completed by the due date, is incomplete, or has been superseded have been collated and the results are as follows:

Numbers of actions agreed during 2016/17, 2017/18 and 2018/19 and now due							
Action status	**March 2019**		**June 2019**				
					Risk rating		
	Total		**Total**		**High**	**Medium**	**Low**
Complete	267	73%	313	74%	21	160	132
Superseded	46	13%	48	12%	7	25	16
Incomplete	11	3%	14	3%	2	12	0
Awaiting responses	39	11%	46	11%	5	30	11
Total	**363**	**100%**	**421**	**100%**	**35**	**227**	**159**

4.1 There are just two actions still outstanding from 2016/17, both relating to governance of the Lancashire Enterprise Partnership, and it is expected that these will be cleared very quickly now after some considerable change to the partnership and the council's engagement with it in recent months. Of the other 87 actions arising in that year, managers have confirmed that 68 are complete and 19 superseded. These actions will not be reported again in future statistics.

4.2 It is intended similarly to close the actions arising from 2017/18 as soon as possible. At this point 149 are complete, 26 superseded, 6 incomplete but in hand, and managers have not confirmed the status of just 5 actions. These will be pursued and, after one further report to the committee, it is hoped that they will not need to be reported again.

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Control framework: Governance and democratic oversight						
Pension Fund	Obtaining and understanding the assurance provided by LPP's own internal auditors.	Assessment of the assurance provided by Deloitte over the operation of the Pension Fund by Local Pensions Partnership Ltd (LPP).	N/A	At this point LPP has received assurance that its systems are effective in one case and effective with scope for improvement in two others, but two reports have recently stated that systems are ineffective, and two are still progressing through the company's own audit committee.	July 2019	Limited
Control framework: Business effectiveness						
Risk management	Preparation of the corporate risk register.	Confirmation that the risk management process is continuing to operate effectively as designed, including oversight by the Corporate Management Team (CMT).	2	The council's arrangements follow the principles set out in the International Risk Management Standard and are effectively followed.	July 2019	Substantial
Pension Fund	Performance management in the Lancashire Pension Fund	Audit of the adequacy and effectiveness of performance management arrangements including reporting and data quality.	1+2	The Pension Fund Committee is advised by the Investment Panel and the Pension Board whose independent advisors and chair respectively have been appointed for their expertise, and is provided with sufficient, relevant information to assess and effectively challenge the performance of the Fund.	July 2019	Substantial
Financial Management (Operations)	Delivery of the council's financial strategy and budget reductions.	Assessment of the adequacy and effectiveness of controls that will ensure that sufficient, or planned, savings will be achieved.	N/A	This work has not taken the usual form of a risk and control assessment and detailed testing. Although reserves are still being used to support the council's revenue budget, the extent of this support has now fallen. There is therefore some scope for adjustments to savings plans as schemes are implemented, and time to take action if the actual savings made from any given scheme vary from the profile originally agreed.	May 2019	Moderate
A sample of all	Communication with staff across the council.	Assessment of the dissemination of information up and down the management chain.	1+2	The council's workforce is large, dispersed and varied, and there are variable practices in relation to managers' meetings with staff. Team meetings do not take place with all front line staff but the meetings we tested were generally open and participative.	January 2019	Moderate
Control framework: Service delivery						
Adult Services and Health & Wellbeing						
Older People	Construction of care packages.	Consideration of the processes and controls within the Care Navigation service to construct and source care packages from suppliers based on approved support plans in the Liquidlogic Adults System (LAS), including an assessment of the accuracy of care package line items input into ContrOCC (the finance software for adult social care).	1+2	The Care Navigation team's guidelines are followed when support is commissioned and team leaders provide appropriate authorisation of the decisions made. However although consent to share information is obtained where relevant, there is a high level of non-compliance with data protection requirements and case details are not appropriately anonymised before being sent to the provider.	July 2019	Moderate

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Older People	Use of the care portal by external care providers to claim payments for services provided to service users.	Audit of the system that manages payments to external care providers, focussing on information flows from providers and checks that ensure payments are accurate and valid.	1+2	There is adequate segregation of duties, and our testing indicated that a sample of payments to homecare framework providers and to residential care homes were all made correctly and in a timely manner. Further testing also verified the rates paid.	July 2019	Moderate
Social Care (Health)	Training and development.	A review of the controls in place to ensure that staff at all levels and disciplines within the service are offered an appropriate level of training and support, and that there is appropriate monitoring of compliance with mandatory training requirements.	1+2	Training provision for adult social care workers is comprehensive and widely available, and provided in ways that enable most social care workers to access training in the manner most appropriate to them.	July 2019	Substantial
Disability Services	Payroll claims and recovery of over/ underpayments to staff.	Assessment of controls over data input and authorisation, and the identification and recovery of overpayments within Disability Services, considering how errors can be reduced and efficiency increased.	1+2	Payment claims are input, approved and processed effectively and the overall process is not adversely affected by the time consuming and resource intensive input and approval processes. Procedures are in place to recover or reimburse any over or under-payments.	October 2018	Moderate
All adult services	Ordinary residence	Assessment of the arrangements to establish service users' ordinary residence and to determine appropriate charges between local authorities.	1	The new governance arrangements and policy for ordinary residence will create a control framework to ensure that historic cases are appropriately reviewed and that adult social care staff have an escalation route for any disputes. However approval of the revised policy has been delayed and there is therefore no local guidance for staff to follow. Work is being undertaken to identify and then address any outstanding disputes regarding residence with other local authorities.	May 2019	Moderate
Exchequer Services	Third party top-up payments.	Assurance that service users are being provided with appropriate information regarding the payment of third party top-up payments.	1+2	Service users are being successfully accommodated in residential care, and top up fees are being charged and collected but important documentation to support these financial arrangements, and to protect the interests of the council, service users and third parties, is not being obtained and held.	May 2019	Limited
Disability Services	Medication practices across Disability Services.	Assurance over compliance with medication handling, administration policy and staff training across a sample of day services, supported living and short break services.	1+2	Policies, consistent with NICE guidelines are in place and are accessible to staff. All staff have received appropriate accredited training, although this is not always refreshed at the desired intervals, and some annual observations were found to be delayed or missing.	January 2019	Moderate
Policy, Information and Commissioning	Transforming community equipment.	Assessment following the transfer of the service to the council from the NHS and its work to improve its processes, including reconciliations of prescriptions to invoices.	1+2	Although the section 75 agreement and the associated pooled budget arrangement have not yet been implemented, there is appropriate governance, oversight and monitoring of the community equipment service	July 2019	Moderate

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Disability Services	Supervision and support to front-line in-house care providers.	Confirmation that staff are subject to regular support and supervisory review to ensure compliance with professional body requirements for unregistered day services.	1+2	The framework of control is adequately designed to ensure the consistent application of supervision arrangements and ongoing development of staff within teams, but some action is required to improve some aspects of this and ensure that supervision is undertaken effectively across the service.	October 2018	Moderate
Patient Safety & Safeguarding	Supervision and support to front-line social workers.	Confirmation that staff are subject to regular support and supervisory review to ensure compliance with professional body requirements.	1+2	There are examples of good practice across the service and the policy applicable to Adult Social Care services sets the framework for an effective and consistent approach to the supervision of relevant staff. However it is not consistently applied and the standard of supervision varies. One-to-one supervisions are held less frequently than the policy requires, some supervision contracts (where applicable) are not current, and there are insufficient processes for management to monitor the quality and frequency of supervision.	January 2019	Limited
Children and Family Wellbeing	Children and Family Wellbeing Service: core offer.	Review of the control framework supporting delivery of the core offer to identify any gaps or inefficiencies.	1	The service operates appropriate governance arrangements, being subject to both internal and external challenge, and is proactive in its approach to service and performance improvement. A framework of policies and procedures supports service delivery, promotes a consistent approach and sustains a safeguarding culture.	July 2019	Moderate
Health, Safety & Resilience	Implementation of the new corporate lone working system.	Assessment of any new corporate approach to managing the risks to lone workers, whatever service they work in, to understand the approach and document the risk and control framework.	1	The control framework established to implement and then operate the new corporate lone working system is adequately designed.	May 2019	Substantial
Patient Safety & Safeguarding	Contract monitoring: Direct Payment Support Service	Audit of the system to monitor contracts for the provision of the Direct Payment Support Service.	1+2	No performance indicators are currently in place to measure this contract and no minimum service levels have been set. Whilst service delivery and compliance with the contract are reviewed each month, this is primarily based on activity reports submitted by the provider and the Contract Monitoring Team undertakes no independent verification to validate the number of service users being supported.	May 2019	Limited
Patient Safety & Safeguarding	Contract monitoring: reablement service.	Audit of the system to monitor contracts for the provision of the reablement service.	1+2	The Contract Management team ensures that commissioned services are delivered in accordance with providers' contractual obligations and service specifications. Working together, the Contract Management and Commissioning teams ensure that the council receives value for money.	October 2018	Moderate

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Patient Safety & Safeguarding	Contract monitoring: crisis support service.	Audit of the system to monitor contracts for the provision of the crisis support service.	1+2	The Contract Management team ensures that commissioned services are delivered in accordance with providers' contractual obligations and service specifications. Working together, the Contract Management and Commissioning teams ensure that the council receives value for money.	October 2018	Moderate
Health Equity & Partnerships	Contract monitoring: sexual health service.	Audit of the system to monitor contracts for the provision of integrated sexual health services in Lancashire.	1+2	Formal contract review meetings and the use of a set agenda ensure that the service specification is adhered to, and service outcomes achieved. Monitoring these contracts requires a collaborative approach between two operational teams and the finance team, and work has begun to share and transfer knowledge between them.	October 2018	Substantial
Exchequer Services	Public Health expenditure	Verification that the funds are being spent on appropriate public health functions.	2	The Public Health grant is being used for the purposes for which it was intended.	January 2019	Substantial
Social Care (Health)	Hospital discharge and the use of short and long term residential care.	Review of the adequacy and effectiveness of the controls in place to ensure that, on discharge from hospital, service users are offered an appropriate range of supports to maximise their independence.	1+2	Service users are placed at the heart of the process to build on their strengths and achieve the outcomes they desire. The case management practices set up under the Passport to Independence programme are working well. Case notes are clear, concise and flow readily from admission to discharge and transfer to the community teams.	July 2019	Moderate
Education & Children's Services						
Governance Service	Child Protection Team: pre-proceedings and care proceedings.	Assessment of the Child Protection legal team's operation against its objectives as a key element of children's social services but independent of the work of the front-line social workers.	1+2	An adequately designed framework of controls has been established to enable the Child Protection Legal Team and Children's Social Care teams to work together to better address pre-proceedings matters for the courts.	May 2019	Moderate
Safeguarding, Inspection & Audit	Information security within the service.	Audit using the framework created in 2017/18 to assess whether controls are operating effectively, specifically in reference to the number of data breaches and changes to the disciplinary procedures.	2	The services' managers have played a positive role in reducing incidents arising from human error, which was previously the most common cause of breaches. Both the Fostering, Adoption, Residential and YOT (FARY) service and the Safeguarding, Inspection and Audit (SIA) service have introduced additional controls and the number of reportable incidents has fallen	July 2019	Moderate
Fostering, Adoption, Residential & Youth Offending Team (YOT)	Information security within the service.				July 2019	Moderate
Policy, Information and Commissioning	Continuing healthcare funding (CHC).	Assessment of the process in place to ensure that all available CHC funding is being obtained.	1	The framework of control to ensure that funding for the continuing healthcare of children in the council's care imposes a process across locality teams that promotes a consistent approach to multi-agency decisions and supports agreement on financial contributions to the provision of non-universal services.	July 2019	Moderate

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Policy, Information and Commissioning	Commissioning and procurement of expert assessment and therapy provision.	Audit of the process by which the need for psychological assessment services is identified and approved, how providers are selected and how funding decisions are reached between the council and health services.	1+2	The need for assessments and therapy is generally recorded on care plans but there is insufficient information on the reasons for commissioning a specific service or provider to support managers' informed approval of them. The way in which providers are procured breaches the council's financial limits relating to quotations and tenders, and known providers are used repeatedly.	May 2019	Limited
Children's Social Care	Prevention of child exploitation.	Review of the effectiveness of action to combat child sexual exploitation (CSE) through the operation of the pan-Lancashire standard operating protocol and the action of the council's CSE team.	1+2	The approach to safeguarding children from the risk of exploitation is not sufficiently coordinated and the council's operating model is not currently working effectively. The directorate's senior managers are aware of the issues and are taking action to review the current structure and processes, including reconsidering the centralised management structure.	July 2019	Limited
Children's Social Care	Section 17 payments to children with disabilities.	Audit of the service's assessments in providing urgent assistance to families, including its decision-making and approvals process.	1+2	Because the statutory objectives in incurring the expenditure are so wide ranging it is important that there is clear guidance on what expenditure is appropriate. The council's guidance has been reviewed recently and is subject to further review, but at the time of our audit wide disparities remained in culture and practice across the county.	May 2019	Limited
Children's Social Care	Residential placements process.	Assessment of the end-to-end process through which children in council care are placed with external residential care providers, including initial needs assessment, approval and selection of provider.	1+2	Increasing oversight is managing the need to better target placements and manage costs. Significant potential savings have been identified through a robust review process. There is a systematic process for assessing need and identifying placement requirements but the process is not yet recorded in the social care manual and is inconsistently applied. Management approval is not always evident and payment of provider invoices is delayed due to unresolved queries.	October 2018	Moderate
Children's Social Care	Children's Services improvement plan	Assessment of the controls in place to ensure that the planned improvements to the service, following Ofsted's reassessment in 2018, are achieved.	1+2	Governance of the improvements to Children's Social Care's services for children in need of help and protection, children looked after and care leavers is adequate and effective, and almost all of the 131 actions in the Getting to Good Plan have been delivered or are due to be delivered within the agreed timescale.	July 2019	Substantial
Safeguarding, Inspection & Audit	Children's Services' in-service audit framework.	Assessment of the adequacy and effectiveness of controls over the operation of the audit framework including testing of audit activity on casework and supervisions.	1	We reviewed the control framework and concluded that it is adequately designed to mitigate the risks to compliance with practice standards and procedures.	May 2019	Substantial

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Policy, Information and Commissioning	Implementation of the Prevent strategy.	Compliance with actions required to embed the Prevent strategy across the council to ensure all staff are aware of it and how to respond to any concerns.	1+2	The council is robustly engaged with the national agenda to prevent radicalisation, working effectively with its partners across the county. There are only a few small improvements that could be made, and these are being implemented.	May 2019	Substantial
School Improvement	Exclusions from school.	Tests of schools' compliance with the council's policy.	1+2	The Pupil Access Team administers the exclusion process, managing and monitoring fixed and permanent exclusions, and works with schools and other council services to ensure the process is applied correctly. There are delays in making alternative provision for excluded students due to a lack of availability and budget constraints.	July 2018	Moderate
Financial Management (Development and Schools)	Schools thematic audit: payroll.	Adequacy and effectiveness of controls to ensure the accuracy and completeness of payroll payments, supported by testing at a sample of schools.	1+2	We visited a sample of 15 schools across the county, including primary, secondary, specialist schools and colleges. Overall, the schools we visited have effective procedures in place to support their payroll processes although we found some minor weaknesses in some of the controls operated in individual schools.	May 2019	Substantial
Financial Management (Development and Schools)	Schools' Financial Value Standard (SFVS) self-assessments.	Review of a sample of SFVS self-assessments submitted by schools for 2017/18 to ensure their assertions are supported by adequate evidence.	2	SFVS submissions for 2017/18 reflected schools' governance and financial arrangements. All schools submitted self-assessments and responses were supported by evidence of compliance.	July 2018	Moderate
Fostering, Adoption, Residential & YOT	Contract monitoring: external residential placements.	Audit of the Access to Resources team's system to monitor external residential placement contracts.	1+2	The Access to Resources team's inspection of providers is reactive rather than proactive, but an inspection programme is being developed. Placement activity is impacted by some lack of compliance by social care staff with the placement process.	October 2019	Moderate
Fostering, Adoption, Residential & YOT	Special Guardianship Order financial support	Assessment of the controls operating in localities to assess entitlement to special guardianship financial support.	1	Our initial assessment is that the new control framework is adequately designed, and some additional controls have been identified to enhance it further.	January 2019	Moderate
Growth, Environment, Transport & Community Services						
Customer Access Service	The Crisis Support Scheme	Assurance over the process for making emergency payments including compliance with policy, eligibility criteria etc.	1+2	There is an overarching crisis support policy together with detailed process guides for the administration of the scheme. Eligibility checks are undertaken, and the identity, financial status and circumstances of applicants is confirmed before support is granted. The scheme is delivered by external providers: there are contracts in place with clear service specifications and pricing mechanisms, and performance is regularly monitored.	January 2019	Substantial

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Customer Access Service	Customer Access Service: business continuity.	Assessment of the adequacy and effectiveness of controls to manage business continuity in the event of loss of telephony services.	1	Once it has been enhanced and embedded, the business continuity plan will provide an adequate framework for business continuity. It requires amendment to address the specific responsibilities of members of the business continuity team and ICT disaster recovery arrangements. Training for those individuals with key roles is required to ensure they have the skills, capabilities and knowledge to perform effectively.	May 2019	Moderate
Design & Construction	Contractors' compliance with legislative requirements.	Assurance that the in-house monitoring of contractors' compliance with contract specifications are appropriate to ensure legislative compliance.	1+2	Through its contractors, the council ensures that the buildings it occupies are compliant with health and safety regulations – testing takes place and remedial work is undertaken without undue delay. However there are significant weaknesses in the management of these contractors.	July 2019	Limited
Design & Construction	Contract monitoring: contracts with Atkins and Jacobs.	Audit of the system to monitor services delivered through the Atkins and Jacobs contracts.	1+2	Commissioning activity is appropriately authorised and projects are allocated to the suppliers in accordance with the terms of the framework agreements. Payments are appropriately authorised and the commissioned work is monitored to ensure it happens within budget and in a timely manner.	July 2019	Moderate
Highways	Highways Asset Management System (HAMS) operational effectiveness.	Re-assessment of the operation of the system, with compliance testing if appropriate and a focus on the payment of invoices arising from orders generated within the system.	1+2	The operational effectiveness of the system is still inadequate, but work is being undertaken by all the stakeholder teams to improve this. Work is under way to improve the quality of the data held within the system, the management information reports available, and guidance for users.	May 2019	Limited
Highways	Highways Asset Management System (HAMS) improvement programme.	Assessment of the controls in place to ensure that the necessary improvements to the system and its operation are achieved.	1+2	The improvement plan is being properly overseen by a governance board and review group, both of which are operating effectively. Risks remain around the competing priorities for the different services involved.	May 2019	Moderate
Highways	Contract monitoring: highways line-marking contract.	Audit of the system to monitor services delivered under the line-marking contract.	1+2	Contracts are let within a framework agreement. A work rates schedule has not been provided by a contractor so invoices cannot be properly checked. Checks are made to establish whether works are completed to contract standards, but the target of checking 10% of all contracts is not always achieved.	January 2019	Moderate
Highways	Vehicle hire and return.	Compliance testing of the controls identified during 2017/18.	2	Vehicles are regularly monitored through the lease period to ensure they are being used and are still required, but the initial and ongoing need for additional vehicles should be more actively challenged to ensure value for money.	May 2019	Moderate

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Public & Integrated Transport	Concessionary travel: NOW Card.	Audit of controls over the management of NOW cards including checking eligibility, financial management and the security of personal data.	1+2	Up-to-date policies and procedures are in place that comply with national requirements, and users' eligibility for NoWcards is determined in compliance with policy. A website supports the application process and an online application process is being developed. Cards reported lost or damaged are blocked and cannot be used, and replacement fees are correctly charged.	January 2019	Substantial
Public & Integrated Transport	School bus passes.	Audit of the management of bus passes, including checking eligibility, financial management and the security of personal data. Eligibility assessments are done by the School Improvement service.	1+2	The council's policy complies with the requirements of the Education Act. Guidance on entitlement, eligibility and application process is published on the council's website and the scheme is publicised alongside the school admissions process. Applicants' eligibility is correctly and consistently determined in line with policy.	January 2019	Substantial
Public & Integrated Transport	Heavy goods vehicle operator licences: compliance with licence requirements.	Assessment of controls to ensure compliance with licence requirements, focussing on requirements to ensure vehicles are roadworthy.	1+2	There are systems in place to manage compliance with license conditions, although evidence of the operation of some key controls is not consistently available.	July 2019	Moderate
Lancashire Renewables	Governance and decision making.	Audit of the arrangements supporting effective governance and oversight by the council including the company's decision making, reporting and risk and performance management.	1+2	Governance arrangements are sufficient to support oversight and scrutiny by the council and action has been taken to ensure that it operates in full compliance with these.	October 2018	Moderate
Lancashire Renewables	Expenditure	Audit of the company's procurement to ensure that spending is legitimate and appropriate.	1+2	Effective controls ensure expenditure is for legitimate business use.	October 2018	Substantial
Business Growth	Business Growth Hubs.	Audit of the plans in place to complete the programme and expend the available funds before the programme ends in 2018, focussing particularly on controls over commissioning and procuring work from external suppliers.	1+2	Effective budget monitoring and a timely submission of claim forms have ensured that the funding allocated for the second phase of the programme has been properly expended. The contract procured for the Boost 3 programme meets the funder's procurement requirements as well as the council's.	May 2019	Substantial
Financial Management (Development and Schools)	Commissioning, design and monitoring of the capital programme.	Compliance testing of the controls in place as they have become embedded, from project inception to its reporting in the council's financial statements.	2	There are effective processes in place to develop and implement the capital programme: assessing and approving projects, responding to political, policy and service decisions, ensuring the availability of funding, and aligning work with other organisations.	July 2019	Moderate
Waste Management	Contract monitoring: waste landfill contract	Audit of the system to monitor services delivered under the waste landfill contract.	1+2	Effective processes are in place to monitor compliance with the contract, validate invoices, and ensure any issues are raised and addressed. The contracts and partnerships manager ensures that any issues are promptly addressed.	October 2018	Substantial

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Pension Fund	New custodianship arrangements for the Lancashire Pension Fund	Audit of new arrangements following the award of a new contract, including compliance testing.	1+2	The Pensions Act requires the Pension Fund to have adequate internal control mechanisms in place, including arrangements for safe custody and security of the assets of the scheme. We identified no unmitigated risks in the course of our audit and no further action is required of management.	July 2019	Substantial
Control framework: Service support						
Exchequer Services	Recovery of costs/available income from partner organisations.	Assessment of controls across a sample of service areas to address the risk that the council does not fully recoup appropriate costs or income from partner organisations, including NHS contributions to care packages, or else takes on their roles at its cost.	1+2	Although improvements had been made to control the recovery of costs for care jointly funded with the NHS, debt over a year old amounted to over £1 million as at March 2018.	October 2018	Limited
Skills, Learning & Development	'Step up to Social Work' contract.	Assurance over operation of the contract used to place selected graduates onto a fast track scheme as leaders of the future.	1+2	The council is the lead authority in a regional partnership, which complies with the Department for Education's grant conditions for the programme. Amendments will be made to the process by which the training provider for future cohorts is procured.	January 2019	Moderate
Corporate Finance	Corporate banking arrangements.	Identification and evaluation of adequacy of the control framework surrounding the new banking arrangements.	1	The council's financial regulations, policy, and the Finance team's procedures are clear and comprehensive, and are complied with.	October 2018	Substantial
Control framework: Business processes						
Exchequer Services	VAT.	Compliance testing of the key controls, including system configuration.	2	There are effective processes to ensure council VAT returns are complete, accurate and submitted on time, and council staff are supported by expert advice and online guidance.	July 2018	Substantial
Payroll Service	Oversight of payroll payments.	Compliance testing of the key controls operated by the county council to ensure it properly oversees the processing of transactions on its behalf by BT Lancashire Services (BTLS).	2	The occurrence and value of overpayments has reduced, due largely to the proactive action by BTLS. However, the number of overpayments is still significant due mainly to late notification of payroll changes by council managers and budget holders inconsistently checking monthly payroll and establishment reports for errors.	July 2018	Limited
Core Systems & Transformation	Oracle user access.	Support to the Core Systems & Transformation team as they review Oracle user access.	1	Oracle access controls are adequately designed but some action is required to enhance them further.	July 2019	Moderate
Core Systems & Transformation	Liquidlogic Adults System (LAS) and LiquidLogic Children's System (LCS) user access permissions.	Assurance that user access permissions are appropriately granted and managed.	1+2	The majority of user access permissions we sampled are appropriate to officers' roles and responsibilities. Controls are generally adequately designed and effectively operated but there are a few areas where they could be strengthened	July 2019	Moderate

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Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Governance Service	Information management: compliance with the new General Data Protection Regulations (GDPR).	Review of the policy and procedures supporting the introduction of GDPR, and specifically the council's achievement of the Information Commissioner's Office (ICO)'s 12-point checklist.	1+2	The council took effective action to ensure the council's information governance strategy, policies and procedures comply with GPDR requirements. A new framework was published and publicised, and information audits recorded the data the council holds and the lawful basis for processing it.	October 2018	Substantial
Governance Service	Information management: information security and management.	High-level assessment of the way information is managed within critical service areas, following corporate policy.	1+2	The council's arrangements for managing information security are robust and operating effectively. In particular, increasing awareness of their importance has reduced the number of incidents caused by human error.	July 2019	Substantial
Records Management	Information management: information storage and retention.	Review of the adequacy of corporate policies on document retention, referencing, filing structures and contingency arrangements including compliance testing within services.	1+2	The electronic records management system is used by some services, but others still save records on shared and local drives. Policies and guidance are available but services are not familiar with them and there is no mechanism to monitor adherence to them.	January 2019	Limited
Human Resources	Allowances claimed by officers.	Audit of the adequacy and effectiveness of arrangements for claiming and approving officers' allowances including holiday pay, overtime, shift pay and miscellaneous claims with testing across a range of services.	1+2	Claims must be submitted on Oracle, which has some inbuilt validation controls but also requires managers' authorisation. Between them these controls have neither prevented nor detected a number of errors, but the value of erroneous claims is unlikely to be significant overall.	July 2019	Moderate
Finance; BTLS; Human Resources	The use of contractors through personal service companies and compliance with IR 35.	Review of the policies in place to ensure compliance with IR35 and the level of compliance, focussing on agency staff.	1+2	Work is ongoing to develop and implement a control framework that will ensure the council complies with IR35 and there are a number of areas where improvements could be made.	July 2019	Moderate
Financial Management (Development and Schools)	Accounting for capital projects and the integrity of the council's financial statements.	Assessment of the way the capital programme is accounted for.	1+2	The financial information presented to Cabinet includes the budget and forecast outturn for the financial year but a significant number of manual adjustments are made to the data generated by Programme and Project Management System (PPMS).	July 2019	Moderate
Investment	Treasury management and investments.	Understanding and testing the key controls over investment of the council's funds, particularly in equities and property.	1+2	The council has approved and complies with a treasury management strategy, policy statement and detailed practices. This framework is compliant with The Chartered Institute of Public Finance and Accountancy's (CIPFA) code of practice and therefore with statutory proper practice.	May 2019	Substantial
Exchequer Services	Accounts payable: central controls.	Compliance testing of the key controls and additional counter fraud analysis.	2	Controls over the Oracle system and the wider payments process are adequate and effective overall. Further action will be taken to strengthen the council's responses to some specific risks of fraud	July 2019	Substantial

* Type of audit: In accordance with the explanation set out in the audit plan, '1' is consultancy only; '2' is compliance testing only; '1+2' is a full risk and control evaluation; 'F' is follow-up testing.

Service area	Operational area of activity	Audit work	Type*	Summary of findings	Date reported	Assurance
Exchequer Services	Accounts receivable: central controls.	Compliance testing of the key controls.	2	The debt management function has been subject to considerable reorganisation and a backlog of debt is now being addressed. As at June 2019 invoices worth £17 million (almost 27% by value and more than 51% by number) had been due for over a year, but appropriate action is now being taken to resolve this high level of outstanding debt.	July 2019	Moderate
Exchequer Services	General ledger.	Compliance testing of the key controls.	2	The general ledger is adequately controlled, and operated effectively.	May 2019	Substantial
Exchequer Services	Cash and banking.	Compliance testing of the key controls.	2	The council's financial regulations, its income and debt management policy, and the Finance team's procedures are clear, comprehensive and complied with.	May 2019	Substantial
Pension Fund	Core financial systems: cash flow management.	Audit of arrangements to ensure the Fund is able to meet payments as they are due.	1+2	A Pension Fund Treasury Management Strategy sets out how surplus cash is managed the short term and we confirmed that surplus cash is managed in accordance with this strategy.	July 2019	Substantial
Control framework: ICT processes						
Corporate Services and BTLS	Submission of the Data Security Protection Toolkit (DSPT).	Assessment of the DSPT submission in April 2018 and the validity of the assertions made.	2	The council has implemented an adequate framework for information governance and specifically for submission of the DSP toolkit, but some action is required by the council to assess the privileges associated with user accounts on LAS and LCS.	July 2019	Moderate
Corporate Services and BTLS	IT asset management.	Review of the processes to identify and manage information assets, covering hardware, software and data.	1+2	The council's desktops and laptops are logically secure, although information on the custodianship and location of individual assets is inadequate once they have been deployed to officers. The council is still developing a number of key policies which are fundamental to the overall management of its IT assets and would assist its officers to work more flexibly, allowing further rationalisation of office accommodation.	July 2019	Limited
Corporate Services and BTLS	ICT service governance	Review of the council’s approach to setting its IT strategy, defining responsibilities, acquiring services, monitoring performance, managing risk and deals with assurance.	1+2	A draft report is being discussed with management.	To follow	
Corporate Services and BTLS	ICT programme and project management	Review of the programme and project management in place to oversee major development and implementation of IT systems and services.	1+2	Work is continuing.	To follow	

* Type of audit: In accordance with the explanation set out in the audit plan, '1' is consultancy only; '2' is compliance testing only; '1+2' is a full risk and control evaluation; 'F' is follow-up testing.

Matters arising from internal audit work for 2018/19 completed after 1 May 2019

1.1 The matters arising from each of the audits completed during May and June 2019 are set out below. Progress reports to the committee throughout 2018/19 have included similar summaries for each of the audits reported during the year.

Preparation of the corporate risk register (Substantial assurance)

1.2 The council's arrangements follow the principles set out in the International Risk Management Standard (ISO: 31000). Its risk and opportunity management policy, methodology and practice are described on the intranet, in the code of corporate governance and in the statement on risk appetite. Face-to-face training has been delivered to councillors and is available by webcast, and targeted training is delivered to services. Trained service risk champions are established and the information governance manager provides support to heads of service if required.

1.3 Heads of service produce a quarterly service risk and opportunity register, which must be cleared through directors and executive directors. These are moderated by the head of legal, governance and registrars, who reports an analysis to the corporate management team who review and update the corporate risk and opportunity register.

Performance management in the Lancashire Pension Fund

(Substantial assurance)

1.4 The council's Governance Policy Statement sets out the roles of the Pension Fund Committee, Pension Board and senior post-holders in relation to the governance and oversight of the Fund. This includes oversight of the Fund's performance and particularly the performance of its investments.

1.5 The Pension Fund Committee takes the role of scheme manager and receives regular reports from the head of service for the Pension Fund and Local Pensions Partnership Ltd (LPP). The committee is advised by the Investment Panel and assisted by the Pension Board whose independent advisors and chair respectively have been appointed for their specialist expertise, and it is provided with sufficient, relevant information to assess and effectively challenge the performance of the Fund.

Construction of care packages (Moderate assurance)

1.6 The Care Navigation team is responsible for commissioning care for service users, primarily through the providers contracted to provide domiciliary, reablement and residential care. It receives approximately 1,300 referrals each month, of which 600 refer to requests for domiciliary care.

1.7 The audit addressed the 46 providers contracted to provide domiciliary care under the 165 contracts of the homecare framework covering older people and people with physical disabilities, learning disabilities and autism and mental health issues. The team's guidelines are followed when support is commissioned, and team leaders provide appropriate oversight and authorisation of the decisions made.

1.8 Consent to share information is obtained where relevant, but there is a high level of non-compliance with data protection requirements. In 30% of the cases we tested, case details were not appropriately anonymised before being sent to the provider.

1.9 Providers are required to confirm their ability to meet the requirements of a care package in all cases submitted to them. If providers respond they do so within the timescales set, but a high percentage fail to respond at all, which contravenes the homecare framework. This is currently being addressed in conjunction with the contract monitoring team.

Use of the care portal by external care providers to claim payments for services provided to service users (Moderate assurance)

1.10 The care provider portal allows domiciliary and residential care providers to input details of the services they have delivered so that they may be paid. It is accessible to more than 60 providers who each have been issued with a unique login user name and password.

1.11 Different teams within the council are responsible for commissioning care, inputting the rates payable and the providers' details into the Liquidlogic Adults System (LAS) finance module provided by ContrOCC, and for making any amendments to the care commissioned, for example where additional care is required in an emergency. There is therefore adequate segregation of duties.

1.12 Our testing of a sample of 30 payments to homecare framework providers and 20 payments to residential care homes indicated that they were all made correctly and in a timely manner. Further testing also verified the rates paid.

Adult Social Care training and development (Substantial assurance)

1.13 The Skills, Learning and Development Service provides learning and development opportunities for all the council's staff, and more than 80 courses are available specifically for staff in Adult Services. In 2018/19 1,450 courses relating to social care and more than 320 courses on the LAS and LiquidLogic Children's System (LCS) systems were delivered, with over 9,500 course places taken by Adult Service's staff.

1.14 A forum of representatives from Adult Social Care and the Skills, Learning and Development Service oversees training plans, identifies where training is required, assesses and reviews existing courses and commissions new training. The Adult Social Care Academy has also been established to develop and support staff new to adult social care who meet predetermined criteria, and it supports newly qualified social workers through their first assessed and supported year in employment. In the majority of cases social care workers are allocated a place in the next available cohort after their start date.

1.15 Training courses and programmes are continually reviewed and revised, and are delivered through a range of approaches from traditional classroom training to e-learning, shadowing and mentoring. Comprehensive training plans are in place for adult social care services comprising essential service-specific and mandatory courses, information and guidance for accessing additional learning, and recommendations for training to support continuing professional development.

Matters arising from internal audit work for 2018/19 completed after 1 May 2019

Transforming community equipment (Moderate assurance)

1.16 Community equipment plays a vital role in promoting the independence of many people with disabilities of all ages, helping them to carry out daily activities and preventing, reducing or delaying their need for additional care and support. Equipment may be prescribed following an assessment by a health or social care practitioner. It is funded by the council if it primarily meets an eligible social care need, by the NHS if it primarily meets a health care need, or jointly funded where it meets both health and social care needs.

1.17 The council and the county's six clinical commissioning groups have collaborated to jointly commission and procure a single community equipment service in pursuit of value for money and economies of scale.

1.18 Alongside this, a 'section 75' agreement in which the council will act as lead commissioner has been developed that will transfer responsibility from the six NHS bodies to the council. The agreement is currently still in draft pending its agreement by the partners and the pooled budget arrangements have not yet been implemented. Whilst financial contributions and the arrangements regarding annual under or overspends are documented in the agreement, the detailed financial monitoring arrangements are still to be clarified.

Children and Family Wellbeing Service core offer (Moderate assurance)

1.19 The Children and Family Wellbeing Service fulfils the council's statutory duty to provide local parenting and other family support. A wide range of services is offered including health services, parenting advice, access to specialist support, support for expectant parents, and play activities for young children. The council currently runs 57 children and family neighbourhood centres across all 12 of the county's districts, 32 of which are registered children's centres.

1.20 The service operates appropriate governance arrangements, being subject to both internal and external challenge, and is proactive in its approach to service and performance improvement. A framework of policies and procedures supports service delivery, promotes a consistent approach and sustains a safeguarding culture. There is a comprehensive training plan and effective performance management. Staff supervision and professional development opportunities drive continuous improvement within the service. The majority of staff have received mandatory training.

1.21 The service shares information and works with other agencies and professionals to target provision, reflecting families' wishes. Baseline data is captured and progress is tracked to achieve the desired outcomes for targeted families but the service's managers recognise that more could be done to obtain feedback and demonstrate stakeholder involvement in service changes. A majority of the closed cases we sampled had not resulted in intervention, predominantly due to families disengaging with the service, which is an inefficient use of resources and could leave vulnerable families at risk.

Hospital discharge: case management and case audit process

(Moderate assurance)

1.22 One of the aims of the Care Act 2014 is to ensure that people do not remain in hospital when they are medically fit to leave. Within each of Lancashire's teaching hospitals is a team of social workers and social care support officers who work alongside NHS staff to plan the timely discharge of patients with care and support needs.

1.23 Service users are placed at the heart of the process to build on their strengths and achieve the outcomes they desire. At the same time, the council's aim is to reduce its costs, ideally avoiding placing service users in residential care by enabling them to return to their own homes. Different pathways are used to assess a service user either in the hospital or at home and assessments are undertaken by an appropriate combination of social workers, social care support officers, occupational therapists and health workers.

1.24 The case management practices set up under the Passport to Independence programme are working well and their development has continued. The reintroduction of the formal case audit review process in October 2018 has encouraged staff to ensure that the LAS system is kept up to date and holds sufficient information to support decision making. Feedback from case audits is already beginning to have an impact, for example in identifying the need for refresher training within some teams.

1.25 Case notes are clear, concise and flow readily from admission to discharge and transfer to the community teams, but the broader set of records for service users could be strengthened to ensure that they include sufficient evidence of what care and support has been considered and to document the financial implications for all parties. Guidance has recently been issued to staff that should address this.

Information security within the Fostering, Adoption, Residential and YOT Service (FARY) and the Safeguarding, Inspection and Audit Service (SIA)

(Moderate assurance)

1.26 The FARY and SIA teams record, use and retain personal sensitive information on children, young people and families in need of help and support. This is held both as physical records such as birth certificates, and electronically on the LCS and Documentum.

1.27 Of the ten cases reported by the council to the Information Commissioner's Office (ICO) in 2018, two arose in SIA and two in FARY, but no cases have been reported to the ICO as at June 2019. Internally, FARY reported 23 incidents in 2018 and six in the first six months of 2019, and SIA reported 37 and 18 incidents respectively. In both services incidents are properly logged, investigated and reported, including the outcomes and action taken.

1.28 The services' managers have played a positive role in reducing incidents arising from human error, which was previously the most common cause of breaches. Both FARY and SIA have introduced additional controls to reduce the risk of error, such as checks of postal and email addresses by a second officer.

1.29 FARY and SIA information governance champions and service managers actively communicate key messages and promote information security. The two services' champions carry out their roles slightly differently but good practice could usefully be shared. For example the champion in FARY conducts site visits to assess compliance with policy on issues such as clear desks, use of emails and confidential waste, and a similar approach could be more widely adopted.

1.30 LCS gives officers access to all service user records except where specific restrictions are in place. We reviewed a small sample of cases and confirmed that access to them appears legitimate and reasonable.

Continuing healthcare funding (Moderate assurance)

1.31 The council is the corporate parent to the approximately 2,000 children in its care. It has collective responsibility with its partner agencies, including those in health and education, to work together to assess and address each child's needs and to provide them with the best care and protection. Where these needs cannot be met by universal services such as health, education and other community services available to all without specialist assessment or resources, agreement should be reached over how services will be delivered and any financial costs shared between the partners.

1.32 Multi-agency care planning responsibilities were agreed in January 2019 and the multi-agency care planning protocol has recently been published, but it had not reached that stage at the time of our audit work. We therefore audited only the adequacy of the controls framework being developed and not its effectiveness in practice. The protocol combines the council's care planning protocols and scheme of delegation with statutory regulations and imposes a framework across locality teams that promotes a consistent approach to multi-agency decisions, supports agreement on financial contributions for the provision of non-universal services and sets expectations about the timing of care planning and the frequency of decision making

1.33 Action is also being progressed under Children's Services' Getting to Good Plan, which is designed to strengthen existing multi-agency strategic partnerships and will be delivered through 2019.

Prevention of Child Exploitation (Limited assurance)

1.34 Child exploitation is the act of using a minor child for profit, labour, sexual gratification, or some other personal or financial advantage. Child exploitation often results in cruel or harmful treatment of the child, as the activities he or she may be forced to take part in can cause significant emotional, physical, and social problems. Exploitation may specifically be categorised as sexual, criminal, or modern slavery and in March 2019 the council was addressing 152 child exploitation cases.

1.35 A multi-agency approach to safeguarding and protecting children from exploitation is currently taken through the three safeguarding children's boards for the county council and two unitary councils. These include representatives from the police, NHS, district councils, the third sector (voluntary, charitable and faith organisations) and schools.

In September 2019 the boards will be replaced by a single safeguarding children partnership which will be led by the county and unitary councils, with the police and NHS clinical commissioning groups as statutory partners.

1.36 The three safeguarding children's boards have jointly developed a pan-Lancashire child sexual exploitation multi-agency strategy and operating protocol, setting out procedures for professional practice. The protocol is overseen by a strategic group supported by operational groups in the three safeguarding board areas.

1.37 However not all partners are fully engaged and attending meetings, and there is no coordinated approach to ensure that risks to children across the county are identified and managed.

1.38 The current pan-Lancashire child sexual exploitation multi-agency Strategy and Statement of Practice do not drive practice in the council as might be expected, largely due to perceived shortcomings in the current approach. There is a lack of consensus amongst board members as to the scope of their work and inconsistency of interpretation by the partners.

1.39 In June 2018 the county council replaced its locality-based model for managing child exploitation casework with a centralised hub and teams covering the three operational areas of the county. This centralised hub management structure is not yet operating effectively and its performance is a specific concern. While we saw evidence that cases were being assessed and progressed, there is minimal management oversight of performance, inconsistent case working practice, limited performance information, and completion of key tasks is routinely late. Senior management also accept that the centralised structure has not demonstrated its effectiveness, with concerns over the loss of local area knowledge

1.40 The acting director of children's social care has asked the acting head of central children's social care to review the current arrangements and develop options for the future, and in July 2019 this review is still progressing.

Children's Services' improvement plan (Substantial assurance)

1.41 In June 2018 Ofsted re-inspected the council's services for children in need of help and protection, children looked after and care leavers, which had been judged inadequate in the autumn of 2015. It reported significant improvements and its judgement in all three areas moved to 'requires improvement'. The inspections also included adoption and fostering, and in 2018 the adoption service was considered to be 'good'.

1.42 Children's Social Care's Getting to Good Plan focuses on the actions required to deliver Ofsted's recommendations and other key priorities identified in the directorate's self-assessment to ensure the delivery of consistently good services. It was published in January 2019 and across six key areas sets out the expected outcomes, improvement measures, lead officers, targets and due dates. The plan sits alongside a number of strategies and plans to deliver improvement for children including the Purposeful Practice Framework, Corporate Parenting Strategy and more detailed action plans addressing specific service improvements.

1.43 Implementation of the plan is the responsibility of the Getting to Good Board, chaired by the executive director of education and children's services. Delivery of actions in the six priority areas is managed through five delivery boards, led by heads of service or the director, and the Children's Partnership.

Progress is actively monitored and all but seven of the 131 actions have been delivered or are due to be delivered within the agreed timescale. The management of risk is still at an early stage, and risk registers are not yet in place for all delivery boards. A planned self-assessment of progress has been delayed and some structural changes are to be made, including a new operational group to monitor progress, and representation on the board from the police, schools and NHS.

Exclusions from school (Moderate assurance)

1.44 Head teachers of maintained schools can decide to exclude a pupil from the school either for a fixed number of days or permanently. Exclusions must be for disciplinary reasons and be lawful, reasonable and fair. A school's governor disciplinary committee hears any initial appeals against exclusions, and an independent review panel hears any subsequent appeal. Legislation requires the council to return children to school or to make alternative provision from the sixth day of exclusion.

1.45 The council publishes procedures and plentiful guidance for schools and parents/ carers on exclusions and appeals, provides training for school staff and governors and administers independent review panels which support statutory compliance. The Pupil Access Team administers the exclusion process, managing and monitoring fixed and permanent exclusions, and works well with schools and other council services to ensure the process is applied correctly.

1.46 It also works to enrol excluded pupils in alternative educational provision, which the council must provide from the sixth day after exclusion (and the first day for children looked after). However in June 2019 there were delays of between seven and 41 days in enrolling 74 (41%) of the 168 students excluded due to a lack of availability of local provision and budgetary constraints. The council provides daily one-to-one provision for a small number of these children, but for most there is no regular contact from council officers to ensure their wellbeing until alternative provision is found.

1.47 Exclusions data is reported annually to Education Scrutiny Committee but performance targets and indicators are not set.

Contractors' compliance with legislative requirements (Limited assurance)

1.48 The Design and Construction Service enters into contracts for the servicing, repair and testing of fixed engineering installations and other equipment in premises owned or occupied by the county council to ensure compliance with health and safety regulations. The team then monitors the contractors' performance to ensure that they are fulfilling the technical specifications and the legal requirements of their contracts. In March 2019 the team was responsible for 29 contracts with a combined value of £5.2 million.

1.49 Through its contractors, the council ensures that the engineering installations and other equipment in buildings it occupies are compliant with health and safety regulations: testing takes place and remedial work is undertaken without undue delay. However there are significant weaknesses in the management of these contracts.

1.50 Although contracts are periodically re-tendered the schedules of rates remain largely constant. Lines are added or deleted from the schedules to meet marginal changes in requirements, and the costs are generally increased at a standard 3% each year. One contract from our sample of five had expired but has been formally extended by the Procurement service; however the schedules of rates used for two of the other four contracts date from 2014, and one dates from 2016 (and the contract associated with this schedule has not been signed but has been in operation since April 2017).

1.51 The contracts include performance measures but these are not proactively monitored, either through regular meetings with the suppliers or by reviewing reliable performance data. Contract monitoring meetings take place but are sporadic. In three of five cases performance data has not been provided regularly. Their contracts stipulate that inflation will be applied to the rates charged by the suppliers if they meet their key performance targets but it is not clear how this is being assessed and, as noted above, the rates have nonetheless been increased. Where performance data have been provided they have not been independently verified by the council.

1.52 The contractors' invoices are processed for payment as and when they are received but are not robustly checked. However we found no evidence that inappropriate charges have been raised.

Contract monitoring: contracts with Atkins and Jacobs

(Moderate assurance)

1.53 The council has entered into framework agreements with two suppliers – Atkins Ltd and Jacobs UK Ltd – for technical and professional services in relation to civil engineering, landscape and ecology, traffic modelling and transport planning. The frameworks are used by the Design and Construction, Highways, and Planning and Environment services when resources are not available internally. The total value of commissions under the 2017-20 agreements between July 2017 and September 2018 was £3.7 million.

1.54 Commissioning activity is appropriately authorised and projects are allocated to the suppliers in accordance with the terms of the framework agreements. Payments are appropriately authorised and the commissioned work is monitored to ensure it happens within budget and in a timely manner. There is regular communication between representatives of the council and Jacobs UK Ltd at the appropriate levels. The relationship with Atkins is being strengthened with more frequent board and group meetings being scheduled than previously.

Heavy goods vehicle operator's licence: compliance with conditions

(Moderate assurance)

1.55 Under the Goods Vehicles (Licensing of Operators) Act 1995, the council requires a licence to operate heavy goods vehicles. It is an offence to operate without a licence and retention of the license is conditional on appropriate fleet management practice, which is monitored by the Driver and Vehicle Standards Agency. In the event of non-compliance the licence can be restricted or withdrawn, severely restricting the council's ability to deliver its services. License conditions include ensuring vehicle safety through regular inspection, servicing and maintenance schedules, and safe and effective workshop operating conditions.

1.56 The Public and Integrated Transport Service and the Highways Service between them operate approximately 120 vehicles under licence. There are systems in place to manage compliance with license conditions, although evidence of the operation of some key controls is not consistently available. The driver's manual for each vehicle records the vehicle's checks, servicing and maintenance as well as providing useful advice and guidance on road and vehicle safety. Drivers are required to check vehicles in accordance with the manual before using them, but do not always sign to record that they have done so. Work is scheduled on each vehicle but is not always carried out on time, which risks the effective operation of the vehicle as well as reducing the efficiency of the workshop.

1.57 Separate lists of drivers are maintained by the Public and Integrated Transport Service and Highways Service and there is no single list recording all drivers, which could otherwise facilitate corporate compliance checks on driving licences and training requirements. The council's policy does not currently allow for drug and alcohol testing of any staff including drivers, but this is being reviewed and would strengthen controls over the operation of the council's vehicles.

Capital programme: commissioning, design and monitoring

(Moderate assurance)

1.58 The capital programme has a variety of funding streams including government grants, receipts from the sale of capital assets, revenue funds and borrowing. On the Cabinet's recommendation the full Council approves an updated four-year programme for investment in capital projects annually. Cabinet also receives and considers quarterly capital monitoring reports, and approves additions and changes to the capital programme. A number of directors and other officers from across the council form the Capital Board, which supports this cycle of reporting and decision-making.

1.59 The Programme and Project Management System (PPMS) is used to manage capital programme projects. This is an online system designed to provide a "single, unified and fit for purpose tool" to standardise how council projects are managed to improve project control and reporting.

1.60 There are effective processes in place to develop and implement the capital programme: to assess and approve projects, respond to political, policy and service decisions, ensure the availability of funding, and align work with other organisations.

1.61 The Capital Board is overseeing the ongoing completion of a number of actions in response to an audit in 2017/18. In particular, a dashboard of performance indicators and a risk register are being developed although problems with PPMS's reporting functionality have delayed progress. It is also intended to provide the system's users with refreshed guidance. The board is also implementing an action plan from an external review undertaken during 2019, which is designed to promote the consistent use of PPMS for monitoring and forecasting.

New custodianship arrangements for the Lancashire Pension Fund (Substantial assurance)

1.62 The Pensions Act requires the Pension Fund to have adequate internal control mechanisms in place, including arrangements for safe custody and security of the assets of the scheme. The Pension Fund therefore requires a custodian to hold its assets.

1.63 The custodian appointed by the council (Northern Trust) holds £1.6 billion of the £7.9 billion of assets belonging to the Pension Fund: the remaining assets are held by the custodian for LPP (BNY Mellon). Northern Trust obtains information from BNY Mellon and presents information on the whole fund to the council.

1.64 We identified no unmitigated risks in the course of our audit and no further action is required of management.

Oracle user access (Moderate assurance)

1.65 Oracle access controls are adequately designed but some action is required to enhance them further. Officers within the Core Systems team are able to use the Oracle hierarchy to confirm that requests for access have been submitted by an appropriate line manager, but there should be greater clarity about what permissions are appropriate and any conflicting permissions should be identified.

1.66 Senior officers in BT Lancashire Services Ltd (BTLS) have super-user permissions in the live system across all modules in Oracle. We understand this is required for trouble-shooting technical issues and for certain tasks such as amending errors on BACs files, but in future the council's Core Systems team will monitor the need for and use of such permissions.

1.67 Whilst there are controls in place to remove access permissions from users when they leave the council, the same processes do not apply when an officer moves within the council. Consideration will be given to the introduction of a transfer checklist to be used by line managers as officers leave their team.

Liquidlogic Adults System (LAS) & Liquidlogic Children's System (LCS) user access (Moderate assurance)

1.68 LAS and LCS are primarily used to administer adults' and children's social care service users' data including sensitive personal information, and the case work of social workers and support staff. The council's policies and procedures must therefore comply with the Data Protection Act 2018 and the Caldicott principles, and user access permissions should be carefully managed. In June 2019 there were more than 2,500 LAS user profiles and more than 4,000 user profiles on LCS, which includes user profiles of the recently implemented Early Help Module.

1.69 The majority of user access permissions we sampled are appropriate to officers' roles and responsibilities, although two users of the 35 we tested appear to hold a higher access than required. We were unable to confirm in all cases that access requests had been properly approved and that all users had completed the relevant e-learning modules, but understand that this is due to the migration of users' data from the previous system.

1.70 Three super-user accounts are held by officers who have left the council, although there are controls in place to remove access permissions from users as they leave. These processes do not apply when an officer moves within the council and action will be taken to strengthen a range of controls, including reviewing the guidance available to staff.

Information security and management (Substantial assurance)

1.71 Information security management involves protecting information from unauthorised access, disclosure, modification or destruction and is vital to compliance with the General Data Protection Regulation. A suite of information governance and security policies is accessible on the council's intranet and is supported by mandatory training.

1.72 A network of service-based information governance champions supports the Information Governance team in communicating key messages and promoting information security. Raised awareness of the importance of information security and a simple reporting process have increased the numbers of incidents reported to the Information Governance team from 152 in 2016 to 347 in 2018, although not all breached policy and very few were reportable to the ICO. In 2018 ten breaches were reported to the ICO.

1.73 At the same time, guidance, training and communications have helped to reduce the number of incidents categorised as being caused by human error from 62% of the total in April 2018 to 40% in the three months to 31 March 2019. (Incidents may also be caused by theft/ loss, misconduct, technical issues or external factors.)

Allowances claimed by officers (Moderate assurance)

1.74 The council pays officers below a certain grade enhanced hourly rates in certain circumstances including hours worked at night, over the weekend, on bank holidays and on weekdays in weeks when more than 37 hours have been worked. Enhancements are also paid in certain roles for sleeping in and for being on standby.

1.75 The council's policy and procedures in relation to enhancements are available on the intranet, but detailed information is not readily accessible to officers. Claims must be submitted on Oracle, which has some inbuilt validation controls but also requires managers' authorisation. Between them these controls have neither prevented nor detected a number of errors although they are unlikely to be significant in the context of the council's expenditure.

1.76 We used computer software to analyse the whole population of 102,000 claims, amounting to £6.6 million between November 2017 and September 2018, to identify potentially incorrect claims. From the results we selected 132 claims for further testing, identifying 22 breaches of four policy rules and 17 duplicates where second claims had been submitted covering the same period and managers had approved both claims. The value of these errors amounted to approximately £5,000. A review of allowances is currently being conducted as part of the second phase of the council's 'service challenge' cost saving exercise and the issues identified here will inform that work.

The use of contractors through personal service companies and compliance with IR 35 (Moderate assurance)

1.77 IR35 is tax legislation designed to combat tax avoidance by workers supplying their services through an intermediary (for example a limited company) but who would otherwise be their client's employee. It requires that tax and national insurance are deducted and failure to comply may lead to fines being imposed on the council by HMRC.

1.78 Work is ongoing to develop and implement a control framework that will ensure the council complies with IR35 and there are a number of areas where improvements could be made. In particular, we have advised on how planned action to assess the council's existing suppliers against IR35 can be undertaken effectively, a legal indemnity for suppliers of off-contract agency staff should be developed and used, and the guidance for the council's services should be developed and communicated.

Capital programme: accounting (Moderate assurance)

1.79 The financial information presented to Cabinet includes the budget and forecast outturn for the financial year but the Capital Finance Team is required to make a significant number of adjustments to the data generated by PPMS. This is resource-intensive, places reliance on the key finance staff who understand the adjustments they are making, and risks introducing inaccuracies to the data provided to Cabinet arising from the extensive use of spreadsheets.

1.80 However our testing of a sample of five projects confirmed that the general ledger accurately reflected the expenditure recorded in PPMS.

Accounts payable: central and counter fraud controls
(Substantial assurance)

1.81 The council uses the Oracle system to process invoices and payments, and controls over the system and the wider payments process are adequate and effective overall. Action is being taken corporately to address delays in services recording the receipt of goods or service on Oracle, which can unnecessarily delay payments to suppliers.

1.82 Any duplicate payments are proactively identified by specialist software provided by Fiscal Technologies and these are reviewed, investigated and reported to the originating services. The Finance team intends to review the functionality of the Fiscal Technologies software because it is likely it could be used to do more to monitor the risk of fraud, for example by identifying orders that are split across a number of different purchase orders to circumvent financial authorisation limits, false invoices and unusual transactions, and unusually high invoice values for regular requisitions.

1.83 Changes to suppliers' bank account details on the Oracle iSupplier module are not always supported by sufficient evidence, which exposes the council to the risk that supplier details are fraudulently amended.

Pension Fund cash flow management (Substantial assurance)

1.84 The Pension Fund disburses approximately £20 million each month as pensions and other expenses are paid, offset by contributions and other income. The Pension Fund's policy is to maintain a cash balance of £70 million, held in cash or other highly liquid assets. This is managed by the council and is separate from the funds invested by LPP. Any surplus cash should be invested in accordance with the investment strategy to minimise risk and ensure liquidity.

1.85 As at 1 January 2019 the balance of cash and short-term liquid assets was £154 million. The additional balance has arisen due to payments in advance by employers to address deficits following the last valuation in 2016: employers were offered a discount on their deficit payments if they paid these in 2017, and many employers took up this offer. LPP is still working to invest this in longer term assets.

1.86 The Pension Fund Treasury Management Strategy sets out how surplus cash is managed in the short term and we confirmed that surplus cash is managed in accordance with this strategy.

Accounts receivable and debt management: central controls (Moderate assurance)

1.87 The council's income and debt management policy covers each stage of the income cycle from initial charging through to debt collection, enforcement and write-off where necessary. The functions are managed using Oracle, and debt collection strategies are programmed and operating to generate action appropriate to the type of debt.

1.88 The debt management function has been subject to considerable reorganisation recently. The team was disestablished in April 2018 and its functions redistributed, although its restoration is now being considered.

1.89 As at June 2019 more than 48,000 invoices totalling £63.5 million were being managed through Oracle and, of these, 24,600 invoices worth £17 million (almost 27% by value and more than 51% by number) had been outstanding for over a year. The corporate debt position has been previously been reported to councillors in the quarterly corporate performance report to the Cabinet Committee for Performance Improvement, but the last report was for the second quarter of 2017/18 in December 2017.

1.90 At this point though, appropriate action is being taken to resolve the high level of outstanding debt. The backlog is being assessed by officers whose work has been redirected to determine the appropriate course of action for each case. High value debt is being prioritised and action to pursue low priority debt has been deferred.

Data Security Protection Toolkit Review (Moderate assurance)

1.91 As a provider of children's and adults' social care the council must submit a self-assessment return to NHS Digital annually via the NHS Data Security Protection (DSP) toolkit. As part of its working arrangements BTLS provides some of the answers and supporting evidence for this return.

1.92 An adequate framework for information governance and specifically for submission of the DSP toolkit has been implemented. However as noted above in paragraphs 1.65-1.67, there are some issues relating to the council's control of user access to LiquidLogic's systems. Controls are in place to ensure unused accounts are deactivated, but no assessment of current user accounts and their assigned privileges has been undertaken by the council on either LCS or LAS in the last twelve months as required by the toolkit.

1.93 Appropriate technical controls are in place and operated by BTLS. However it is recognised that these need to be formalised, and they will be documented as BTLS prepares for ISO certification. It is not clear that there are adequate mechanisms to share findings of technical risk assessments between BTLS and appropriate council teams such as Information Governance, for example in relation to the decision to allow members of the public the facility to use single sign-on for Wi-Fi.

IT asset management (Limited assurance)

1.94 Robust arrangements are in place for the receipt, secure storage and disposal corporately of the council's desktops and laptops. Physical access to them is appropriately restricted to a degree depending on whether the assets are new, recyclable or to be disposed of. However the ability to monitor them is limited because neither the council nor BTLS holds adequate information on their custodianship or location.

1.95 The secure configuration of desktops and laptops allocated to individuals, combined with the unique Active Directory (AD) user name and password means that data on any device cannot be accessed by anyone other than the device's legitimate user. The deployment of software is well managed and the risk of unlicensed or unpatched software being utilised on the council’s network is therefore significantly reduced.

1.96 However the council lacks a number of key policies which are fundamental to the overall provision and management of IT assets. These include the approval and deployment of a digital strategy, IT asset lifecycle policy, agile working and a single device policy, which are all in various stages of development but not yet formally adopted and implemented. The council cannot therefore fully realise the potential benefits in terms of different ways of working and in supporting its plans to rationalise its accommodation.

Assurance provided by internal audit assignments in 2018/19

These definitions were used in this form for the first time in 2018/19, having been reviewed and revised in 2017/18.

Audit assurance

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 overall.

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.

Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: 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*.

The definitions of the assurance and recommendation grading used by Deloitte in its internal audit reports are as follows:

Report rating	Description of risk mitigation and control effectiveness
Ineffective	Risk mitigation or control absent or ineffective – high risk of failure in prevention, detection, and risk mitigation and/or control activities for audited functions, processes and activities. Multiple high priority findings/issues or significant number of either high or medium priority findings/issues.
Effective with scope for improvement	Risk mitigation activities and controls may be compromised or fail – moderate risk of failure in risk mitigation and control with some need and justification to improve risk mitigation and control activities for audited functions, processes and activities. Some high priority issues or a significant number of medium and low priority findings/issues.
Effective	Compliant (adequate in the circumstances) – low risk of failure in risk mitigation and control and some scope or justification to improve risk mitigation and control activities for audited functions, processes and activities. No high priority findings/issues. Some moderate and low priority findings/issues.

Report rating	Description of risk associated with observations
High	The issue presents a risk that involves a direct exposure to significant assets or a significant potential financial loss. Lack of appropriate controls could have a considerable impact on operations, compliance with laws and regulations, or financial results.
Medium	The issue presents a risk, which involves an indirect exposure to significant assets and could have a moderate impact on operations, compliance with laws and regulations, or financial results.
Low	The issue and associated risks have limited impact on operations, compliance with laws and regulations, or financial results.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected: (All Divisions);

Internal / external audit protocol
Appendix A refers.

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

Executive Summary

This protocol sets out how Lancashire County Council's Internal Audit Service and Grant Thornton as its external auditor work together, and establishes a framework for coordination, cooperation and exchange of information. It was last issued in 2017 and, following changes in Grant Thornton's team, has been reviewed and revised to include references to the Lancashire Pension Fund and the consideration given by Grant Thornton to the head of internal audit's overall opinion.

Recommendation

The committee is asked to note this report.

Background and Advice

In the interests of value for money it is important that the County Council's Internal and External Auditor operate together efficiently and effectively. This protocol sets out the relationship between the two sets of auditors for the committee's information.

Consultations

The Audit Director and manager of Grant Thornton LLP, the Council's External Auditor, have been consulted and the document has been agreed with them.

Implications:

This item has the following implications, as indicated:

Risk management

None.

Lancashire County Council

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Protocol for the relationship between Grant Thornton and Lancashire County Council's Internal Audit Service

June 2019

Introduction

1 This protocol sets out how Lancashire County Council's Internal Audit Service and Grant Thornton UK LLP, as its external auditor, work together, and it establishes a framework for coordination, cooperation and exchange of information.

External audit responsibilities

2 The external auditors are required to perform their audits in accordance with the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General in April 2015. Under this code, and in respect of both the county council's financial statements and those of the Lancashire County Pension Fund, the external auditor must satisfy themselves that:

- the accounts comply with the requirements of the enactments that apply to them;
- proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view; and
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 In addition, the external auditor may be required to certify various claims and returns for grants or subsidies paid by the government departments and public bodies to the council.

4 When completing its work on the financial statements the external auditor is required to comply with International Standards on Auditing (UK and Ireland) (ISAs). The external auditor is required by these ISAs, amongst other things, to:

- gain an understanding of the information systems that are relevant to producing material figures in the accounts;
- gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
- identify the risks of material misstatement in the financial statements whether arising from fraud or error; and
- plan and carry out tests of controls and/ or detailed transactions to address those specific risks as well as the underlying inherent risks.

Internal audit responsibilities

5 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government and, with the other standard setters for the public sector in the United Kingdom, it has adopted a common set of Public Sector Internal Audit Standards (PSIAS), the latest version of which is applicable from 1 April 2017.

6 PSIAS encompasses the mandatory elements of the Chartered Institute of Internal Auditors' International Professional Practices Framework, comprising of:

- Core Principles for the Professional Practice of Internal Auditing;
- Definition of Internal Auditing;
- Code of Ethics;
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

7 Internal Auditing is defined as:

> "an independent, objective assurance and consulting activity designed to add value and improve and organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

8 The Internal Audit Service is required to provide an annual opinion on the council's framework of risk management, control and governance, and must formulate an annual risk-based plan of work to support that. This opinion informs the council's and the pension fund's annual governance statements which are published in their financial statements. Further, internal audit work provides assurance over, amongst other internal controls, the systems that produce material figures in the council's and pension fund's financial statements.

9 These systems control areas of significant financial risk and internal audit work and therefore informs the work of the external auditor. Work undertaken and reported by Local Pensions Partnership Limited's own internal auditor on controls operated undertaken by the company is reported to the council by the Internal Audit Service.

10 There is therefore a natural alignment of internal and external audit work.

The external and internal audit relationship

11 In the interests of overall efficiency and effectiveness, Grant Thornton seeks to maximise its reliance on the work of the Internal Audit Service, most commonly in relation to the council's financial systems, but also in other areas where this is possible. The Internal Audit Service seeks to provide whatever information and support is necessary and appropriate to Grant Thornton as the council's external auditor.

12 ISA 610 refers specifically to 'considering the work of internal audit' and requires external auditors to:

- review the Internal Audit Service to confirm that it meets, as a minimum, the requirements of the PSIAS, to provide assurance that its work can be relied on to inform external audit conclusions;
- review whether the Internal Audit Service is effective;
- review (and seek to place reliance on) specific pieces of internal audit work, where that work covers areas relevant to their external audit objectives; and

- evaluate the work of the Internal Audit Service, where the external auditor intends to use internal audit work to inform their conclusions. This may involve re-performance of a sample of work, testing similar items or observing internal audit work in progress.

13 If Grant Thornton undertakes a formal review of the Internal Audit Service, it will discuss its findings with the Head of Internal Audit and provide a report to the council.

14 The Internal Audit Service will take account of the work undertaken by Grant Thornton in assessing the framework of assurance available to the council.

15 Both sets of auditors share with each other their risk assessments of the council and their related work programmes. This informs both risk assessments and helps to identify opportunities for reliance on work planned to be carried out by the Internal Audit Service.

16 Regular meetings are programmed to facilitate this and both sets of auditors share working papers and reports as needed.

17 In undertaking work that Grant Thornton may wish to use to support its opinion on the council's financial statements, the Internal Audit Service will provide access to the working papers and supporting documentation necessary for the external auditor to assess this work in detail if requested.

18 Both internal and external audit will ensure that whenever documentation is obtained from the other auditor it will be returned promptly and, if used in any published document, will be appropriately cited.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected:
(All Divisions);

Approval of the County Council and County Pension Fund Letters of Representation 2018/19
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 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 asked to:

(i) Consider the management representation letters at Appendix A and Appendix B; and

(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.

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 final audit report is issued.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The management representation letters for 2018/19 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

Appendix A

Lancashire County Council

Robin Baker
Director
Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

Phone:
Fax:
Email:

Your ref:
Our ref:
Date: 29 July 2019

Dear Sirs

Lancashire County Council financial statements for the year ended 31 March 2019

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 2019 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 2018/19 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 2018/19 ("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 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 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.

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

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

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

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

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

xiv. 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

xv. 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.

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

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

xviii. 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.

xix. 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.

xx. 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.

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

xxii. 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.

xxiii. 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

xxiv. We are satisfied that the Annual Governance Statement 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 Annual Governance Statement.

Narrative Report

xxv. 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 29 July 2019.

Angie Ridgwell	County Councillor Alan Schofield
Chief Executive and Director of Resources	Chair of the Audit, Risk and Governance Committee
29 July 2019	29 July 2019

Appendix B

Lancashire County Council

Robin Baker
Director
Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

Phone:
Fax:
Email:

Your ref:
Our ref:
Date: 29 July 2019

Dear Sirs

Lancashire County Pension Fund financial statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Lancashire County Pension Fund (‘the Fund) for the year ended 31 March 2019 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 2018/19 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 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. 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 Fund has been assigned, pledged or mortgaged

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

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

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

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

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

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

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

xiv. We 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

xv. 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.

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

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

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

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

a. management;

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

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

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

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

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

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

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

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

Approval

The approval of this letter of representation was minuted by the council’s Audit, Risk and Governance Committee at its meeting on 29 July 2019.

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

Angie Ridgwell	County Councillor Alan Schofield
Chief Executive and Director of Resources	Chair of the Audit, Risk and Governance Committee
29 July 2019	29 July 2019

Audit, Risk and Governance Committee
Meeting to be held on Monday 29 July 2019

Electoral Division affected:
(All Divisions);

External Audit - Lancashire County Council Audit Findings Report 2018/19
Appendix A refers

Contact for further information:
Robin Baker, (0161) 214 6399, Director, Grant Thornton UK LLP,
robin.j.baker@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 Lancashire County Council and their proposed opinion on those accounts; and
- value for money conclusion.

Recommendation

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

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Council for the 2018/19 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Robin Baker, 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.

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

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

The Audit Findings for Lancashire County Council

Year ended 31 March 2019

17 July 2019

Contents

Your key Grant Thornton team members are:

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our anticipated audit report opinion will be unqualified. A draft of the proposed audit opinion is detailed at Appendix E. Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 5 to 17 of this report. One adjustment to the primary financial statements has been made by management to reflect the impact of a national legal case where events occurring in June 2019 altered the Council's initial accounting treatment. This resulted in a compensating balance sheet and comprehensive income and expenditure classification adjustment for £17.7 million in relation to the IAS19 Pension liability. There is no impact to the useable reserves of the Council as a result of this adjustment. One other issue identified in 2017/18 which has an impact in 2018/19 of £3.5 million is noted on page 30 and is unadjusted by management. There is no impact to the usable reserves of the Council as a result of this issue. The decision to not adjust does not impact upon our proposed opinion. Other adjustments identified relate to minor changes in wording and were adjusted by management and do not warrant separate reporting. The financial statements were prepared to a good standard, with effective quality review arrangements in place. Working papers were available on time at the start of the audit, and prepared to a good standard. Responses to our samples and other queries were comprehensive and timely. We have also raised one recommendation for management as a result of our audit work as detailed in Appendix A. Our follow up of the recommendation from the prior year's audit is detailed in Appendix B and the issue from 2017/18 has been cleared. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters listed on page 5. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 23. We have completed our risk based review of the Council's value for money arrangements. We have concluded that Lancashire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Head of Audit has this year been able to complete a full programme of risk-based reviews and issued a moderate assurance opinion. Progress has been made in stabilising the Council's financial position although it is important that the momentum is maintained and actions to bridge the projected budget gaps continues.

Headlines

Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties as part of the audit this year. As we have previously noted there is an ongoing police investigation. As a result, we have not been able to formally close the audit of the County Council since 2012/13. Once we have had an opportunity to consider the findings from the police investigation we will be able to determine the implications for our audit and subsequently formally conclude the audits. Our findings are summarised on page 17.

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.

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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 the will be presented to the Audit, Risk and Governance Committee on 29 July 2019.

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

Audit approach

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

- an evaluation of the Council's internal controls environment, including its IT systems and controls;
- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response;
- controls testing of the Council's operating expenses, and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit approach, as communicated to you on 27 February 2019.

Closedown arrangements

The financial statements were received on time, and published in advance of the statutory deadline on 23 May 2019. The financial statements were prepared to a good standard with an effective quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries being resolved as listed below, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 29 July 2019, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- review of the final set of financial statements;
- review and submission of the Whole of Government Account (WGA) return;
- receipt and review of the assurance letter from the Lancashire County pension fund auditor;
- review of the auditors' assurance report for the McCloud actuarial adjustments;
- receipt of the audited financial statements and audit opinion from the Lancashire County Developments Limited external auditor;
- completion of our work on some minor disclosure notes;
- final review of the audit file by the Review Partner; and
- updating our post balance sheet review to the date of the audit opinion.

Summary

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 remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the group and the Council.

	Group Amount (£)	Council Amount (£)	Factors considered
Materiality for the financial statements	32.248 million	32.208 million	• This equates to 1.5% of your gross operating expenditure for the year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	24.186 million	28.156 million	• Assessed to be 75% of financial statement materiality.
Trivial matters	1.614 million	1.61 million	• This equates to 5% of financial statement materiality.
Materiality for senior officers remuneration	n/a	0.017 million	• We have determined that the senior officers remuneration is subject to lower materiality, based upon 1.75% of senior officers remuneration expenditure.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) 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.	**Auditor commentary** There are no changes to our assessment reported in our audit plan that this risk is rebutted. Having considered the risk factors set out in ISA240, and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.
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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We carried out the following work: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any instances of management override of controls. A recommendation is made in the Action Plan at Appendix A to strengthen existing journal authorisation processes.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of land, buildings and investment property** The Council revalues its land and buildings on a rolling three-yearly basis. Investment properties are revalued annually. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally for land and buildings, management needed to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We carried out the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our audit work on the valuation of property, plant and equipment has not identified any significant issues that we need to bring to members attention. Our audit work confirmed that revaluations were carried out by an appropriate external expert. We are satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2019. Our work on the estimation process is in the judgements and estimates section on page 12.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement	**Auditor commentary** We carried out the following work: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • considered the impact of Brexit on investment valuations • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary, and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report We are awaiting the assurance from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We draw your attention to page 11 where a national issue relevant to all local authorities to consider and assess their circumstances impacted upon the valuation of the pension fund net liability and the pension reserve.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lancashire County Developments Limited	Beevers and Struthers	• We have reviewed the consolidation undertaken by the Council and reviewed the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group.	• The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts. • We have received confirmation from the company auditor that there are no further issues that should be reflected in the group accounts. • We await the final signed financial statements and audit opinion of the company as the Board meeting is being held on 22 July 2019 to sign the financial statements.

Significant findings - other issues

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

Issue	Commentary
1 **Net Pension Liability – McCloud judgement** The Court of Appeal has ruled in June 2019 that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other public sector pension schemes where they have implemented transitional arrangements on changing benefits. Discussion has been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of Local Government bodies. Many bodies had initially included the impact of the McCloud judgement as a contingent liability in their 2018/19 accounts. However as the picture has now become clearer there is now a general acceptance that the increased liability, where material, should be reflected in the IAS 19 figures in the balance sheet.	**Auditor commentary** • The Council has reviewed their judgement and accounting treatment for the McCloud ruling, as the draft financial statements did not include the impact of the case in the Pension liability figures provided by the Actuary. With the Government denied leave to appeal the ruling in June 2019, the Council's view was updated as it is now probable that the McCloud judgement impacted upon the calculations as at 31 March 2019. • The Council requested the Actuary to perform a review of the impact of the McCloud case and the figures increased the Pension Liability and associated disclosures by £17.7 million Additional narrative disclosure was also added to explain the McCloud case and the adjustment is reflected in the final version of the financial statements. • We have confirmed that the figures from the Actuary have accurately been reflected within the final set of financial statements. • We are reviewing work from our internal actuaries to provide us with assurance over the assumptions and methods employed by Mercers in compiling the McCloud liability estimates.

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £2,021.9 million **Investment Property - £47.5 million**	Land and buildings comprises specialised assets such as schools, waste treatment plants, libraries, residential, day care and respite homes. These are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings including offices are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. Investment property and surplus assets are required to be valued annually and at fair value. The Council has engaged their internal valuer to complete the valuation of land and buildings. The internal valuers carry out their valuations as at 1 April 2018. Waste treatment plants are reviewed by the valuer Rushtons. Investment properties that are part of the group's subsidiary Lancashire County Developments Limited are reviewed by Cushman and Wakefield. The Council re-values their land and buildings on a rolling programme over a maximum of a three yearly cyclical basis. 100% of investment property and surplus assets were revalued at 31 March 2019, as required by accounting standards. 48% of land and building assets that are subject to valuation were revalued during 2018/19. The valuation of land and buildings valued by the valuer has resulted in a net increase of £207.2 million. Management have considered the year end value of non-valued land and buildings, and the potential valuation change in the assets revalued at 31 March 2019, to determine whether there has been a material change in the total value of these properties. As part of management's consideration, this includes the assessment of any movement to 31 March 2019 as the assets revalued in 2018/19 are valued at 1 April 2018. Management's assessment of assets not revalued has identified no material change to the value.	We reviewed the detail of your assessment of the estimate, considering; • the assessment of management's expert, your internal valuer; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the overall increase in the estimate; and • the adequacy of the disclosure of the estimate in the financial statements. There are no issues to raise from the work carried out on the estimate. We have reviewed and challenged management's assessment of the potential impact of those assets not formally revalued this year. Having received the responses to our queries we are satisfied that management has taken a reasonable approach to its assessment in this area.	● (green)

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Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £1,221.6 million	The Council's net pension liability at 31 March 2019 is £1,221.6 million (PY £1,132 million) comprising the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. Liability figures are higher than the previous year mainly due to a general fall in corporate bond yields, and the increase in the market expectations of inflation. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	We reviewed the detail of your assessment of the estimate, considering; • the assessment of management's expert, Mercers; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the Council's share of the LGPS assets; • the reasonableness of the overall increase in the estimate; • the adequacy of the disclosure of the estimate in the financial statements. External auditors are provided with assurance in the form of an auditors expert report from PWC to assess the assumptions made by the Actuary, the table below sets out the key assumptions.	

Assumption	Actuary Value	Within PWC Report ranges	Assessment
Discount rate	2.4% to 2.5%	Yes	
CPI inflation	2.2% to 2.3%	Yes	
Life expectancy – Males over 65	22.2 – 23.7 years	Yes	
Life expectancy – Females over 65	25.0 – 26.4 years	Yes	

Other than the issue already noted on page 11 regarding the McCloud judgement, there are no further issues to note from the work carried out.

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Assessment

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

Significant findings – 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	• The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards have been disclosed within the financial statements. • There has not been a material impact to the financial statements as a result of the implementation of IFRS9 and IFRS15, with movements in the classification of financial instruments disclosed within the financial statements. Management provided us with detailed working papers setting out their assumptions and judgements for the implementation of IFRS9 and IFRS15. • The Council redeemed during 2018/19 their inverse floating Lender Option Borrower Option loans (LOBO). There is disclosure within the financial statements in the material items of income and expenditure note.
2	Business conditions affecting the group, and business plans and strategies that may affect the risks of material misstatement	• No such issues were identified.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	• No such issues were identified.
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 Council for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and presented this to the Audit , Risk and Governance Committee on 30 July 2018. • We issued our 2018/19 Audit Plan on 27 February 2019 and presented this to the Audit, Risk and Governance Committee on 20 May 2019.
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 such issues were identified.
6	Other matters that are significant to the oversight of the financial reporting process	• No such issues were identified.
7	Internal Control matters	• Our review of the Information Technology control environment identified some recommendations for management, with an agreed Action Plan in place. None of the issues raised are of significance to raise with those charged with governance as they did not impact upon our audit approach. We will follow up the recommendations as part of our 2019/20 audit.

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

Management's assessment process	Auditor commentary
The Council 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.	• The Council's use of the going concern basis of accounting is appropriate. • The Council's has provided us with its working paper for its assessment of going concern. • The disclosure of the going concern basis within the financial statements is satisfactory.
Work performed	**Auditor commentary**
We discussed the financial standing of the Council with the Head of Finance and reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty identified. • Our work on financial standing confirmed that the Council has planned to use £44.8 million of reserves to be able to set a balanced budget for 2018/19, but only £25.5 million of this was required due to a reported underspend position of £19.3 million. The Council has identified that it has sufficient reserves to meet its obligations up until 2022/23 as part of the Medium Term financial Strategy projections, with savings plans work continuing to identify and close the remaining structural deficit.
Concluding comments	**Auditor commentary**
The Council's use of going concern basis of accounting is appropriate.	• Our opinion is expected to be unmodified in respect of the going concern conclusion.

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 significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• 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 Council. There is one unadjusted misstatement as noted on page 30, and this will be included in the Letter of Representation. • The draft letter of representation is included as an agenda item at the Audit, Risk and Governance Committee meeting on 29 July 2019.
5	**Confirmation requests from third parties**	• We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests to the Council's bankers and those with whom it placed investments and other borrowings. This permission was granted and requests were sent. All of these requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • The financial statements were received on time, and published one week in advance of the statutory deadline. • The financial statements were prepared to a good standard with embedded quality review processes in place. • Working papers were available at the start of the audit and were detailed, and clear to understand. • The responses to our audit samples and queries were comprehensive and timely.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect which is detailed in Appendix E.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception, namely: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties There are established processes within the Council to produce and review the Annual Governance Statement. We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and we plan to complete this in line with the financial statements deadline.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2018/19 audit of Lancashire County Council in our auditor's report, as detailed in Appendix E until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Value for Money

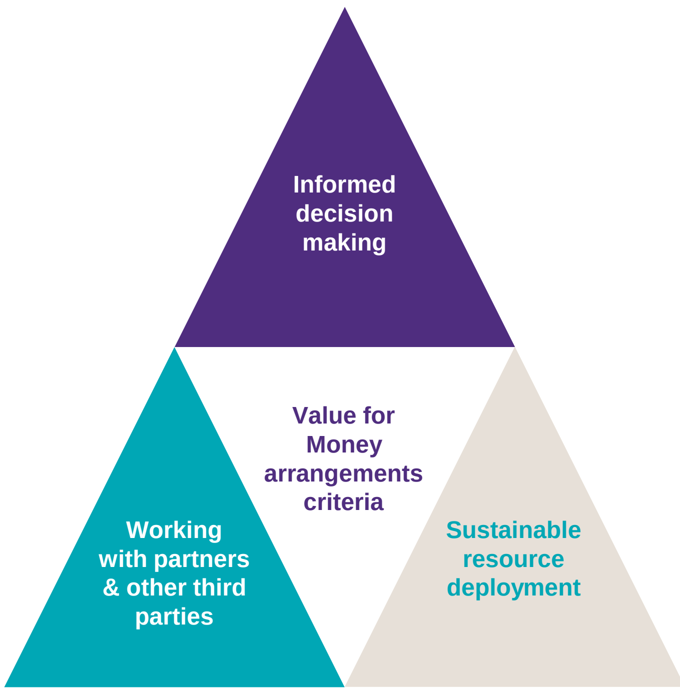
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 27 February 2019.

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

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

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

The significant risks areas we identified were:

- internal control; and
- financial resilience.

In arriving at our conclusion, our main considerations were:

- the robustness of the Medium Term financial Strategy (MTFS) and the reasonableness of the underlying assumptions;
- the in year budget monitoring arrangements;
- the challenge of the on-going savings programme facing the Council during the period of the MTFS; and
- internal control following the Head of Internal Audit's assurance opinion.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 22. Our work on financial resilience is reported in greater detail to reflect the work undertaken in 2018/19 to assess the MTFS and savings plans projections.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings – internal control

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

	Significant risk – Planned work	Findings	Conclusion
1	**Internal Control** The Council's Head of Internal Audit (HoIA) opinion for 2017/18 provided limited assurance on the Council's overall system of internal control because the plan did not provide for coverage of the Council's full internal control system. This resulted in an 'except for' VFM Conclusion qualification in 2017/18. As a result, this area was included as a significant risk and area of focus for 2018/19 as part of the 'informed decision making' sub-criteria. We reviewed the HoIA's opinion and the Annual Governance Statement (AGS) to confirm that the work completed and management's assurances are reflected.	• We have reviewed the work of internal audit during 2018/19 including the outcome of individual reports in risk areas, and the conclusion reached by the Head of Internal Audit in her annual opinion to the Council. • The Council's HoIA opinion for 2018/19 issued in May 2019 provided moderate assurance on the Council's overall system of internal control. • The audit work covered the full range of the Council's services as well as each element of the control framework. • 2018/19 Internal Audit reports finalised to July 2019 since the HoIA opinion would not have altered the opinion given. • The AGS includes a summary of the HoIA opinion as well as other risk areas noted in the opinion.	**Auditor view** • The Council received a 'moderate' assurance opinion for the first time in the last six financial years, with Internal Audit coverage across the Council's services. • The AGS reflects the work completed by Internal Audit and management's assurances. • There are adequate arrangements in place during 2018/19 over the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance. • Our value for money conclusion opinion is unqualified in 2018/19.

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Key findings – financial resilience

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

Overview

The Council faces a significant challenge over the next few years to address a structural deficit in its budget position. Addressing this gap will require the delivery of £120 million of planned savings and a further £47 million of savings as yet unidentified, in order to close the projected funding gap and restore the Council to a balanced financial position by the end of 2022/23.

Whilst the challenge is significant the Council has significant reserves to draw on, centred around the Transitional Reserve of £164.2 million at the end of 2018/19 (equivalent to 5% of the net cost of services of £833 million). Based on current MTFS projections the level of reserves should enable the Council to bridge the budget gap up to the year 2022/23, while the remaining structural deficit is closed.

Financial performance 2018/19

The Council reported a financial outturn for the year ending 31 March 2019 as an underspend on budget of £19.3 million. It should be noted that the Council had planned to deploy £44.8 million of its reserves to deliver a balanced budget, but only £25.5 million of this was required leaving the remainder available to support the financial position in future years.

The underspend reflects the net position of unplanned cost pressures and benefits arising in the year. Within this position, there are new cost pressures that may be structural, and if so may have to be factored into the MTFS as recurrent increases in costs unless they can be managed.

In addition, many of the benefits contributing to the net underspend are due to one-off conditions and so will not help address the underlying structural deficit. This includes the £3.9 million underspend in Public Health and Wellbeing which is partly due to carrying staff vacancies, and the net £27.6 million benefit arising partly from Treasury bond sales and reduced borrowing costs in year.

We note that the Adult Social Care delivered to budget with the assistance of additional funding from the precept and enhanced better care fund. We also note that there was a deficit on schools spending as a result of Dedicated Schools Grant not being sufficient to cover the cost of services, that was funded from the Schools reserve.

The Council should continue to look for opportunities to reduce the call on reserves in future years of the MTFS, with a view to fully closing the gap through recurrent savings. It should be noted that once reserves are expended they cannot be replenished except through generating a surplus in future years.

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Financial planning (MTFS) 2019/20 to 2021/22

The Council's current MTFS projects a funding gap that builds to £47 million by the end of 2022/23. This assumes that £120 million of planned savings will be successfully delivered in the period. The remaining £47 million gap equates to a further 6% reduction in the net cost of services over three years. This remains highly challenging and it is important that the momentum for change established over the last two years is maintained and financial control remains robust.

It is likely that the Council and its elected members will need to continue to make some difficult choices about service provision in order to restore a balanced financial position, and it will be important to maintain an effective dialogue with residents.

The Council has taken a relatively prudent approach to its financial planning assumptions that underpin this position. Overall, the assumptions appear to be reasonable based on the available information and the approach taken by other councils. Key assumptions include:

- The Council will be taking part in the governments 75% Business Rates retention pilot, and business rate projections have been adjusted to reflect this.
- As part of this pilot, Revenue Support Grant will reduce to zero from 2019/20.
- There is an adult social care precept increase of 1% in 2019/20, but is not assumed to increase thereafter.
- Additional adult social care grants, and enhanced better care fund monies are projected to continue through the period. We note that this funding is not confirmed beyond 2019/20, but our experience across other Councils indicates that this assumption is not out of step with expectations.
- Council tax is assumed to increase by 1.99%, subject to a new council decision each year, this is in addition to projected growth in the base of 1-2%. We note that a decision by members not to increase council tax in any one year would significantly increase the unfunded revenue deficit.
- Key cost pressures factored into the position arise from the national pay award, national living wage, inflation and demand pressures particularly in adults and children's social care, waste and transport services. These are broadly in line with what we would expect to see, based on our knowledge of other councils.

Key findings – financial resilience

Financial governance - savings plans

The Council's future financial sustainability depends on the successful delivery of its savings programme and Phase 2 of the 'Service Challenge' transformation process.

During 2018/19 £68.1 million of planned savings were delivered. This includes the early delivery of savings scheduled for 2019/20, including in adult social care, waste and transport. The Council can therefore demonstrate a good track record in delivering planned savings targets in 2019/20.

The current MTFS indicates that a further £77 million of savings have been agreed by Cabinet and are planned for delivery in 2019/20. This has been achieved through over 40 individual service challenge reviews as part of the programme.

Savings proposals arising from the Service Challenge process are documented using a standard template. Savings flagged as requiring consultation and these are subject to an additional approval process. We note that £7.5 million of these savings were contingent on the outcome of further consultation.

The Savings template covers the phasing of financial benefits over the MTFS period up to 2021/22 and the investment requirement. The template also include a section on the non-financial impact on the service, dependencies and an assessment of risk.

Financial governance – monitoring

The delivery of savings in excess of plan for 2018/19 provides some assurance that the Council's process for delivering savings is robust and effective. The savings programme is closely monitored by the Programme Office and the finance team Finance.

Progress is reported at least monthly to the Corporate Management Team (CMT). The financial position is regularly reported to Cabinet quarterly via the 'Money Matters' monitoring reports. Review of these reports over the year indicates an improving forecast outturn position, culminating in the better than expected financial performance at year end.

Impact of Brexit and other risks

The Council has taken steps to develop resilience in the MTFS to manage uncertainties and risks. The Council's MTFS is underpinned by scenario analysis. This includes analysis of the impact on the financial position if the £7 million of savings that required consultation prior to implementation were not progressed, which concluded that there remain sufficient reserves to support the budget until part way through 2022/23.

A Brexit impact assessment was carried out at the request of members and the financial planning process has considered Brexit related risks. This includes the impact that it could have on cost inflation in social care costs resulting from difficulties in recruiting carers.

Reserves

The Council has significant reserves available to manage the projected financial deficits over the MTFS period up to 2023. Total usable reserves as at 31 March 2019 were £240.7 million (excluding schools) of which £164.2 million is contained in the Transitional reserve set aside to help sustain the Councils financial position during transformation. The transitional reserve is equivalent to 20% of the net cost of services in 2018/19.

The Council has been supporting its revenue position using reserves since 2015/16. While this is a legitimate approach to managing a deficit of income over expenditure in the short term, it is not a sustainable position in the medium to long term. There are currently, sufficient Transitional reserves to continue to cover the current projected deficit up to 2022/23. However, the Council rightly recognises that failure to address the underlying deficit over the MTFS period could lead to the inability to set a balanced budget in 2023/24, with the projected deficit of £47 million exceeding the projected available reserves.

Key findings – financial resilience

Conclusion

There are adequate arrangements in place during 2018/19 over the financial resilience of the Council. Our opinion in this area is unqualified.

The Council's financial position remains challenging and continuing reliance on reserves is recognised as unsustainable.

The savings programme and budget gap remains highly challenging, and it is important that the momentum for change established over the last two years is maintained and financial control remains robust.

We will continue to track the outcomes from the savings programme and its delivery on an on-going basis in 2019/20.

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 D.

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 Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures report –Teachers' Pensions return	4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £87,006 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related Chief Finance Officer (CFO) Insights	9,000	Self-Interest (because this is a recurring fee)	The fee is the annual subscription for 2018/19, with the subscription contract until 31 March 2020. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £87,006 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been agreed by management and are those set out in our Audit Plan. None of the services provided are subject to contingent fees.

The work on the Teachers Pension return has not yet started, with the expected completion of the agreed upon procedures in line with the national deadline by the end of November 2019.

Independence and ethics

On page 24 we listed the other services provided to Lancashire County Council. We also disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Council for the reasons mentioned below.

Service	£	Threats	Safeguards
Audit related			
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	Not yet confirmed	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. These are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on the recommendation during the course of the 2019/20 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and Risk	Recommendations
1	● Medium	• Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.	• Review the authorisation procedures in place over journal input. **Management response** • There are personnel controls in place whereby only finance staff are able to post journals, with little incentive for manipulation. Along with this being part of a centralised finance function having established financial monitoring processes that allows the review of all transactions means the risk for manipulation or uncorrected errors is considered very low.

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Controls

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

Follow up of prior year recommendations

We identified the following issue in the audit of Lancashire County Council's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• The Council's assets are revalued at 1 April, but as the revaluations are carried out during the year the depreciation was entered in the month the asset was revalued instead of 1 April, leading to an under statement of depreciation and overstatement of the asset balance. It was established that the impact from this practice was not significant to the financial statements. • A recommendation was made that the Council reviews this process in future years.	• The Council manually adjusts the depreciation charge to ensure that depreciation is charged from 1 April for all assets revalued from 2018/19 onwards. • The impact for any assets that have not been revalued in 2018/19 is noted as an unadjusted misstatement on page 30.

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Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total useable reserves £'000
1	**McCloud judgement** The Council reviewed their judgements and accounting treatment for the McCloud legal ruling, as the draft financial statements did not include the potential impact of the case in the Pension liability figures provided by the Actuary. With the permission to appeal being unsuccessful in June 2019, the Council's view was updated as it was more probable that the McCloud judgement impacted upon the calculations as at 31 March 2019 The Council requested the Actuary to perform a review of the impact of the McCloud case and the figures increased the Pension Liability and associated disclosures by £17.7 million.	17,700 Cost of Services (17,700) Reversal through allowable adjustments between accounting basis and funding basis in the general fund	(17,700) Pension Liability 17,700 Pension Reserve	0 0
	Overall impact	£0	£0	£0

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Audit Adjustments

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?
Presentation and consistency	A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity and consistency. None are significant to warrant disclosing separately.	✓

Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements identified for new issues identified during 2018/19. Note that the below item is unadjusted relating to an issue identified in the prior year audit that has relevance to the 2018/19 financial statements.

Impact of prior year unadjusted misstatements

The table below provides details of unadjusted misstatements identified during the prior year audit which have an impact upon the 2018/19 financial statements. The Audit, Risk and Governance Committee at the meeting on 29 July 2019 is required to approve management's proposed treatment of the item set out below.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on Reserves£'000	Reason for not adjusting
1	In 2017/18 the Council revalued its assets as at 1 April 2017. However, as these assets were actually being revalued throughout the year the new valuations were entered onto the asset register when they were received. The revalued assets were depreciated from the date they were entered onto the asset register rather than from the date of the valuation which was 1 April 2017. The impact is that Property, Plant and Equipment (PPE) is overstated with a corresponding understatement of depreciation in the year. During 2018/19 any assets revalued have depreciation recorded correctly from 1 April, but any assets not subject to revaluation in 2018/19 will have incorrect values of depreciation recorded. Note that this issue will reduce to nil at the end of the three year revaluation cycle as all assets are revalued. The amounts involved that are relevant to 2018/19 are:				The values are not material, and the amounts will decrease to nil over the next two financial years as these assets are revalued.
	Property, Plant and Equipment		(3,558)		
	Depreciation in 2017/18	3,558			
	Overall impact	**£3,558**	**(£3,558)**	**£0**	

Note that one other item reported in 2017/18 within unadjusted misstatements has no continuing misstatement impact for 2018/19. Some items recorded as revaluations in error in 2017/18 for £2.614 million have all been subject to valuation in 2018/19, therefore correctly reflected within the 2018/19 financial statements.

Fees

We confirm below our final fees charged for the audit and the fees for other services and we confirm that the other services were audit related..

Audit Fees

	Proposed fee £	Final fee £
Council Audit	87,006	90,006
Total audit fees (excluding VAT)	**£87,006**	**£90,006**

- Additional work was undertaken due to a national accounting issue that impacted on all authorities and required additional audit time to be spent on the work carried out for the pensions IAS19 balances and disclosures. The £3,000 will be subject to PSAA approval, and this will be submit to PSAA at a future date.
- The audit fees note within the financial statements will not include the £3,000 additional fee as it has yet to be agreed with PSAA.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Agreed upon procedures report – Teachers' Pension return	4,200 *
Non-audit services	
• CFO Insights	9,000
	£13,200

* The work on the Teachers Pension return has not yet started, with the expected completion of the agreed upon procedures in line with the national deadline by the end of November 2019.

Draft proposed audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement the Group Balance Sheet and the Group Cash Flow Statement and all notes to the financial statements, including the technical annex and the 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 2018/19.

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In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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 group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We 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 Chief Executive and Director of Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Executive and Director of Resource has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or 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 financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Draft proposed audit opinion

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities set out on page 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Draft proposed audit opinion

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

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

To be signed

Robin Baker, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

To be dated

grantthornton.co.uk

Audit, Risk and Governance Committee
Meeting to be held on Monday 29 July 2019

Electoral Division affected: (All Divisions);

External Audit - Lancashire County Pension Fund Audit Findings Report 2018/19
Appendix A refers

Contact for further information:
Robin Baker, (0161) 214 6399, Director, Grant Thornton UK LLP,
robin.j.baker@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 Lancashire County Pension Fund and their proposed opinion on those accounts and Annual Report.

Recommendation

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

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Pension Fund for the 2018/19 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Robin Baker, Engagement Lead, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the Pension Fund and County Council management.

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
None		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2019

17 July 2019

Appendix A

Contents

Your key Grant Thornton team members are:

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 14. One adjustment was identified to the financial statements that impacted upon the primary financial statements. Pension Fund officers identified a £10.8 million change in the classification of the Fund Account between unrealised losses in market value and management expenses, with the net impact of the adjustment being nil. All audit adjustments are detailed in Appendix B and other items adjusted relate to disclosure note changes only. We have also raised one recommendation for management as a result of our audit work in Appendix A. The financial statements were prepared to a good standard, with effective quality review arrangements in place. Working papers were available on time at the start of the audit, and prepared to a good standard. Responses to our samples and other queries were comprehensive and timely. Our work is substantially complete and there are no matters of which we are aware at this stage that would require modification of our audit opinion, or material changes to the financial statements, subject to the resolution of the outstanding matters listed on page 4. Our anticipated audit report opinion for the financial statements will be unmodified as set out at Appendix D.
Annual Report	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	Our anticipated audit report opinion for the consistency of the financial statements within the Annual Report will be unmodified as set out at Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Pensions Fund officers 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.

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

Audit approach

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

- an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- controls testing of the Pension Fund's payment and members administration 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.

We have not had to alter or change our audit plan, as communicated to you on 7 March 2019.

Closedown arrangements

The financial statements were received on time, and published in advance of the statutory deadline on 23 May 2019. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15, although there was minimal impact for the Pension Fund.

Conclusion

We have substantially completed our audit of your financial statements and subject to the resolution of the outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

These outstanding items include:

- receipt of the management representation letter;
- review of the final set of financial statements,
- review of the final Annual Report,
- review of the auditors assurance report for the McCloud actuarial adjustments,
- final review of the audit file the Review Partner;
- on-going work on some minor disclosure notes to complete;
- receipt and review of one investment manager confirmation and some controls reports, and
- updating our post balance sheet review to the date of the audit opinion.

Summary

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 have increased compared to those reported in our audit plan due to the increase in net assets at 31 March 2019.

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

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	84,101,000	• This equates to 1% of your net assets at 31 March 2019, and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	63,080,000	• Assessed to be 75% of financial statement materiality
Trivial matters	4,205,000	• This equates to 5% of financial statement materiality

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Revenue recognition – the risk of revenue including fraudulent transactions** Under ISA 240 (UK) 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.	**Auditor commentary** There are no changes to our assessment reported in our audit plan that this risk can be rebutted. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.
2	**Management override of controls** Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We carried out the following work: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any instances of management override of controls. A recommendation is made in the Action Plan at Appendix A to strengthen existing journal authorisation processes.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of Level 3 investments** The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We carried out the following work: • evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. Our audit work to date has not identified any issues in respect of the risks relating to the valuation of Level 3 investments at year end. Our work is ongoing in this area as one level 3 confirmation is currently outstanding.

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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

Management's assessment process	Auditor commentary
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 Fund’s overall funding position and any communications with the relevant Department and Secretary of State.	• The Pension Fund’s use of the going concern basis of accounting is appropriate. • The Pension Fund’s assessment of going concern was communicated to us by the Chair of the Audit, Risk and Governance Committee’s letter dated 20 May 2019. • The last triennial valuation, as at 31 March 2016 reported a funding level of 90%.
Work performed	**Auditor commentary**
Reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty is identified. • There are sufficient assets to meet the liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reported 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	**Auditor commentary**
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 findings - other issues

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

	Issue	Commentary
1	**McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. Discussion has been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of Local Government bodies and Pension Funds.	**Auditor commentary** • The Pension Fund has reviewed their judgements and treatment of the McCloud legal ruling, as the promised benefits note in the draft financial statements did not include the impact of the case in the promised benefit figures provided by the Actuary. With the Government having been denied leave to appeal the ruling in June 2019, the Pension Fund's view was updated as it is now probable that the McCloud judgement impacted upon the calculations as at 31 March 2019. • The Pension Fund requested the Actuary to perform a review of the impact of the McCloud case and the figures changed the promised benefits disclosure note by increasing the promised benefits by £64 million. Additional narrative disclosure was also added. • We have confirmed that the figures from the Actuary have accurately been reflected within the final set of financial statements. • We are reviewing work from our internal actuaries to provide us with assurance over the assumptions and methods employed by Mercers in compiling the McCloud promised benefits estimates.

Significant findings – 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	• The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards were minimal to the Pension Fund and are adequately disclosed within the financial statements. • The impact of Brexit was discussed with officers during the year and will form part of our enquiries for future years when the position is more certain.
2	Business conditions affecting the Pension Fund, and business plans and strategies that may affect the risks of material misstatement	• No such issues were identified.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	• No such issues were identified.
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 Council and Lancashire County Pension Fund for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and presented this to the Audit , Risk and Governance Committee on 30 July 2018. • We issued our 2018/19 Audit Plan on 27 February 2019 and presented this to the Audit, Risk and Governance Committee on 20 May 2019.
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 such issues were identified.
6	Other matters that are significant to the oversight of the financial reporting process	• No such issues were identified.
7	Internal Control matters	• The Pensions Committee receive updates with a summary of the outcomes of internal audit reports at Local Pensions Partnership (LPP). The 2018/19 program of work at LPP reported mixed assurance levels with an 'ineffective' rating for reports in benefits administration, cyber security and investments' legal and regulatory compliance. The position has been reflected in the Lancashire County Pension Fund Annual Governance Statement.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in pooled property investments, private equity, long term credit and infrastructure investments that in total are valued on the balance sheet as at 31 March 2019 at £3.409 billion. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by the funds which the Fund invests in. The value of the investments has increased by £193 million in 2018/19, largely due to acquisitions and improvements in market conditions.	Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations. We have also tested a sample of level 3 investments to audited accounts to determine if the values are estimated that they are reasonable. We have found no issues to date with this testing and are satisfied that the estimates are appropriately disclosed in the accounts. Note that our work on level 3 investments is still ongoing as not all investment confirmation requests have been received. This is being followed up as a matter of importance.	
Level 2 investments	The Pension Fund have investments in corporate and overseas government bonds and direct property holdings that in total are valued on the balance sheet as at 31 March 2019 at £761.9 million. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers and engage the services of a property valuer for direct property.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year end valuations. We have also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where they are not quoted, to unit values provided by the investment manager's own independent custodian. We have found no issues with this testing and are satisfied that the estimates are appropriately disclosed in the accounts.	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

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 significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• 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. The draft letter of representation is included as an agenda item at the Audit, Risk and Governance Committee meeting on 29 July 2019.
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.

Other communication requirements

	Issue	Commentary
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • The financial statements were received on time, and published one week in advance of the statutory deadline. • The financial statements were prepared to a good standard with embedded quality review processes in place. • Working papers were available at the start of the audit and were detailed, and clear to understand. • The responses to our audit samples and queries were comprehensive and timely.
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 on the day we issue the financial statements opinion. • The Pension Fund Annual Report is produced by the Pension Fund by July, and therefore we can carry out the work to check the consistency of the Annual Report with the audited financial statements. Note that the statutory deadlines for the Pension Fund Annual Report to be published is not until the 1st December 2019, therefore producing the Annual Report early enables the separate opinion for the Annual Report to be given at the same time as the financial statements opinion.

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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 C.

Audit and Non-audit related 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.

	Fees £	Threats identified	Safeguards
Non-audit related			
IAS19 assurance procedures for other bodies admitted to the pension fund	9,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £26,310 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

For completeness we are reporting to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund for the reasons mentioned below.

Service	£	Threats	Safeguards
Audit related			
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	Not yet confirmed	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. These are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.

Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	• Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.	• Review the authorisation procedures in place over journal input. **Management response** Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals.

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

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

The one adjusted misstatement is set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1	For consistency with pooling disclosures to be made in the Annual Report of the Fund, Pension Fund officers identified additional investment management expenses of £10.8 million for the year to 31 March 2019 following receipt of fee information for the final quarter of the financial year from the Local Pensions Partnership. The increase in management expenses recognises costs that are embedded in the market value of investments, rather than directly invoiced to the Fund. This adjustment is in classification only and has a net impact of nil on the primary statements as it is a reclassification between an unrealised loss in market value and investment and management expenses within the Fund Account.	-10,800 +10,800		
	Overall impact	£0	£0	£0

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Audit Adjustments

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 area	Detail	Adjusted?
Annual Governance Statement	Minor changes were identified by Pension officers and as part of the audit to the Annual Governance Statement. This was due to the passage of time to update and include information relevant from June and July.	✓
Note 13 – Investments analysed by Manager	The analysis of investments by manager with the LPPI Private Equity Fund was updated for the split between HG Capital and HGGC. The investment value of HG Capital was reduced by £67.6 million from £80.8 million to £13.2 million. The investment value of HGGC was increased by £67.6 million from £ nil to £67.6 million. There was no impact on sub-totals or the overall total within this disclosure note.	✓
Note 13 – operating leases	The future value of minimum lease payments receivable under non-cancellable leases has been reduced by a credit allowance of 2.1% per annum, reflecting the Fund's expected loss from late or non-recovery of rents from tenants. The value of the adjustment is £5.4m as at 31 March 2019 and £4.9m as at 31 March 2018. This adjustment complies with section 7.2.9 of the Code which is a new requirement to recognise a credit allowance based on expected future losses, not as and when there is objective evidence of a loss having occurred. The information required from the Fund's property manager to calculate this adjustment was not available at the time of signing the draft financial statements.	✓
Note 25 – Actuarial present value of promised retirement benefits for the purpose of IAS 26	The Council reviewed their judgements and accounting treatment for the McCloud legal ruling, as the draft financial statements did not include at that time the impact of the case in the promised benefits figures provided by the Actuary. With the permission to appeal being unsuccessful in June 2019, the Pension Fund officer's view was updated as it was more probable that the McCloud judgement impacted upon the promised benefits calculations as at 31 March 2019. The Council requested the Actuary to perform a review of the impact of the McCloud case and the figures changed in the promised benefits note to increase the figure by £64 million from £10,923 million to £10,987 million.	✓
Presentation and consistency	A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity and consistency. None of them are significant to warrant disclosing separately.	✓

Audit Unadjusted misstatements

Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2018/19 audit.

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements identified as part of the 2017/18 audit.

Fees

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

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£26,310	£27.810*
Total audit fees (excluding VAT)	**£26,310**	**£27,810**

* Additional work was undertaken due to a national accounting issue that impacted the Pension Fund, and required additional audit time to be spent on the work carried out for the promised benefits disclosure note. The £1,500 will be subject to PSAA approval, and this will be submit to PSAA at a future date.

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Non Audit Fees

Fees for other services	Fees £'000
Non Audit related services: • IAS19 Assurance letters to other auditors	£9,000 *
	£9,000

* The IAS19 fee is for our responsibilities in providing written assurances to auditors for eighteen bodies within the Public Sector Audit Appointments (PSAA) regime on controls over information provided by the Pension Fund to the actuary.

Note that any changes to fee are required to be approved by PSAA, and this has not yet been completed. The fee for this work is increased in 2018/19 from the historic level charged in 2017/18 and prior of £1,737 to recognise the work involved to carry out the testing to provide the assurance for eighteen separate bodies. The charge for 2018/19 is at £500 per request.

Draft proposed audit opinion on the financial statements

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

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

Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2019 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 2018/19.

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In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 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 2018/19; 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 Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We 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 Chief Executive and Director of Resource's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Executive and Director of Resources has not disclosed in the pension fund's 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 the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

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

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's 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.

Draft proposed audit opinion on the financial statements

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's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities set out on page 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and

Draft proposed audit opinion on the financial statements

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.

To be signed

Robin Baker, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

To be dated

Draft proposed audit opinion on the Annual Report

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 of Lancashire County Pension Fund included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 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 2018/19 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.

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 July 2019.

Section 151 Officer responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Section 151 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 2018/19.

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.

Use of our report

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 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.

To be signed

Robin Baker, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

To be dated

grantthornton.co.uk

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected:
(All Divisions);

Approval of the council's statement of accounts 2018/19
Appendix A refers

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

Executive Summary

The statement of accounts for Lancashire County Council including those for the Lancashire County Pension Fund are presented at Appendix A.

Recommendation

The Audit, Risk and Governance Committee is asked to approve the 2018/19 statement of accounts, at Appendix A, for Lancashire County Council and Lancashire County Pension Fund.

Background and Advice

The draft statement of accounts were certified by the Chief Finance Officer and published on the council's website on 23 May 2019.

The final statement of accounts are presented at Appendix A to this report. The accounts are required by regulation to be approved and published by 31 July.

<u>Changes to the statement of accounts since publication in May 2019</u>

<u>McCloud judgement</u>

In December 2018 the Court of Appeal ruled against the government in the two linked cases of Sargeant and McCloud relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the Court of Appeal ruling.

The transitional protection permitted those members who were closest to retirement at the time new pension schemes were introduced to remain members of their respective previous schemes.

The Court has found that those too far away from retirement age to qualify for transitional protection had been unfairly discriminated against. As transitional protection was offered to members of all the main public service pension schemes, the government has indicated that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

The figures in the council's statement of accounts have been adjusted to reflect the estimated increase in pension liabilities as a result of the McCloud judgement. The council's actuaries have estimated the potential increase in scheme liabilities for the council to be £17.7 million.

This is shown as an increased cost of £17.7 million in the comprehensive income and expenditure statement, however there is no impact on usable reserves as this transaction is reversed in the movement in the reserves statement.

The 'other long term liabilities' on the balance sheet have increased by £17.7 million with a compensating adjustment in the pensions reserve.

The pension Fund's liability to pay promised retirement benefits is disclosed in note 24 to the pension Fund accounts. This liability is not included within the Fund's financial statements and is a narrative disclosure item only. The scheme's actuary, Mercer, has estimated the potential increase in liability for the Fund to be £64 million and consequently the liability disclosed in note 24 has been increased to £10,987 million.

Investment management fees

Additional investment management fees of £10.8 million have been recognised in the pension Fund accounts and disclosed in note 10 following receipt of further information from the Local Pensions Partnership. These are costs embedded in the market value of investments. The adjustment is for classification only and has a net nil impact on the primary statements of the Fund. This adjustment, although not material to the accounts of the Fund, will ensure consistency with the required pooling disclosures to be included in the annual report of the Fund.

Group accounts

The group accounts now include the company's deferred taxation on profit on ordinary activities of £1.3 million. This is reflected in the group accounts comprehensive income and expenditure, movement in reserves, cash flow statement, balance sheet and notes 6, 9, 10 and 11.

There has also been minor adjustments made to the company's creditor balance and impairment allowance of long term investments totalling £0.1 million. These changes are reflected in the group comprehensive income and expenditure, movement in reserves, cash flow statement, balance sheet and group notes 7, 10 and 11.

Presentation

A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity.

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 2018/19 accounts commenced on 24 May 2019 and ended on 5 July 2019.

Implications:

This item has the following implications, as indicated:

Risk management

The council's accounts for 2018/19 must be approved and published by 31 July 2019 in order to meet the regulatory 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

Statement of accounts 2018/19

Appendix A

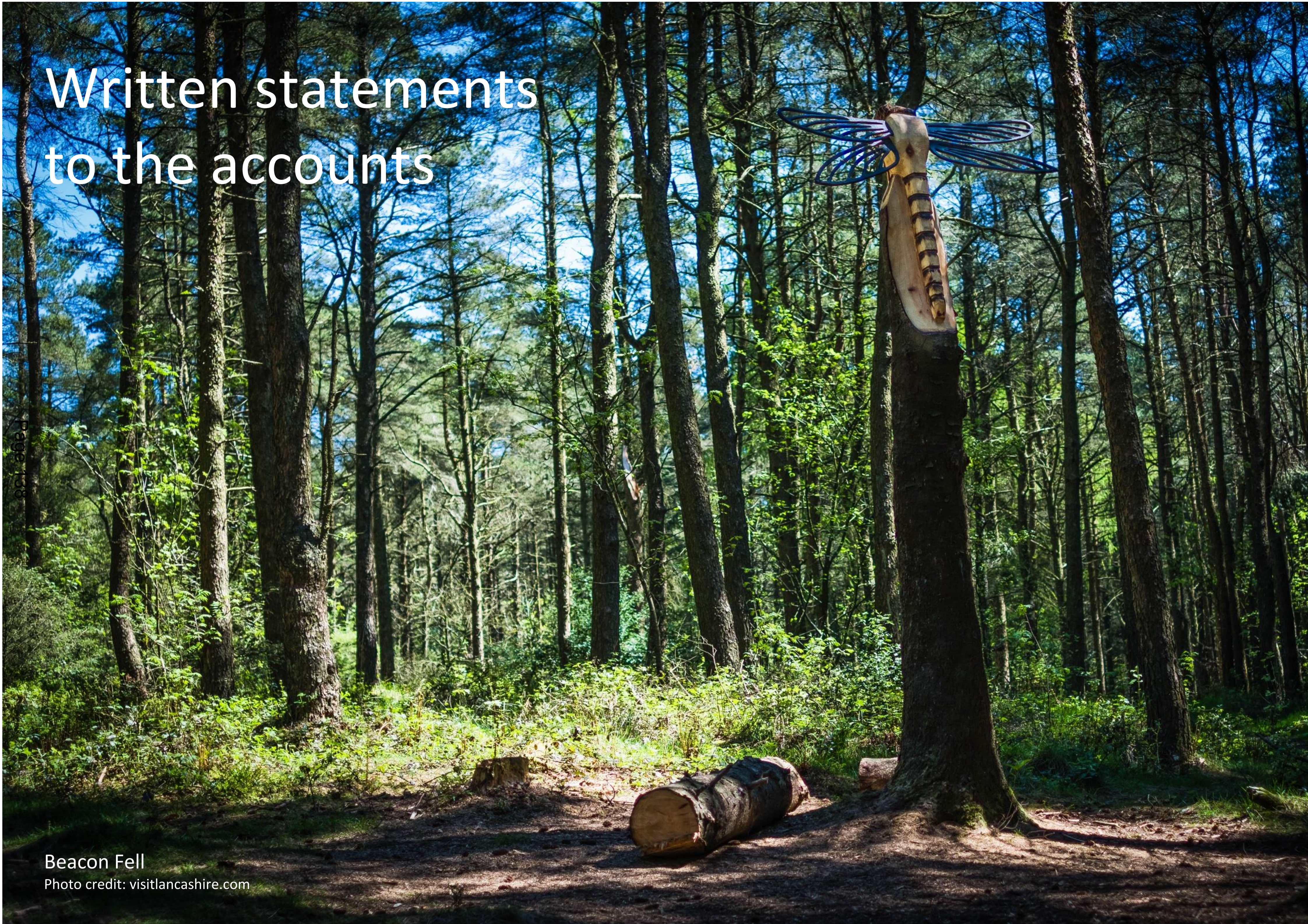
Lancashire County Council

Contents

Front cover: Mary's Shell, Cleveleys
Photo credit: Sonia Bashir

Contents

Written statements to the accounts



Beacon Fell
Photo credit: visitlancashire.com

Foreword by the Chief Executive and Director of Resources

I am pleased to introduce the statement of accounts for the 2018/19 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. Further details on the group structure are provided in the notes supporting the group accounts. The accounts also include the Lancashire County Pension Fund accounts for which Lancashire County Council is the administering authority.

In February 2019 the council presented its vision for Lancashire that forms the basis of the corporate strategy. The strategy describes our key objectives and ambitions, highlighting how the council, its partners and the residents of Lancashire can all work together to achieve these outcomes.

We aim to ensure that the residents of Lancashire can be proud of the services that the council provides. In doing so, we have received recognition in a number of areas in 2018/19.

For example, the Telecare programme in Lancashire supporting more than 10,000 residents won the prestigious LaingBuisson Award that recognises excellent health and social care services across the country.
90% of schools and 100% of adult community care services delivered by the council were rated 'Good' or 'Outstanding'.

Also in 2018/19, Ofsted published a report into the inspection of children's services in Lancashire noting improvements in engaging with children, better support of care leavers and particular praise for the council's adoption services. We will continue the work with partners to take forward children's services across the county and make sure our children are safe, healthy and supported to achieve.

With reductions in funding and increasing demand, delivering services that meet the needs of citizens presents huge challenges. The council has continued to deliver against its programmed savings, meaning that we have maintained healthy reserve levels retaining our resilience to meet these challenges going forward.

A Ridgwell

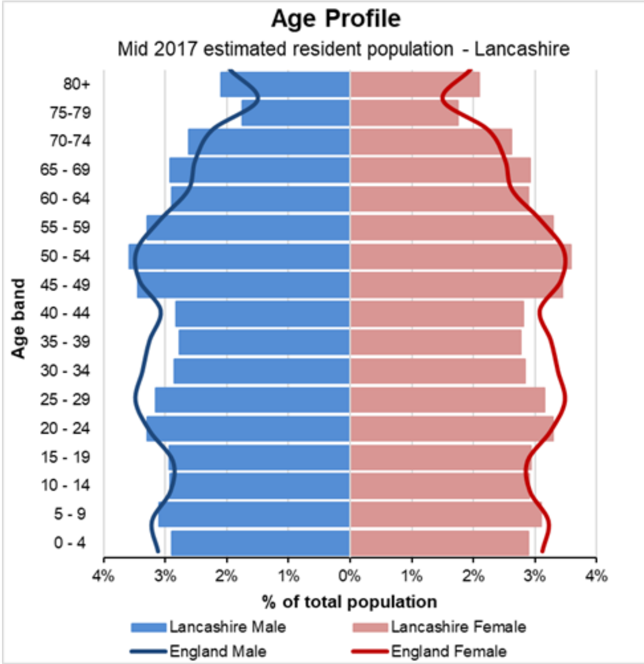
Angie Ridgwell
Chief Executive and Director of Resources (Section 151 officer)

The county of Lancashire

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

Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. At £27 billion, it is one of the largest economies in the north of England, with around 44,000 businesses supporting 515,000 jobs.

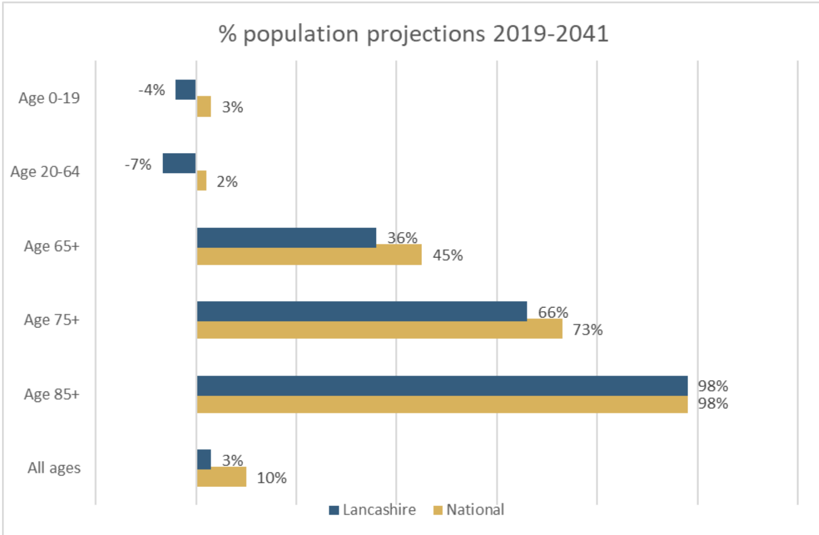
Lancashire has a diverse heritage and a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment. Lancashire is home to the world's 4th largest aerospace cluster, as well as core strengths and capabilities in advanced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



Demographic profile of Lancashire

The Office of National Statistics mid-year population estimate for Lancashire in 2017 showed that there were 1,201,855 people living in the county. The population is projected to increase to 1.24 million by 2041, with significant increases forecast in the age over 65 population.

The profile of the population is an important determinant of the demand for services provided by the council, such as the need for adult and children's social care. The age profile chart highlights some real challenges with a forecast lower proportion of working age adults relative to an increasing older population. This highlights the importance of our economic development activity to attract working age people into Lancashire.



2016-based population projections for local authorities 2016

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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;
- Libraries and heritage; and
- Economic development.

Our vision

"Here at Lancashire County Council we are helping you to make Lancashire the best place to live, work, visit and prosper."

Our Vision for Lancashire forms part of the county council's planning and performance framework. It sets out our priorities in an open and transparent way.

We want Lancashire to be the county people choose to create a home, raise their children, develop a career and grow old in. We are committed to developing and celebrating our diverse communities, heritage and landscape to create a strong sense of place we can all be proud of.

Our vision is focused around five objectives which we set out on the following pages.

Lancashire will be the place to live

Lancashire is a county of diverse communities.

It is a place where people are valued and will feel able to have their say. It will be a county where housing meets the needs of all ages, where people are safe and feel safe, surrounded by clean, green spaces where everyone can enjoy a good quality of life and be happy.

It will be a county where:

- Children of all abilities do well in our first class schools, colleges and universities, gaining skills for life
- People have good housing
- People live healthier lives for longer
- People can travel on good quality, reliable public transport
- People get on well together and are connected to their local community
- Our most vulnerable people are protected and supported
- People make use of technology to access services, support and information

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Lancashire will be the place to work

Lancashire will be a county that supports a flexible and inclusive labour market, where skills development is championed and where talented individuals choose to live and work.

It will be a county where:

- We support people of all ages and abilities to learn and develop their skills
- Significant new, good job opportunities are created
- We support and encourage business investment, innovation and growth
- We aim to increase the earning power of our residents and communities
- We build and develop effective infrastructure and transport links

Lancashire will be the place to prosper

Lancashire will be a county that promotes strong economic growth in both urban and rural economies.

It will be a county that actively boosts productivity and prosperity for everyone.

It will be a county where:

- We invest in industry, and promote innovation to secure Lancashire's growth potential
- Businesses are supported to start up, to thrive and to grow
- We build on the strengths and resilience of local industry
- Our residents, businesses and places are enabled to be more productive
- We promote Lancashire as a national and globally connected destination and a well performing place to do business

Lancashire will be the place to visit

Lancashire is a beautiful county with a wealth of culture.

From green fields and rolling hills to coastal towns and country villages – Lancashire really does have it all as a place for people to enjoy.

It will be a county where:

- We celebrate our beautiful, clean landscapes
- We encourage the visitor economy and the opportunities for growth
- People enjoy our culture and heritage, diverse communities and local attractions
- We promote our wonderful sporting attractions and hidden gems

Lancashire will be the place where everyone acts responsibly

The county council will work closely with our partners to enable people in Lancashire to develop and thrive.

We will listen to the needs of people and work with our partners and communities to empower them to meet their own needs. We will help people to look after themselves and help them to provide care and support to their families, friends, neighbours and colleagues.

It will be a county where:

- We will equip our most vulnerable people with the support and skills they need to do more for themselves
- We commission, procure and provide services that provide maximum benefit to Lancashire residents
- We recruit and retain a workforce that meets service needs
- We prevent waste and use money wisely
- We learn from others

Our 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:

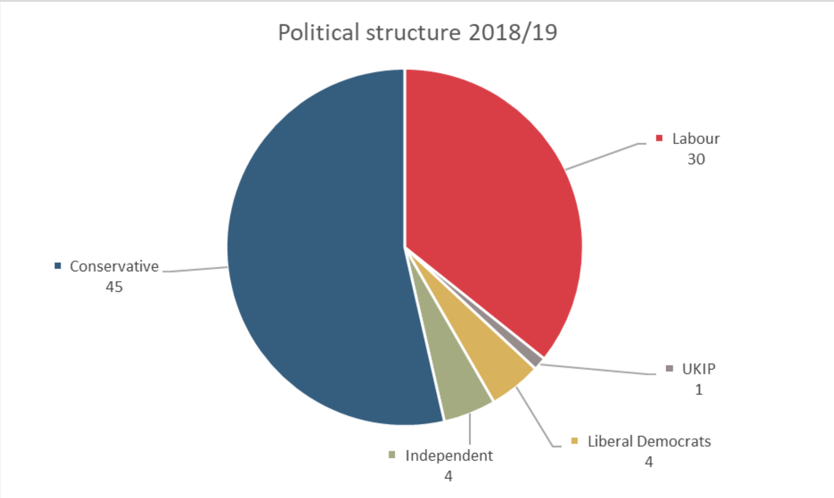
Risk description	Possible consequences	Mitigating actions
Reshaping the county council.	Inability to deliver service improvements at pace and a balanced budget in future years.	This risk is being monitored by the service challenge board, financial monitoring boards and corporate management team.
Protect and safeguard children.	Children are put at risk of harm.	Safeguarding arrangements have been strengthened. Annual Improvement Plan developed. New Children and Families Board to be established following the conclusion of the Improvement Board.
Delivering a statutory compliant service for children and young people with special educational needs and/or disabilities.	Unmet need will result in children and young people failing to meet their potential and therefore not be supported as positively as possible into adulthood.	Recruitment of qualified staff funded by the SEND reform grant. Commissioning arrangements with the NHS being reviewed. Strategic reporting and monitoring of the improvement plan carried out at Cabinet and corporate management team.
Adult social care provision is adequate and responsive to meet current and future demand.	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 rural areas or with very complex needs are difficult to find appropriate support for.	Through the work of the Passport to Independence programme, people are able to optimise their independence, and reduce dependency on formal support as appropriate. This in turn will support the demand on the market.

Our governance structure

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

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

The chart below shows the political structure of the council as at 31 March 2019.



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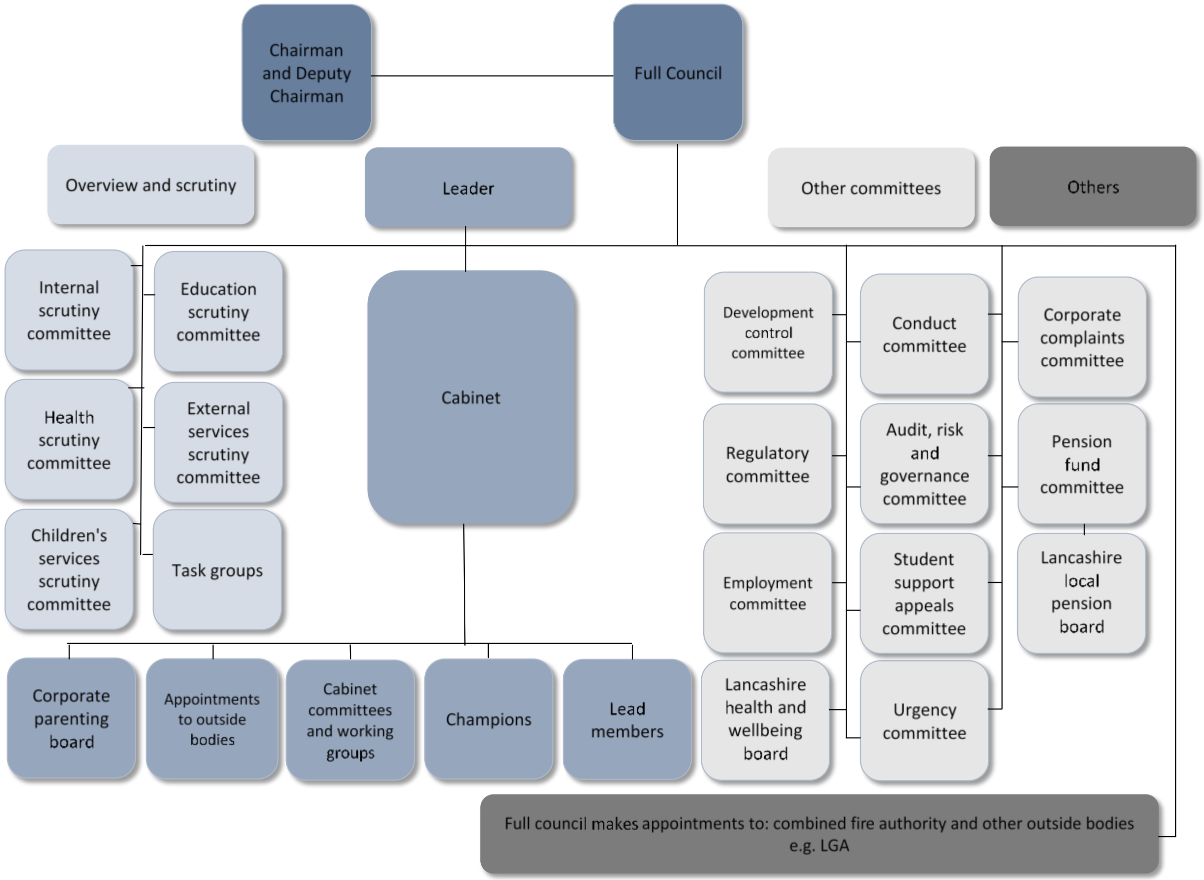
The political management structure of the council is shown below.

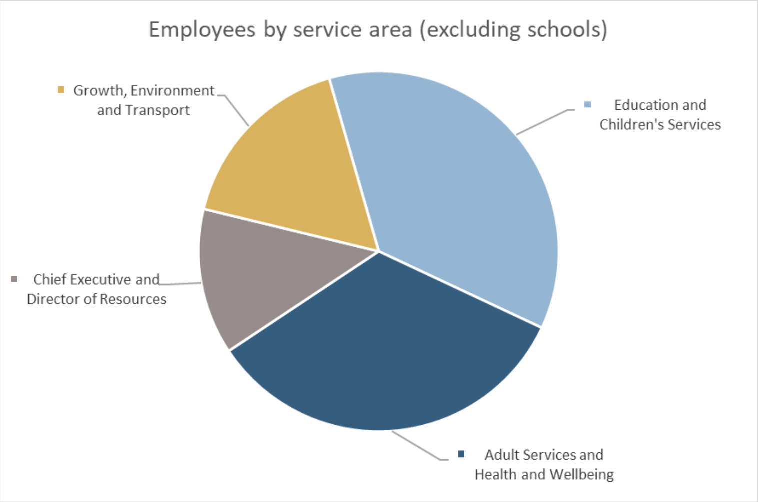


Further details of the council's governance arrangements are provided in the Annual Governance Statement.

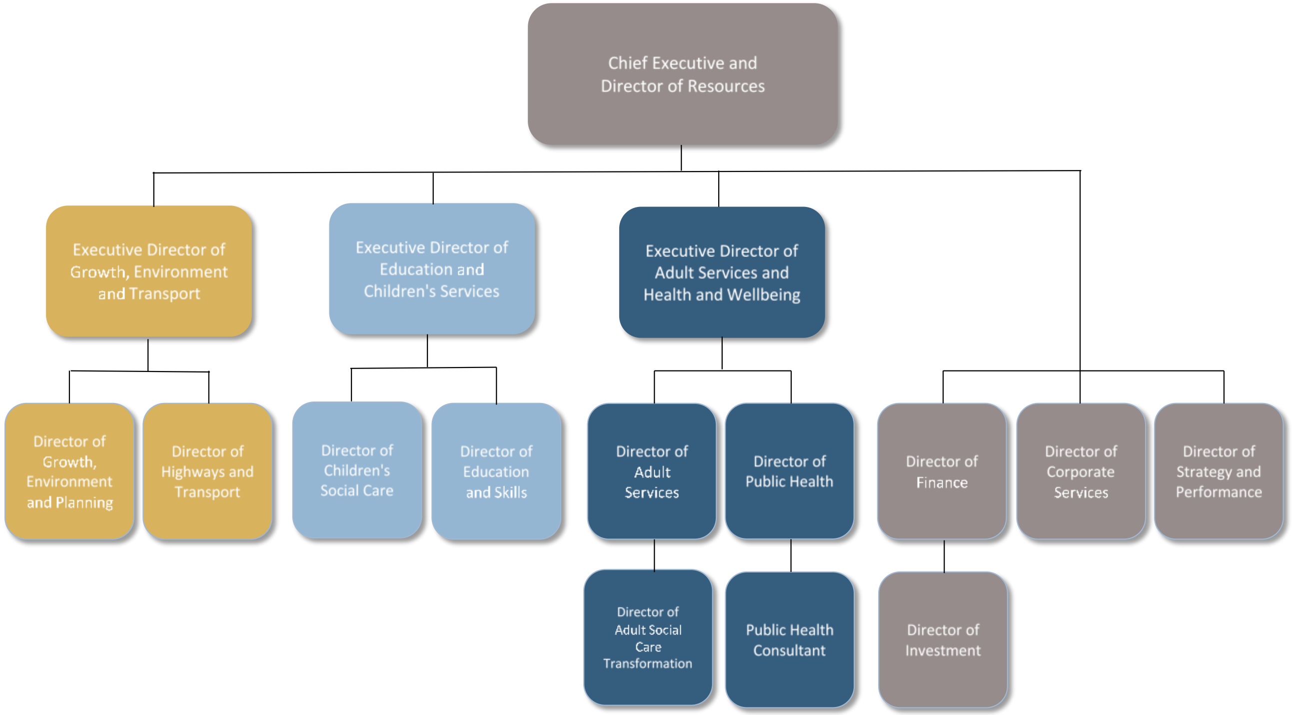
Our staff

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 12,200 people in full time and part time contracts with around a further 28,000 people employed in schools.



The council's management structure is shown below.



Our performance

Adult services

Our priority is to support people to be independent by investing in prevention, early intervention and the use of technology. The focus on enabling people to achieve independence is demonstrated by the effectiveness of our reablement service and reducing the number of people admitted to residential care. The number of people using telecare services to help them to remain independent has increased.

We are committed to ensuring the quality of services for people needing our support and safeguarding and protecting vulnerable people from harm. The proportion of care homes and community based services rated as 'Good' or 'Outstanding' by the Care Quality Commission have both increased significantly and are better than regional and national averages. User feedback from our adult social care survey was very positive for people having enough choice over the care and support services they receive helping them to have control over their daily lives.

	2017/18	2018/19
Percentage of people satisfied with adult social care	90%	90%
Rate of supported permanent admissions to residential and nursing care homes per 100,000 population aged 65 or over	728.9	714.6
Number of people receiving telecare services	7,745	10,641
Percentage of service users who completed reablement and left as self-caring	82.2%	84.3%
Percentage of people who use services who say that those services have made them feel safe and secure	87%	88%

Care Quality Commission ratings for Lancashire residential care homes and community based adult social care services as at March 2019

Proportion rated as Good or Outstanding	%
Residential care homes	83.1%
In-house residential care homes	82.4%
Community based adult social care services	94.3%
In-house community based services	100.0%

Education and children's services

Our aim is that all children, young people and their families in Lancashire are safe, healthy and achieve their full potential. The number of schools judged to be good or better has consistently been above the national average in recent years. Lancashire school place planning remains good; with levels of pupils offered one of their three preferences above national average for both primary and secondary schools.

Attainment under a range of measures at Lancashire schools continues to vary for children at the end of early years or those taking key stage 2 and 4 examinations. There are some groups of pupils that are still under performing due to deprivation, circumstances and needs, and they remain a priority. Overall absence levels in Lancashire schools remain low with the Lancashire rate significantly lower than national and regional rates. Lancashire is ranked 21 of 152 authorities against this indicator. Post school education indicators suggest the average point score per entry for Lancashire A-level pupils has increased each year since 2015/16. However the proportion of pupils NEET (Not in Education, Employment or Training) continues to rise.

Lancashire has experienced an increased level of demand placed on its social care service for children. Considerable work has been undertaken by the council in managing this demand through improving its early help services and managing access points more effectively. Referral rates have stabilised however the number of children being supported by social care remains above national benchmarks. Outcomes for vulnerable groups such as care leavers remain a priority as the performance remains below national benchmarks.

	2017/18	**2018/19**
Absence levels in primary, secondary, and special schools	4.3%	4.5%
Percentage of education settings rated Good/Outstanding	90%	89.5%
Percentage of pupils offered one of top three preferences primary / secondary	97.4%/96.1%	97.9%/95.9%
Referrals to children's social care per 10,000 population	449.0	474.0
Stability of placements: Percentage of 'children looked after' with 3 or more placements	7.9%	8.8%
First time entrants to Youth Justice System per 100,000 of 10-17 year old population	180	207

Growth, environment, transport and community services

Our priority 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, and have access to a modern transport infrastructure as well as having free unlimited access to information and knowledge. These objectives 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.

Aside from the percentage of urban unclassified roads that require maintenance, our performance shows that we are making progress towards our vision of making Lancashire a great place to live, work, visit and prosper. We have improved our highways maintenance services overall and increased the amount of waste that is diverted away from landfill. In addition, increased coverage for superfast broadband means that our citizens are better connected than ever and the increased number of e-book downloads shows how successful our library service is and the demand for it is rising. We are aware of the issues that have caused the percentage of urban unclassified roads that require maintenance to rise and will address them going forward.

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	2017/18	**2018/19**
Average number of working days to repair a street lighting fault	7.0 days	6.7 days
Percentage of rural unclassified roads requiring maintenance	35.7%	36.5%
Percentage of urban unclassified (residential) roads requiring maintenance	28.3%	33.8%
Percentage diversion of municipal waste away from landfill	51.0%	61.0% *
Number of e-book downloads	212,925	255,572
Superfast Broadband coverage	97.0%	97.6%

* Provisional figure, final to be approved by Defra in November 2019

Public health and wellbeing

Our priority is to develop Lancashire into a safer, fairer and healthier place for our residents. Influencing and improving sustainable behaviour change is a key area of focus as it is estimated that around 40% of all deaths in England relate to health behaviours.

We are seeing a worsening in health inequalities, particularly in males. This means that people are living with more disease burden that leads to higher levels of demand on public services, much of which can be prevented by behaviour change programmes and early intervention services. Childhood obesity in 4-5 year olds is improving. We will continue the momentum with early years and healthy child programmes along with improving infant feeding practices. There has been a drop in the prevalence of smoking and our services have become much more targeted. We will continue to focus on vulnerable groups to enable them to stop smoking.

One of our key concerns is the fall in successful drug and alcohol treatment completion rates. This means that the alcohol and drug related burden continues to increase. We will maintain our focus on this area through peer support and recovery based models of care.

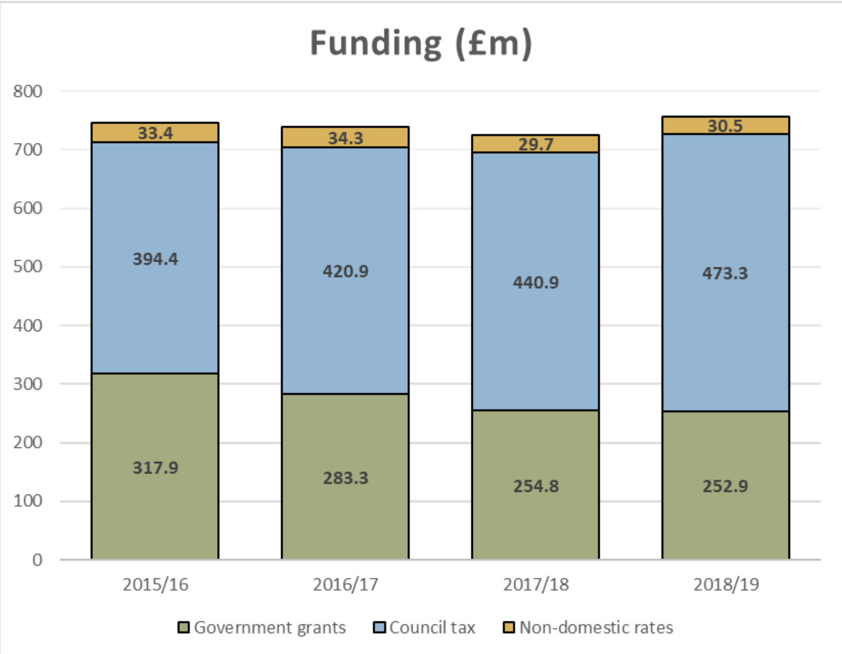
	2017/18	2018/19
Variation in life expectancy at birth due to deprivation across different areas of Lancashire (male)	9.9 years	10.2 years
Variation in life expectancy at birth due to deprivation across different areas of Lancashire (female)	8.2 years	8.1 years
Estimated percentage of persons aged 18 and over that smoke	18.3%	14.8%
Estimated percentage of adults classified as overweight or obese	63.9%	63.9%
Percentage of children (aged 4-5 years) classified as overweight or obese	23.5%	22.7%
Percentage of children (aged 11 years) classified as overweight or obese	33.0%	33.0%
Rate of alcohol related hospital admissions (narrow) (per 100,000)	645	625
Percentage of successful drug treatments in adults (opiate)	9.5%	7.7%
Percentage of successful drug treatments in adults (non-opiate)	57.2%	52.9%
Estimated percentage of residents (aged 19+) exercising at least 150 minutes per week (Sport England survey)	65.3%	65.3%

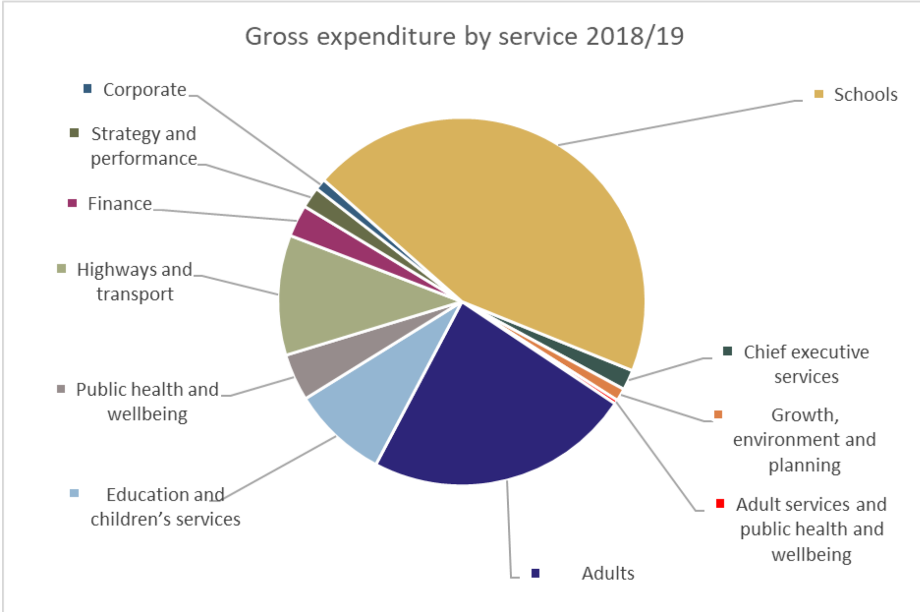
Our financial performance

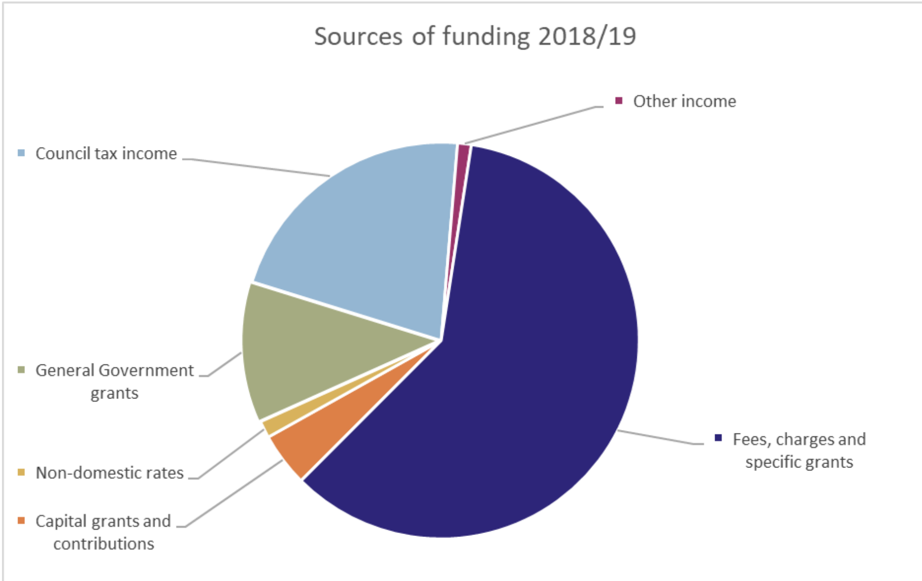
Revenue summary

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

In February 2018, the council approved a net revenue budget of £764.6 million. The revenue budget shows the annual cost of delivering against the council's duties and responsibilities to the community, many of which are given to the council under statute.

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

Service	Approved budget	Outturn	Variation
	£m	£m	£m
Chief executive services	21.7	4.3	(17.4)
Growth, environment and planning	4.2	3.2	(1.0)
Adults	344.9	345.0	0.1
Education and children's services	157.5	160.4	2.9
Public health and wellbeing	14.9	10.9	(4.0)
Highways and transport	133.2	132.2	(1.0)
Finance	32.0	32.4	0.4
Adult services and public health and wellbeing	6.3	6.4	0.1
Strategy and performance	31.8	32.4	0.6
Corporate	18.1	18.2	0.1
Sub total	**764.6**	**745.4**	**(19.2)**
Schools	0	2.3	2.3
Total	**764.6**	**747.7**	**(16.9)**

The final outturn position (excluding schools) of £745.4 million, results in an underspend of £19.2 million compared to the budget. The underspending is largely due to treasury management activity which has yielded strong returns for the council and lower than budgeted operational costs. This is in part offset by overspending on children's social care services arising from additional placements and staffing as a result of growth in demand.

The final schools outturn position shows an overspend of £2.3 million against the budget. This is mainly due to the increase in costs of inflation and staffing with significant demand increases relating to students with special educational needs, whilst the school grant funding from government continues to increase at rates below the demand and inflationary pressures.

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

Capital investment programme

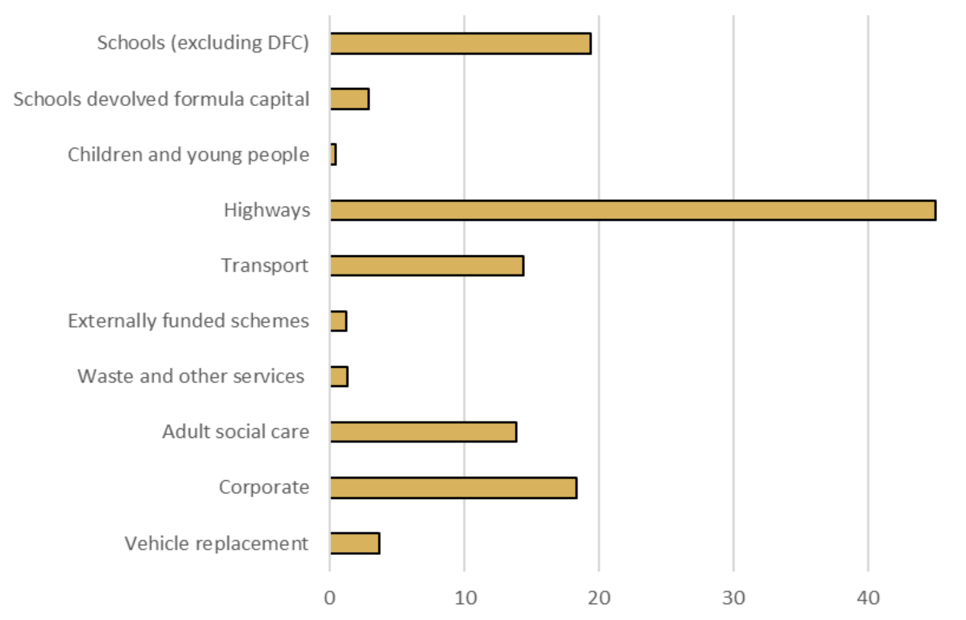
In February 2018, the council approved a capital budget of £161.4 million for 2018/19. A comprehensive review of projects was undertaken in order to propose a delivery programme for 2018/19 which had been risk-assessed as being deliverable. The final capital programme for the year following this review totalled £120.9 million.

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

- Enhancements and improvements to schools, and buildings the council delivers services from including residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in the council's ICT infrastructure to support corporate priorities;
- Investment in waste and recycling facilities;
- Support for schemes to deliver economic growth in the county and the roll out of superfast broadband.

The total spend on capital works in 2018/19 was £120.5 million which represents 99.7% of the budgeted programme. The £0.4 million underspend is largely due to works that were not fully delivered during the year and have now been re-profiled to be completed in future years.

Capital expenditure by service 2018/19 (£m)



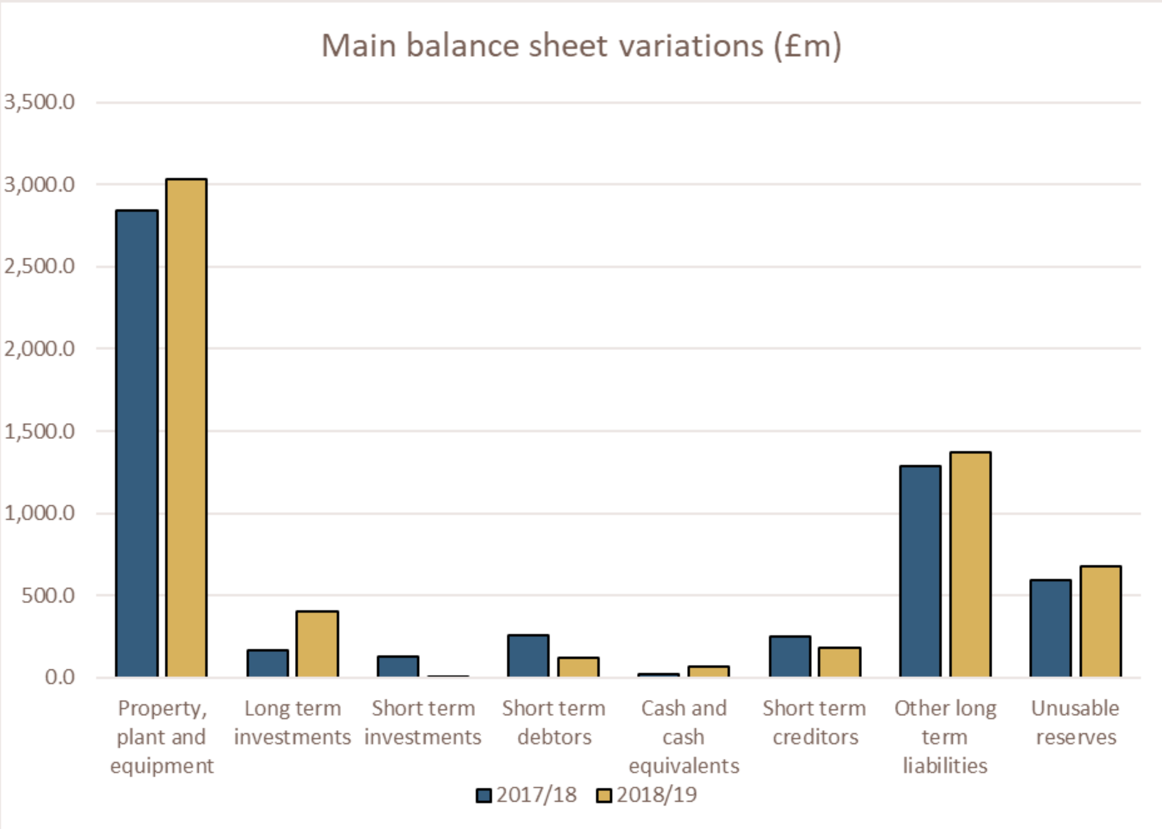
	Revised budget £m	Actual spend £m	Variation £m
Schools (excluding DFC)	22.1	19.4	(2.7)
Schools devolved formula capital	2.8	2.9	0.1
Children and young people	0.6	0.4	(0.2)
Highways	48.3	45.0	(3.3)
Transport	13.8	14.4	0.6
Externally funded schemes	1.9	1.2	(0.7)
Waste and other services	0.7	1.3	0.6
Adult social care	13.7	13.9	0.2
Corporate	13.3	18.3	5.0
Vehicle replacement	3.7	3.7	0
Total expenditure	**120.9**	**120.5**	**(0.4)**

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 £95.8 million from £986.2 million at 31 March 2018 to £1,082.0 million at 31 March 2019.

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



The balance sheet shows an increase in property, plant and equipment of £191.4 million which includes capital expenditure incurred in year together with the impact of revaluations (also reflected in the unusable reserves).

The decrease in short term debtors of £137.2 million and the decrease in short term creditors of £65.2 million is mainly due to the cross-year sales and purchases of bond investments at 31 March 2018 where the settlement date fell in April. This net increase in cash balances enabled additional long term investments and an increase in cash deposits in 2018/19.

The decrease in short term investments of £128.4 million is largely due to sales in year which enabled an increased investment in long term bonds. In addition, the adoption of IFRS 9 has resulted in the reclassification of some bonds from short term to long term investments.

The cash and cash equivalents increased by £49.7 million, this is mainly due to an increase in working capital following the re-profiling of the capital programme.

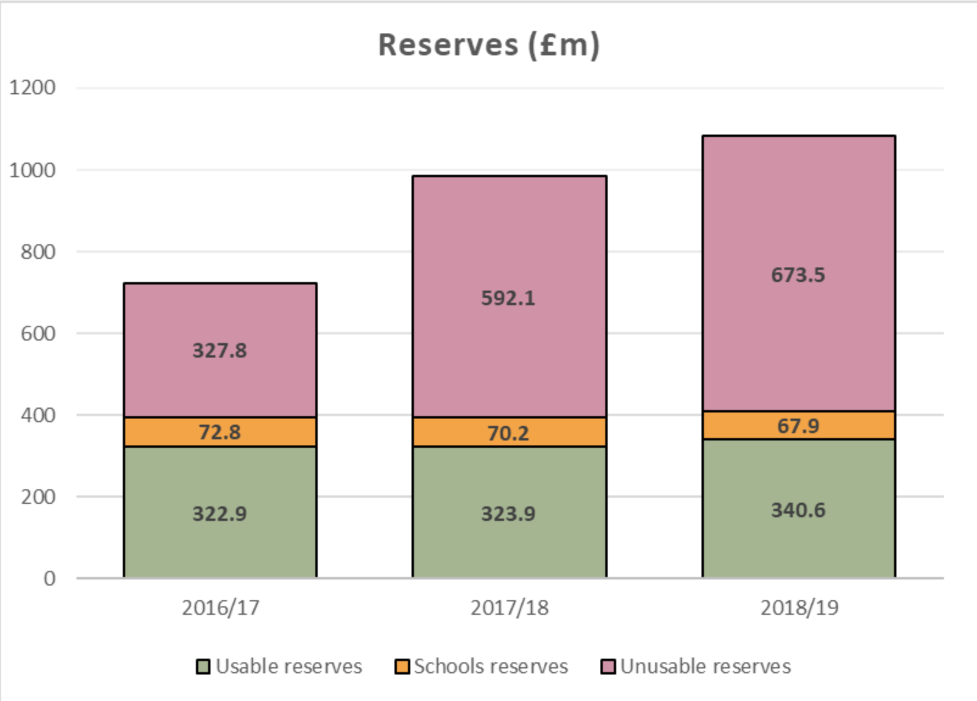
Other long term liabilities increased by £84.7 million mainly owing to an increase in the pension liability valuation.

The increase in unusable reserves of £81.4 million is largely due to an increase in property valuations which is reduced by changes in the pension liability.

Reserves

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

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



Usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. The revenue budget has been supported in recent years by the use of reserves and therefore it has been expected that usable reserves would reduce. However, in 2018/19 usable reserves have actually increased largely due to underspends generated in the year and capital grants received that are available for future use.

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

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.

Prior period adjustments

The council's departments were realigned following changes to the senior management structure in 2018/19. The 2017/18 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

The council continues to deliver an extensive savings programme. Full Council in February 2019 approved a further c£77 million of additional savings, based on proposals generated through a detailed service challenge process which encompassed all of our services. Some of these are subject to the outcome of specific public consultations with final decisions due to be taken by Cabinet during 2019/20. The requirement for reserves to support the revenue budget is much lower in 2019/20 than in recent years, however, while significantly reduced, a forecast funding gap of around £47 million by 2022/23 remains. Further savings need to be identified to make services affordable within projected income levels.

The council will build on the service challenge process during 2019/20 with a second phase of this approach being to review service costs in light of cross cutting organisational themes, in order that further cost reductions can be identified.

It is currently anticipated that a new system of local government finance, covering business rates retention and the fair funding formula, will be implemented in 2020/21. Although this may change the funding environment in a significant way, the details of the scheme are still being consulted on and are not yet available. This means that the impact on the council's funding level is not known at this time.

Explanation of the accounting statements

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

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

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

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

Comprehensive income and expenditure statement

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

The comprehensive income and expenditure statement has two sections:

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

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

Movement in reserves statement

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

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

The statutory adjustments largely relate to arrangements for funding capital expenditure or the timing with which some items, for example pension costs, are charged to council tax. Further details of the adjustments are shown in 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.

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 2019.

A Ridgwell
Chief Executive and Director of Resources
29 July 2019

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 29 July 2019.

A Schofield
Chair of Audit, Risk and Governance Committee
29 July 2019

Financial statements

Halo, Rossendale

Comprehensive income and expenditure statement

2017/18 restated				2018/19		
Gross expenditure	**Gross income**	**Net expenditure**		**Gross expenditure**	**Gross income**	**Net expenditure**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
947.4	(921.4)	26.0	Schools	968.0	(941.3)	26.7
29.7	(2.9)	26.8	Chief executive services ◦	38.6	(3.5)	35.1
25.5	(6.4)	19.1	Growth, environment and planning ◦	24.0	(8.6)	15.4
504.2	(153.7)	350.5	Adults ◦	507.2	(155.9)	351.3
173.8	(12.9)	160.9	Education and children's services ◦	183.0	(14.6)	168.4
96.5	(80.2)	16.3	Public health and wellbeing ◦	89.6	(75.7)	13.9
232.9	(58.6)	174.3	Highways and transport ◦	228.8	(55.1)	173.7
61.0	(26.1)	34.9	Finance ◦	61.0	(28.0)	33.0
7.4	(0.4)	7.0	Adult services and public health and wellbeing ◦	7.9	(0.5)	7.4
44.8	(24.9)	19.9	Strategy and performance ◦	40.2	(25.2)	15.0
24.0	(2.1)	21.9	Corporate ◦	21.4	(2.7)	18.7
2,147.2	**(1,289.6)**	**857.6**	**Cost of services**	**2,169.7**	**(1,311.1)**	**858.6**
19.5	(6.5)	13.0	Other operating income and expenditure (Note 6)	54.0	(8.8)	45.2
65.6	(14.7)	50.9	Financing and investment income and expenditure (Note 7)	83.9	(25.0)	58.9
0	(846.2)	(846.2)	Taxation and non-specific grant income and expenditure (Note 8)	0	(853.5)	(853.5)
2,232.3	**(2,157.0)**	**75.3**	**(Surplus)/deficit on provision of services**	**2,307.6**	**(2,198.4)**	**109.2**
		(125.8)	(Surplus)/deficit on revaluation of non-current assets (Note 29)			(170.9)
		(200.4)	Re-measurement of the net defined benefit pension liability/(asset) (Note 29)			(44.1)
		0	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			10.0
		(11.8)	(Surplus)/deficit on revaluation of available for sale assets			0
		(338.0)	**Other comprehensive income and expenditure**			**(205.0)**
		(262.7)	**Total comprehensive income and expenditure**			**(95.8)**

◦ The council has restructured its services during 2018/19. The 2017/18 comparative figures have been restated to reflect the new structure. The adjustments are shown in detail in Note 4 – Prior period adjustments

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2018/19

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 29)	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**
Movement in reserves during 2018/19						
Total comprehensive income and expenditure	109.2	0	0	109.2	(205.0)	(95.8)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(100.4)	(1.0)	(22.2)	(123.6)	123.6	0
(Increase)/decrease in year	**8.8**	**(1.0)**	**(22.2)**	**(14.4)**	**(81.4)**	**(95.8)**
Balance at 31 March 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**

2017/18

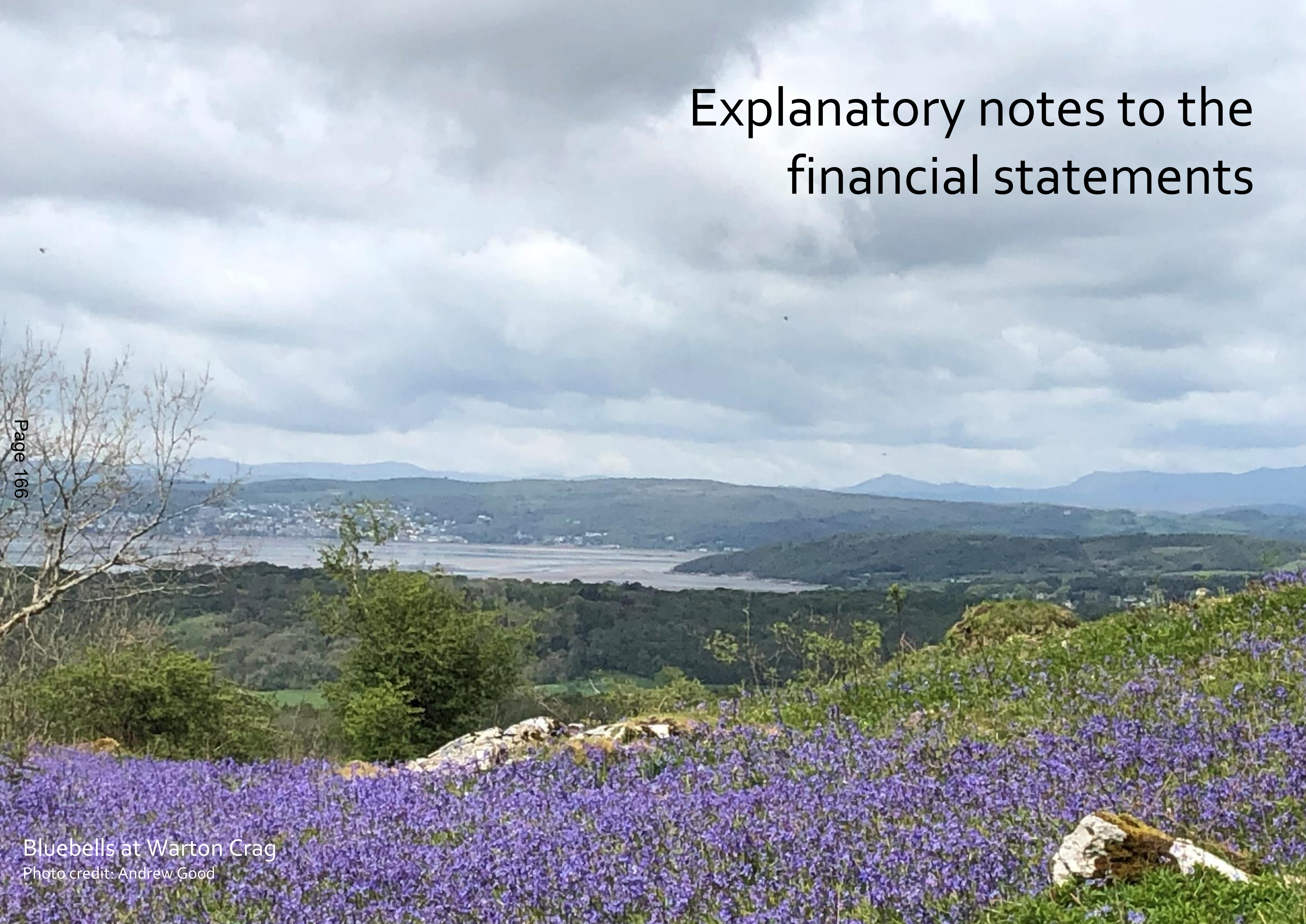
	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 29)	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**
Movement in reserves during 2017/18						
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)**

31 March 2018		Note	31 March 2019
£m			£m
2,838.1	Property, plant and equipment	18	3,029.5
28.7	Heritage assets	20	28.7
1.6	Investment properties		1.6
20.1	Intangible assets		14.7
170.4	Long term investments	26	399.4
46.4	Long term debtors	21	44.5
3,105.3	**Long term assets**		**3,518.4**
128.5	Short term investments	26	0.1
2.3	Inventories		2.7
255.7	Short term debtors	22	118.5
8.9	Payments in advance		8.5
18.8	Cash and cash equivalents	23	68.5
7.7	Assets held for sale		5.5
421.9	**Current assets**		**203.8**
(487.5)	Short term borrowing	26	(571.3)
(250.1)	Short term creditors	24	(184.9)
(9.4)	Receipts in advance		(11.7)
(7.1)	Short term provisions	25	(9.3)
(5.8)	Other current liabilities	26	(4.9)
(759.9)	**Current liabilities**		**(782.1)**
(26.1)	Long term provisions	25	(18.6)
(471.4)	Long term borrowing	26	(471.2)
(1,283.6)	Other long term liabilities *		(1,368.3)
(1,781.1)	**Long term liabilities**		**(1,858.1)**
986.2	**Net assets**		**1,082.0**
(394.1)	Usable reserves	29	(408.5)
(592.1)	Unusable reserves	29	(673.5)
(986.2)	**Total reserves**		**(1,082.0)**

* Other long term liabilities include both the pension and PFI liabilities

2017/18		Note	2018/19
£m			**£m**
(75.3)	Net surplus/(deficit) on the provision of services		(109.2)
63.8	Adjustments to net surplus/deficit on the provision of services for non-cash movements	30	213.8
(127.4)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	30	(114.1)
(138.9)	**Net cash flows from operating activities**		**(9.5)**
124.6	Investing activities	31	(19.6)
(95.0)	Financing activities	32	78.8
(109.3)	**Net increase/(decrease) in cash or cash equivalents**		**49.7**
128.1	Cash and cash equivalents at the beginning of the reporting period		18.8
18.8	**Cash and cash equivalents at the end of the reporting period**	23	**68.5**

Explanatory notes to the financial statements



Bluebells at Warton Crag
Photo credit: Andrew Good

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 2019 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2019/20 Code will introduce the following amendments:

Amendments to IAS 40 *Investment property: Transfers of investment property*

This amendment provides further clarification on the circumstances in which a property can be reclassified as an investment property. This will have no impact on the council as it is already compliant.

IFRIC 22 *Foreign currency transactions and advance consideration*

The interpretation provides clarification on the treatment of advance payments in a foreign currency. This will have no impact on the council.

IFRIC 23 *Uncertainty over income tax treatments*

This interpretation provides guidance where there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. This will have no impact on the council's single entity accounts or group accounts.

Amendments to IFRS 9 *Financial instruments: Prepayment features with negative compensation*

The amendment to IFRS 9 enables companies to measure at amortised cost some pre-payable financial assets with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest.

There will be no impact on the council as it currently has no loans to which this would apply.

Annual improvements to IFRS standards 2014 - 2016 cycle

IFRS 12 Disclosure of interests in other entities

Minor amendments clarify that the disclosure requirements in IFRS 12 apply to interests that are classified as held for sale or discontinued operations.

IAS 28 Investments in associates and joint ventures

IAS 28 has been amended to clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) may choose, on an investment by investment basis, to account for its investments in joint ventures and associates at fair value or using the equity method.

These amendments will have no impact on the council's accounts.

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 £152.7 million as at 31 March 2019 (31 March 2018: £123.8 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 £752.1 million which are not owned by the council. These are principally voluntary aided, voluntary controlled and foundation schools for which the trustees have legal ownership rights. It is the council's policy to include these school assets on the balance sheet as the council benefits from using these properties in terms of delivery of service and the council also meets the costs of service provision. These assets are retained on the balance sheet of the council to fairly reflect the value of assets used in providing the service.

Interests in companies and other entities

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

The council's relationships with other entities can be found within the related parties note. (Note 34).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. Other owned companies have been excluded from the group accounts on the basis that they are not considered 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment valuations	The council's internal valuers provide valuations as at 1 April based on a 3-year rolling programme of valuations. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation.	Valuations are compiled by an expert using recognised measurement techniques and based on professional guidance. The underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date. A variation of 10% in the value of the council's land and buildings would be approximately £206 million. A reduction in the estimated valuations would result in a reduction to the revaluation reserve and / or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and / or increases to the revaluation reserve and / or gains charged to the comprehensive income and expenditure statement.

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. For property assets, useful lives are estimated based on professional guidance and are reviewed on revaluation of the asset. For non-property assets, only the useful life is estimated because the assets are held at cost on the balance sheet.	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£1.0 million 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, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the council's assets and liabilities.	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 to the carrying values 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 2019 the council had a debtors balance of £118.5 million. Of this total £81.9 million relates to trade debtors which is net of the impairment allowance. The balance of debtors relates to statutory debtors such as council tax and non-domestic rates for which a separate impairment exercise is undertaken. An impairment figure of £18.2 million has been set aside in the accounts for the trade debtors.	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 £4.1 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 (Mercer) is engaged to provide the Council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. (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 £391 million; • A 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £199 million; • An increase of one year in assumed life expectancy would increase the net pension liability by approximately £89 million.

Note 4 – Changes in accounting policies and prior period adjustments

Changes in accounting policies

The accounting policies reflect changes resulting from the introduction of International Financial Reporting Standards (IFRS) 9 *Financial instruments* and IFRS 15 R*evenue from contracts with customers*.

IFRS 9 includes changes to the classification of some financial assets and liabilities and also to the impairment model. The changes to the opening balances are detailed in Note 26 – financial instruments.

The objective of IFRS 15 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. This standard has a limited impact on the council's accounts.

Prior period adjustments

Adjustments to the comprehensive income and expenditure statement

Following changes to the senior management structure, the council has restructured its services. The 2017/18 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

	Audited 2017/18	Prior period adjustment	Restated 2017/18
	£m	**£m**	**£m**
Schools	26.0	0	26.0
Chief executive services	24.1	2.7	26.8
Community services	144.3	(144.3)	0
Adults	351.9	(1.4)	350.5
Education and children's services	163.5	(2.6)	160.9
Public health and wellbeing	22.2	(5.9)	16.3
Programmes and projects	36.4	(36.4)	0
Economic development and planning	17.8	(17.8)	0
Finance, corporate and property services	71.4	(71.4)	0
Growth, environment and planning	0	19.1	19.1
Highways and transport	0	174.3	174.3
Finance	0	34.9	34.9
Adult services and public health and wellbeing	0	7.0	7.0
Strategy and performance	0	19.9	19.9
Corporate	0	21.9	21.9
Cost of services	**857.6**	**0**	**857.6**

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

- Note 5 - Expenditure and funding analysis
- Group comprehensive income and expenditure statement

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 - 2018/19

	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	2.3	0	2.3	24.4	26.7
Chief executive services	4.3	14.5	18.8	16.3	35.1
Growth, environment and planning	3.2	(1.4)	1.8	13.6	15.4
Adults	345.0	(6.2)	338.8	12.5	351.3
Education and children's services	160.4	2.0	162.4	6.0	168.4
Public health and wellbeing	10.9	(0.2)	10.7	3.2	13.9
Highways and transport	132.2	2.5	134.7	39.0	173.7
Finance	32.4	0.5	32.9	0.1	33.0
Adult services and public health and wellbeing	6.4	0.3	6.7	0.7	7.4
Strategy and performance	32.4	(19.5)	12.9	2.1	15.0
Corporate	18.2	0.3	18.5	0.2	18.7
Net cost of services	**747.7**	**(7.2)**	**740.5**	**118.1**	**858.6**
Other income and expenditure	(764.6)	32.9	(731.7)	(17.7)	(749.4)
(Surplus)/deficit	**(16.9)**	**25.7**	**8.8**	**100.4**	**109.2**
Opening general fund balance at 1 April			**(317.4)**		
(Surplus)/deficit			8.8		
Closing general fund balance at 31 March			**(308.6)**		

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Expenditure and funding analysis - 2017/18 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	7.7	0	7.7	18.3	26.0
Chief executive services ◦	(5.0)	28.0	23.0	3.8	26.8
Growth, environment and planning ◦	2.0	1.3	3.3	15.8	19.1
Adults ◦	325.1	(0.7)	324.4	26.1	350.5
Education and children's services ◦	143.9	6.1	150.0	10.9	160.9
Public health and wellbeing ◦	11.0	0.7	11.7	4.6	16.3
Highways and transport ◦	126.4	0	126.4	47.9	174.3
Finance ◦	31.0	3.7	34.7	0.2	34.9
Adult services and public health and wellbeing ◦	5.8	0.3	6.1	0.9	7.0
Strategy and performance ◦	31.6	(17.0)	14.6	5.3	19.9
Corporate ◦	18.9	2.5	21.4	0.5	21.9
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)**		

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

◦ The 2017/18 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Notes supporting the comprehensive income and expenditure statement

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.

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2017/18 restated				2018/19		
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
(4.2)	32.2	28.0	Chief executive services ◦	(11.9)	26.4	14.5
(0.4)	1.7	1.3	Growth, environment and planning ◦	(0.4)	(1.0)	(1.4)
0	(0.7)	(0.7)	Adults ◦	(1.1)	(5.1)	(6.2)
5.4	0.7	6.1	Education and children's services ◦	1.7	0.3	2.0
0	0.7	0.7	Public health and wellbeing ◦	0	(0.2)	(0.2)
(0.7)	0.7	0	Highways and transport ◦	(1.2)	3.7	2.5
0	3.7	3.7	Finance ◦	(0.1)	0.6	0.5
0	0.3	0.3	Adult services and public health and wellbeing ◦	0	0.3	0.3
(15.4)	(1.6)	(17.0)	Strategy and performance ◦	(15.5)	(4.0)	(19.5)
0	2.5	2.5	Corporate ◦	0	0.3	0.3
(15.3)	**40.2**	**24.9**	**Net cost of services**	**(28.5)**	**21.3**	**(7.2)**
15.3	10.1	25.4	Other income and expenditure	28.5	4.4	32.9
0	**50.3**	**50.3**	**(Surplus)/deficit**	**0**	**25.7**	**25.7**

◦ The 2017/18 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Notes to the expenditure and funding analysis

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

Adjustments for capital purposes

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

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

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

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

Net change for the pensions adjustments

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

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

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

Other statutory adjustments

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

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

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

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

Adjustments between the funding and accounting basis - 2018/19

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	£m	£m	£m
Schools	(7.9)	34.6	(2.3)	24.4
Chief executive services	13.7	2.6	0	16.3
Growth, environment and planning	13.0	0.6	0	13.6
Adults	1.8	10.5	0.2	12.5
Education and children's services	2.2	3.4	0.4	6.0
Public health and wellbeing	0	3.1	0.1	3.2
Highways and transport	30.4	8.3	0.3	39.0
Finance	0.1	0.3	(0.3)	0.1
Adult services and public health and wellbeing	0	0.7	0	0.7
Strategy and performance	2.0	0.3	(0.2)	2.1
Corporate	0	0.2	0	0.2
Net cost of services	**55.3**	**64.6**	**(1.8)**	**118.1**
Other income and expenditure from the expenditure and funding analysis	(63.8)	29.7	16.4	(17.7)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(8.5)**	**94.3**	**14.6**	**100.4**

Adjustments between the funding and accounting basis - 2017/18 restated

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	£m	£m	£m
Schools	18.3	0	0	18.3
Chief executive services ◦	0	3.8	0	3.8
Growth, environment and planning ◦	15.0	0.8	0	15.8
Adults ◦	11.0	15.2	(0.1)	26.1
Education and children's services ◦	2.4	8.6	(0.1)	10.9
Public health and wellbeing ◦	0.1	4.8	(0.3)	4.6
Highways and transport ◦	36.2	11.6	0.1	47.9
Finance ◦	0.2	0	0	0.2
Adult services and public health and wellbeing ◦	0	0.9	0	0.9
Strategy and performance ◦	2.9	2.3	0.1	5.3
Corporate ◦	0	0.5	0	0.5
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**

◦ The 2017/18 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:

2017/18		2018/19
£m		**£m**
807.6	Employee expenses (excluding voluntary aided schools)	825.7
227.1	Employee expenses for voluntary aided schools	231.8
1,062.0	Other service expenses	1,085.1
50.6	Depreciation, amortisation and impairment	26.9
34.0	Interest payments	54.4
1.1	Precepts and levies	1.1
31.6	Net pension interest costs	29.7
18.3	Gain or loss on disposal of non-current assets	52.9
2,232.3	**Total expenditure**	**2,307.6**
(256.7)	Fees, charges and other service income	(268.0)
(14.4)	Interest and investment income	(24.9)
(440.9)	Income from council tax precept	(473.3)
(29.7)	Income from non-domestic- rates precept	(30.5)
(1,415.3)	Government grants and contributions	(1,401.7)
(2,157.0)	**Total income**	**(2,198.4)**
75.3	**(Surplus)/deficit on the provision of services**	**109.2**

Note 6 - Other operating income and expenditure

2017/18		2018/19
£m		**£m**
1.1	Levies for flood defences and inshore fisheries and conservation authorities	1.1
0.8	Other operating (income)/expenditure	(0.3)
11.1	Net (gains)/losses on the disposal of non-current assets *	44.4
13.0	**Total**	**45.2**

* The net loss on the disposal of non-current assets of £44.4m includes £44.5m in relation to the transfer of schools to academy status. (2017/18: £10.4m)

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Note 7 - Financing and investment income and expenditure

2017/18		2018/19
£m		**£m**
18.6	Interest payable and other similar charges	20.2
15.4	Interest payable on PFI unitary payments	15.3
0	Premium on early repayment of debt *	16.7
0	Impairment of financial instruments	2.2
31.6	Net interest of the net defined benefit liability	29.7
(14.4)	Interest receivable and similar income	(24.9)
(0.3)	Changes in the fair value of investment properties	(0.3)
50.9	**Total**	**58.9**

* The premium on early repayment of debt includes the redemption of the council's Lender Option Borrower Option (LOBO) loans. (Note 37).

Note 8 - Taxation and non-specific grant income

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

2017/18		2018/19
£m		£m
(254.8)	Non-ringfenced Government grants	(252.9)
(120.8)	Capital grants and contributions	(96.8)
(375.6)	**Total non-specific grant income**	**(349.7)**
(440.9)	Council tax income	(473.3)
(29.7)	Non-domestic rates income	(30.5)
(846.2)	**Total**	**(853.5)**

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

Non-ringfenced government grants

2017/18		2018/19
£m		£m
(82.7)	Revenue support grant	(57.0)
(152.6)	Top-up grant (business rates retention scheme)	(164.0)
(5.5)	Education services grant	(2.0)
(14.0)	Other	(29.9)
(254.8)	**Total**	**(252.9)**

Capital grants and contributions

2017/18		2018/19
£m		£m
(46.5)	Department for transport	(43.6)
(35.2)	Department of education	(27.4)
(14.0)	Ministry of housing, communities and local government	(13.7)
(12.6)	Other government grants	(3.0)
(12.5)	Other grants	(9.1)
(120.8)	**Total**	**(96.8)**

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.

2017/18		2018/19
£m		£m
(787.3)	Dedicated schools grant	(800.6)
(45.2)	Pupil premium grant	(45.3)
(89.2)	Other Government grants	(89.5)
(21.9)	PFI grant	(21.9)
(70.2)	Public health grant	(68.4)
(0.1)	Other grants	0
(25.8)	Other contributions	(26.3)
(1,039.7)	**Total**	**(1,052.0)**

Note 10 - Dedicated schools grant

	Central expenditure	Individual schools budget	Total
	£m	**£m**	**£m**
Final DSG for 2018/19 before academy recoupment			(925.5)
Academy figure recouped for 2018/19			124.9
Total DSG after academy recoupment for 2018/19			**(800.6)**
Brought forward from 2017/18			**(14.4)**
Carry forward to 2019/20 agreed in advance			0
Agreed initial budgeted distribution for 2018/19	**(38.5)**	**(776.5)**	**(815.0)**
In-year adjustments	0	10.6	10.6
Final budget distribution for 2018/19	**(38.5)**	**(765.9)**	**(804.4)**
Actual central expenditure relating to DSG	25.8		25.8
Actual ISB deployed to schools		765.9	765.9
Carry forward to 2019/20	**(12.7)**	**0**	**(12.7)**

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 2018/19 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.

2018/19

Post holder	Note	Salary, fees and allowances	Benefits in kind (lease car payments)	Pension contributions	Total
		£	£	£	£
Chief Executive and Director of Resources (Section 151 officer) - A Ridgwell	1	206,728	0	0	206,728
Executive Director of Adult Services and Health & Wellbeing		134,434	5,509	20,300	160,243
Executive Director of Education and Children's Services – E Grant	2	47,990	0	0	47,990
Executive Director of Growth, Environment and Transport	3	118,607	0	17,174	135,781
Director of Community Services	4	8,521	0	1,220	9,741
Director of Corporate Services		92,434	5,876	13,958	112,268
Director of Economic Development and Planning	4	8,080	816	1,220	10,116
Director of Finance		96,912	6,216	14,634	117,762
Director of Programmes and Project Management	4	8,359	0	1,196	9,555
Director of Property Services	5	88,500	7,404	13,363	109,267
Director of Public Health		124,958	0	17,207	142,165
Director of Strategy and Performance	6	19,076	1,574	2,880	23,530
Head of Service – Communications		67,097	0	10,132	77,229

Notes

1 The Interim Chief Executive and Director of Resources (S151) was appointed to the post of Chief Executive and Director of Resources (S151) with effect from 18 October 2018.

2 The Executive Director of Education and Children's Services was appointed on 18th December 2018. The post was undertaken on an interim basis between January and December 2018.

3 The Executive Director of Growth, Environment and Transport is a new post appointed to with effect from 30 April 2018.

4 The Director of Community Services, the Director of Economic Development and Planning and the Director of Programmes and Project Management reported to the Interim Chief Executive and Director of Resources (S151) until 30 April 2018, when the new Executive Director of Growth, Environment and Transport commenced in post.

5 The post of Director of Property Services was disestablished with effect from 31 January 2019.

6 The Director of Strategy and Performance is a new post established with effect from 1 February 2019.

2017/18

Post holder	Note	Salary, fees and allowances	Benefits in kind (lease car payments)	Compensation for loss of employment	Pension contributions	Total
		£	£	£	£	£
Interim Chief Executive and Director of Resources (Section 151 officer) – A Ridgwell	1, 11	48,611	0	0	0	48,611
Chief Executive – J Turton	2	134,999	0	113,997	19,780	268,776
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)	3	99,776	5,389	110,430	14,980	230,575
Executive Director of Adult Services and Health and Wellbeing	4	32,241	1,266	0	4,868	38,375
Corporate Director Operations and Delivery	5	99,557	3,702	0	15,033	118,292
Director of Children's Services	6	114,015	0	0	16,416	130,431
Director of Corporate Services	7	21,814	1,102	0	3,293	26,209
Director Governance, Finance and Public Services	7	90,691	0	95,924	13,090	199,705
Director Public Health	8	29,994	0	0	4,127	34,121
Director Public Health and Wellbeing	8	92,618	0	0	12,743	105,361
Director of Development and Corporate Services	9	87,344	8,691	48,979	12,799	157,813
Director of Finance	10	22,766	1,408	0	3,438	27,612
Director of Financial Resources	11	70,299	4,118	0	10,615	85,032
Director of Adult Services	12	84,762	4,705	0	12,799	102,266
Director of Economic Development and Planning	13	23,717	2,753	0	3,581	30,051
Director of Property Services	14, 15	26,240	2,025	0	3,955	32,220
Director of Programmes and Project Management	13, 15	24,062	0	0	3,438	27,500
Director of Community Services	13, 15	25,014	0	0	3,581	28,595
Director of Education, Schools and Care	16	18,702	1,107	87,371	2,824	110,004
Head of Service – Communications		64,936	0	0	9,805	74,741

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Notes supporting the comprehensive income and expenditure statement

Notes

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.

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

	2018/19				2017/18			
Remuneration Banding £	LCC non-schools staff [1]	Schools [2]	Total	Redundancies	LCC non-schools staff [1]	Schools [2]	Total	Redundancies
50,000 to 54,999	46	336	382	5	40	330	370	4
55,000 to 59,999	49	239	288	5	37	256	293	4
60,000 to 64,999	25	177	202	1	32	160	192	0
65,000 to 69,999	38	93	131	2	44	80	124	2
70,000 to 74,999	18	39	57	0	4	30	34	2
75,000 to 79,999	0	11	11	0	1	19	20	1
80,000 to 84,999	2	15	17	0	2	18	20	2
85,000 to 89,999	1	13	14	0	2	8	10	1
90,000 to 94,999	2	8	10	0	1	7	8	0
95,000 to 99,999	0	4	4	0	0	5	5	0
100,000 to 104,999	0	1	1	0	2	3	5	1
105,000 to 109,999	0	4	4	0	1	2	3	1
110,000 to 114,999	1	1	2	0	0	1	1	0
120,000 to 124,999	1	0	1	0	0	0	0	0
140,000 to 144,999	0	0	0	0	1	0	1	1
145,000 to 149,999	1	0	1	1	0	0	0	0
150,000 to 154,999	1	0	1	0	0	0	0	0
Total	**185**	**941**	**1,126**	**14**	**167**	**919**	**1,086**	**19**

[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 (£)	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
0 to 20,000	39	35	259	367	**298**	**402**	**1,835**	**2,490**
20,001 to 40,000	1	1	25	38	**26**	**39**	**670**	**1,046**
40,001 to 60,000	1	2	4	10	**5**	**12**	**237**	**598**
60,001 to 80,000	4	0	0	6	**4**	**6**	**273**	**431**
80,001 to 100,000	0	0	0	3	**0**	**3**	**0**	**283**
100,001+	0	1	2	5	**2**	**6**	**257**	**1,603**
Total	**45**	**39**	**290**	**429**	**335**	**468**	**3,272**	**6,451**

* In some cases this reflects an estimate as at 31 March and may not be the actual amount paid.

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 2018/19, the council terminated the contracts of a number of employees, incurring liabilities of £3.3 million (2017/18: £6.5 million). Of the £3.3 million, £0.6 million is for enhanced pension benefits and £2.7 million relates to redundancy payments.

Note 12 - Members' allowances

2017/18		2018/19
£000		**£000**
1,236	Allowances payable to Members	1,283
63	Expenses payable to Members	60
1,299	**Total**	**1,343**

Note 13 - Fees payable to auditors

The council incurred the following fees relating to external audit.

2017/18		2018/19
£000		**£000**
113	Fees incurred with regard to external audit services provided by Grant Thornton	87
4	Fees incurred for other audit work undertaken by Grant Thornton	4
9	Fees payable in respect of other services provided by Grant Thornton	9
126	**Total**	**100**

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 in reserves.

Adjustments between accounting basis and funding basis under regulations - 2018/19

	Usable reserves				Unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(94.3)	0	0	(94.3)	94.3
Financial instruments (transferred to the financial instruments adjustments account)	(13.5)	0	0	(13.5)	13.5
Council tax and NDR (transferred to or from the collection fund)	(3.0)	0	0	(3.0)	3.0
Holiday pay (transferred to the accumulated absences adjustment account)	1.9	0	0	1.9	(1.9)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account)	(60.7)	0	27.7	(33.0)	33.0
Total adjustments to revenue resources	**(169.6)**	**0**	**27.7**	**(141.9)**	**141.9**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	1.0	(1.0)	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	18.3	0	0	18.3	(18.3)
Total adjustments between revenue and capital resources	**19.3**	**(1.0)**	**0**	**18.3**	**(18.3)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	49.9	0	(49.9)	0	0
Total adjustments to capital resources	**49.9**	**0**	**(49.9)**	**0**	**0**
Total adjustments	**(100.4)**	**(1.0)**	**(22.2)**	**(123.6)**	**123.6**

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

	Usable reserves				Unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(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 adjustment account)	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**

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2017	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018	Transfers out 2018/19	Transfers in 2018/19	Balance at 31 March 2019
	£m	£m	£m	£m	£m	£m	£m
General fund	(36.0)	12.6	0	(23.4)	0	0	(23.4)
Reserves held to deliver corporate priorities							
Strategic investment reserve	(4.5)	0.7	0	(3.8)	2.8	(1.1)	(2.1)
Reserves held to deliver organisational change							
Downsizing reserve	(18.9)	5.2	(0.2)	(13.9)	6.4	0	(7.5)
Risk management reserve	(10.5)	5.1	(0.1)	(5.5)	4.7	(2.1)	(2.9)
Transitional reserve	(162.0)	65.1	(58.1)	(155.0)	58.6	(67.8)	(164.2)
Reserves held to pay for expenditure commitments							
Funding of capital projects	(0.1)	0.1	0	0	0	0	0
School reserves							
Individual school reserves	(45.3)	10.5	(9.4)	(44.2)	1.4	0	(42.8)
Other school reserves	(27.5)	17.4	(10.8)	(20.9)	11.6	(10.6)	(19.9)
Centrally managed schools maintenance reserve	(6.4)	6.4	(5.1)	(5.1)	5.1	(5.2)	(5.2)
Reserves held to meet service priorities							
Treasury management reserve	0	0	(10.0)	(10.0)	0	0	(10.0)
Directorate reserves	(28.5)	8.6	(15.2)	(35.1)	17.4	(12.0)	(29.7)
Election reserve	(1.6)	1.1	0	(0.5)	0.6	(1.0)	(0.9)
Total earmarked revenue and capital reserves	**(341.3)**	**132.8**	**(108.9)**	**(317.4)**	**108.6**	**(99.8)**	**(308.6)**

Reserves held to deliver corporate priorities

Strategic investment reserve

This reserve is held to support investment in areas such as economic development and also supports delivery of priorities within the corporate strategy.

Reserves held to deliver organisational change

Downsizing reserve

This reserve is set aside to support the council as it continues to deliver its agreed savings and develops its strategy to reduce costs over the next four years.

Risk management reserve

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

Transitional reserve

This reserve is primarily in place to support forecast funding shortfalls in future year budgets as outlined in the medium term financial strategy. The reserve also contains funding to support service transformation as agreed by Cabinet.

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. Some of these reserves are not only the funds of the county council and could relate to partners.

Note 16 - Capital expenditure and capital financing

31 March 2018		31 March 2019
£m		£m
1,002.1	**Opening capital financing requirement**	**1,042.9**
	Capital investment	
109.0	Property, plant and equipment	91.8
3.6	Intangible assets	0.5
35.3	Revenue expenditure funded from capital under statute	28.2
147.9	**Total capital investment**	**120.5**
	Sources of finance	
(94.0)	Government grants and other contributions	(74.7)
	Sums set aside from revenue:	
0	Direct revenue contributions	(0.1)
(5.0)	Write down of PFI liability	(5.9)
(8.1)	Minimum revenue provision (MRP) for debt repayment	(12.5)
1,042.9	**Closing capital financing requirement**	**1,070.2**
	Explanation of movement in year	
22.1	Increase in underlying need to borrow (supported by Government financial assistance)	0
23.7	Increase in underlying need to borrow (unsupported by Government financial assistance)	33.2
(5.0)	Write down of PFI liability	(5.9)
40.8	**Total movement**	**27.3**

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 2019 the council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2019/20 or future years. (2017/18: £nil)

Note 18 - Property, plant and equipment

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

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure	Assets under construction	Surplus assets	Total
	£m	£m	£m	£m	£m	£m
Carried at historical cost	**108.3**	**73.8**	**1,106.7**	**7.8**	**0**	**1,296.6**
Valued at current value as at:						
31 March 2019	1,025.6	0	0	0	23.7	**1,049.3**
31 March 2018	496.7	0	0	0	0	**496.7**
31 March 2017	495.7	0	0	0	0	**495.7**
Total cost or valuation	**2,126.3**	**73.8**	**1,106.7**	**7.8**	**23.7**	**3,338.3**

Property, plant and equipment - movements in 2018/19

	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 2018	**1,963.7**	**90.2**	**1,053.4**	**3.5**	**25.2**	**3,136.0**	**126.3**
Additions	27.7	6.5	53.1	4.5	0	**91.8**	0
De-recognition – disposals	(47.7)	(22.8)	0	0	(0.5)	**(71.0)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	149.7	0	0	0	1.1	**150.8**	3.1
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	35.6	(0.1)	0	0	(2.4)	**33.1**	28.6
Assets reclassified *	(2.7)	0	0.2	(0.2)	0.3	**(2.4)**	0
At 31 March 2019	**2,126.3**	**73.8**	**1,106.7**	**7.8**	**23.7**	**3,338.3**	**158.0**
Depreciation and impairment							
At 1 April 2018	**(94.6)**	**(60.7)**	**(142.5)**	**0**	**(0.1)**	**(297.9)**	**(2.5)**
Depreciation charge	(34.1)	(6.3)	(17.2)	0	**0**	**(57.6)**	(2.8)
Depreciation written out to revaluation reserve	20.0	0	0	0	**0**	**20.0**	0.5
Depreciation written out to the surplus/deficit on provision of services	3.2	0.1	0	0	**0**	**3.3**	(0.5)
De-recognition	1.1	22.3	0	0	**0**	**23.4**	0
At 31 March 2019	**(104.4)**	**(44.6)**	**(159.7)**	**0**	**(0.1)**	**(308.8)**	**(5.3)**
At 1 April 2018	**1,869.1**	**29.5**	**910.9**	**3.5**	**25.1**	**2,838.1**	**123.8**
At 31 March 2019	**2,021.9**	**29.2**	**947.0**	**7.8**	**23.6**	**3,029.5**	**152.7**

* The £2.4 million balance on assets reclassified relates to assets held for sale.

Property, plant and equipment - movements in 2017/18 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 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 ◦	(0.6)	0	0	0	(0.2)	**(0.8)**	2.8
Assets reclassified *	(5.4)	0	0.1	(0.1)	7.1	**1.7**	0
At 31 March 2018	**1,963.7**	**90.2**	**1,053.4**	**3.5**	**25.2**	**3,136.0**	**126.3**
Depreciation and impairment							
At 1 April 2017	**(78.4)**	**(58.7)**	**(127.7)**	**0**	**(0.1)**	**(264.9)**	**(1.6)**
Depreciation charge ◦	(23.8)	(6.4)	(14.8)	0	**0**	**(45.0)**	(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
At 31 March 2018	**(94.6)**	**(60.7)**	**(142.5)**	**0**	**(0.1)**	**(297.9)**	**(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**	**25.1**	**2,838.1**	**123.8**

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

◦ The 2017/18 figures have been restated following an adjustment to the depreciation figure.

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Note 19 - School assets

Schools included on the council's balance sheet

31 March 2018			31 March 2019	
Number of schools	Value of land and buildings		Number of schools	Value of land and buildings
	£m			£m
265	747.4	Community schools	256	779.3
10	82.9	Foundation schools	11	110.4
268	566.8	Voluntary aided schools	267	641.0
50	100.1	Voluntary controlled schools	50	117.9
593	**1,497.2**	**Total**	**584**	**1,648.6**
14	123.9	Schools included above subject to PFI contracts	14	152.7

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

The number of schools has reduced as 9 schools chose to take up academy status in 2018/19.

The council has 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 2019	**3.0**	**11.1**	**14.6**	**28.7**
At 31 March 2018	**3.0**	**11.1**	**14.6**	**28.7**

There has been an addition of books to the libraries' collection worth £200.

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.

Note 21 - Long term debtors

31 March 2018		31 March 2019
£m		£m
15.1	Transferred Debt [1]	14.2
31.3	Finance Lease Debtor [2]	30.3
46.4	**Total**	**44.5**

1 Transferred debt is managed for other authorities as a result of various local government reorganisations, which is being repaid over time.

2 Finance lease debtor is a long term debtor due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 28).

Note 22 - Short term debtors

31 March 2018		31 March 2019
£m		£m
18.0	Council tax	19.4
0.8	Non-domestic rates	0.8
17.6	Other receivables	16.5
235.3	Trade receivables	100.0
(16.0)	Less impairment allowance	(18.2)
255.7	**Total**	**118.5**

Note 23 - Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

31 March 2018		31 March 2019
£m		£m
0.6	Cash held by the council	0.3
(31.5)	Bank current accounts	(27.9)
49.7	Short term deposits under 3 months	96.1
18.8	**Total**	**68.5**

Note 24 - Short term creditors

31 March 2018		31 March 2019
£m		£m
(182.9)	Trade payables	(116.9)
(15.5)	Council tax	(18.2)
(0.3)	Non domestic rates	(0.5)
(51.4)	Other payables	(49.3)
(250.1)	**Total**	**(184.9)**

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 2018	Additional provision made in 2018/19	Spending met from the provision in 2018/19	Unused amounts reversed in 2018/19	Balance at 31 March 2019
	£m	£m	£m	£m	£m
Insurance provision	(22.3)	(9.2)	16.9	0	(14.6)
MMI provision	(2.8)	0	0	0	(2.8)
Other long term provisions	(1.0)	(0.6)	0.1	0.3	(1.2)
Total long term provisions	**(26.1)**	**(9.8)**	**17.0**	**0.3**	**(18.6)**
Business rates appeals	(4.4)	(1.0)	0	0	(5.4)
Early retirement	(0.5)	(0.1)	0	0.5	(0.1)
Other short term provisions	(2.2)	(3.3)	0	1.7	(3.8)
Total short term provisions	**(7.1)**	**(4.4)**	**0**	**2.2**	**(9.3)**
Total provisions	**(33.2)**	**(14.2)**	**17.0**	**2.5**	**(27.9)**

Insurance provision

Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance which are below the insurance excess and the self-insured limits.

Municipal Mutual Insurance (MMI)

Provision in respect of MMI for costs due to be paid under the Scheme of Arrangement for managing the outstanding liabilities resulting from claims being made.

Business rates appeals

This provision accounts for the 9% share of the business rates appeals impact estimated by the 12 Lancashire Districts.

Early retirement provision

This provision is for future voluntary redundancy costs.

Other provisions

All other provisions are individually insignificant.

Note 26 - Financial instruments

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments. The term covers both financial assets such as bank deposits, investments and loans by the council and amounts receivable and financial liabilities including amounts borrowed by the council and amounts payable. Financial instruments are classified based on the council's business model for holding the instrument and their cash flow characteristics.

The council has adopted IFRS 9 F*inancial Instruments* accounting standard with effect from 1 April 2018. The main changes include the reclassification and re-measurement of financial assets and the earlier recognition of the impairment of financial assets. IFRS 9 does not require the prior year to be restated.

The Council has assessed its financial assets in line with changes to the Code. The following table shows how the financial instruments have been reclassified at 1 April 2018. The effect of the impairment loss at 1 April is £54,000.

	31 March 2018	Impact of IFRS 9	1 April 2018
Category	£m	£m	£m
Loans and receivables	100.6	(100.6)	0
Available for sale	135.6	(135.6)	**0**
Financial assets at fair value through profit and loss	62.7	(62.7)	**0**
Amortised cost	0	139.8	**139.8**
Financial assets measured at fair value through other comprehensive income	0	159.1	**159.1**
Total investments	**298.9**	**0**	**298.9**
Cash and cash equivalents	18.8	0	**18.8**
Debtors	251.7	0	**251.7**
Total financial assets	**569.4**	**0**	**569.4**

Full disclosure notes in respect of financial instruments are provided in the technical annex.

The disclosures include:

- Gains and losses on financial instruments;
- Fair value of assets and liabilities;
- The nature and extent of risks arising from financial instruments.

Financial assets

Financial assets should be classified and measured at fair value, with changes in fair value recognised in the profit and loss as they arise (FVPL), unless specific criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income (FVOCI).

Amortised cost (where cash flows are solely payments of principal and interest and the council's business model is to collect those cash flows) comprising:

- cash in hand;
- bank current;
- loans to other local authorities;
- loans to companies;
- lease receivables, and
- trade receivables for goods and services provided.

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the council's business model is to both collect those cash flows and sell the instrument; and equity investments that the council has elected into this category). These assets are measured and carried at fair value with gains and losses due to changes in fair value charged to the financial instruments revaluation reserve until the asset is disposed of and the gain or loss is charged to the comprehensive income and expenditure statement.

These assets comprise bonds issued by banks, building societies and the UK government.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.

31 March 2018			Category	31 March 2019		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
34.8	65.8	100.6	Loans and receivables	0	0	**0**
135.6	0	135.6	Available for sale financial assets	0	0	**0**
0	62.7	62.7	Financial assets at fair value through profit and loss	0	0	**0**
0	0	0	Amortised cost	123.1	0.1	**123.2**
0	0	0	Financial assets at fair value through other comprehensive income	276.3	0	**276.3**
170.4	**128.5**	**298.9**	**Total investments**	**399.4**	**0.1**	**399.5**
0	18.8	**18.8**	Cash and cash equivalents	0	68.5	**68.5**
31.3	220.4	**251.7**	Debtors #	30.3	81.9	**112.2**
201.7	**367.7**	**569.4**	**Total financial assets**	**429.7**	**150.5**	**580.2**
# 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						
15.1	*35.3*	*50.4*	*Debtors which do not meet the definition of a financial instrument*	*14.2*	*36.6*	*50.8*
46.4	*255.7*	*302.1*	*Balance sheet total*	*44.5*	*118.5*	*163.0*

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Financial liabilities

The majority of the council's financial liabilities held during the year are measured at amortised cost and comprise:

- short-term loans from other local authorities;
- long-term loans from the Public Works Loan Board and other local authorities;
- private finance initiative contracts;
- trade payables for goods and services received.

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

31 March 2018			Category	31 March 2019		
Long term	**Short term**	**Total**		**Long term**	**Short term**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
(471.4)	(487.5)	**(958.9)**	Financial liabilities at amortised cost	(471.2)	(571.3)	**(1,042.5)**
0	(210.3)	**(210.3)**	Creditors #	0	(141.9)	**(141.9)**
(151.6)	(5.8)	**(157.4)**	Other financial liabilities (PFI) at amortised cost	(146.6)	(4.9)	**(151.5)**
(623.0)	**(703.6)**	**(1,326.6)**	**Total financial liabilities**	**(617.8)**	**(718.1)**	**(1335.9)**
# The creditors figure stated is lower than the creditors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions						
0	*(39.8)*	*(39.8)*	*Creditors which do not meet the definition of a financial instrument*	*0*	*(43.0)*	*(43.0)*
0	*(250.1)*	*(250.1)*	*Balance sheet total*	*0*	*(184.9)*	*(184.9)*

Note 27 - Private finance initiative (PFI)

The council has the following PFI contracts:

Fleetwood High School

The council signed a PFI contract with Fleetwood PPP Limited in 2001 to build and service a new single site school. The arrangement runs from September 2002 to August 2027.

Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 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.

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the council for nil consideration. The significant risks that the council is exposed to under these PFI schemes are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, 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 2.44% is made for future inflation within the model.

Each school is made available for use in the following priority order:

(i) provision of education services;
(ii) community use, and
(iii) third party use.

The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

The assets used to provide services at the schools are recognised on the council's balance sheet. Movements in their value over the year are detailed in the analysis of the movement on the property, plant and equipment balance in Note 18.

Fleetwood High School

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2019/20	0.3	0.5	1.0	1.8
Payment within 2 to 5 years	1.5	2.8	3.5	7.8
Payment within 6 to 10 years	1.7	3.1	1.9	6.7
Total	**3.5**	**6.4**	**6.4**	**16.3**

Building schools for the future (BSF)

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2019/20	12.1	4.4	13.3	29.8
Payment within 2 to 5 years	46.6	25.3	50.6	122.5
Payment within 6 to 10 years	70.2	42.4	49.1	161.7
Payment within 11 to 15 years	72.0	62.0	30.8	164.8
Payment within 16 to 20 years	7.2	11.0	3.3	21.5
Total	**208.1**	**145.1**	**147.1**	**500.3**

Outstanding PFI liability

31 March 2018		31 March 2019
£m		£m
(162.4)	**Balance outstanding at start of year**	**(157.4)**
5.0	Payments during the year	5.9
(157.4)	**Balance outstanding at year end**	**(151.5)**

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.

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Note 28 - Leases

Council as lessor – finance leases

Finance lease debtor (net present value of minimum lease payments)

31 March 2018		31 March 2019
£m		£m
1.0	Current	1.0
31.3	Non-current	30.3
16.1	Unearned finance income	14.8
48.4	**Gross investment in the finance lease**	**46.1**

Lancashire County Council has recognised a finance lease debtor for the borrowing raised on behalf of Blackpool Council to settle the PFI liability in respect of the waste PFI scheme. The assets underpinning the finance lease are the land and buildings comprising the waste plants.

31 March 2018			31 March 2019	
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	4.4	Later than one year and not later than 5 years	9.0	4.6
37.2	26.9	Later than 5 years	34.9	25.7
48.4	**32.3**	**Total**	**46.1**	**31.3**

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

31 March 2018		31 March 2019
£m		£m
(23.4)	General fund	(23.4)
(223.8)	Earmarked reserves	(217.3)
(70.2)	School reserves	(67.9)
(317.4)	**Total earmarked reserves**	**(308.6)**
(76.7)	Capital grants unapplied reserve	(98.9)
0	Capital receipts reserve	(1.0)
(394.1)	**Total usable reserves**	**(408.5)**

Unusable reserves

31 March 2018		31 March 2019
£m		£m
(4.1)	Available for sale financial instruments reserve	0
38.4	Financial instruments adjustment account	52.0
0	Financial instruments revaluation reserve	5.9
(857.7)	Revaluation reserve	(989.9)
(995.6)	Capital adjustment account	(1,019.7)
1,210.7	Pensions reserve	1,260.9
(10.4)	Collection fund adjustment account	(7.4)
26.6	Accumulated absences adjustment account	24.7
(592.1)	**Total**	**(673.5)**

Financial instruments adjustment account

2017/18		2018/19
£m		**£m**
41.7	**Balance at 1 April**	**38.4**
0	Premium on early repayment of debt	16.7
(3.3)	Proportion of premiums incurred in previous financial years to be charged against general fund balance	(3.1)
38.4	**Balance at 31 March**	**52.0**

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Financial instruments revaluation reserve

2017/18		2018/19
£m		**£m**
0	**Balance at 31 March**	**0**
0	Transition to IFRS 9	(4.1)
0	**Balance at 1 April**	**(4.1)**
0	Downward revaluation of investments	10.0
0	**Balance at 31 March**	**5.9**

The financial instruments revaluation reserve contains the gains arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Disposed of and the gains are realised.

Revaluation reserve

2017/18		2018/19
£m		£m
(754.7)	**Balance at 1 April**	**(857.7)**
(142.8)	Upward revaluation of assets	(212.1)
17.0	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	41.2
(125.8)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(170.9)**
13.4	Difference between fair value depreciation and historical cost depreciation	17.8
9.4	Accumulated gains on assets sold or scrapped	20.9
22.8	**Amount written off to the capital adjustment account**	**38.7**
(857.7)	**Balance at 31 March**	**(989.9)**

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

2017/18 restated		2018/19
£m		£m
(970.5)	**Balance at 1 April**	**(995.6)**
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
45.0	Charges for depreciation and impairment of non-current assets ◦	57.6
1.1	Revaluation losses/(gains) on property, plant and equipment including assets held for sale ◦	(36.7)
5.3	Amortisation of intangible assets	5.8
35.3	Revenue expenditure funded from capital under statute	28.2
18.3	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	52.9
(5.0)	Write down of PFI liability	(5.9)
(22.8)	Adjusting amount written out of the revaluation reserve	(38.7)
(893.3)	**Net written out amount of the cost of non-current assets consumed in the year**	**(932.4)**
	Capital financing applied in the year	
(67.1)	Capital grants and contributions credited to the comprehensive income and expenditure statement	(52.3)
(26.8)	Application of capital grants to capital financing from the capital grants unapplied account	(22.2)
(8.1)	Statutory provision for the financing of capital investment charged against the general fund	(12.5)
0	Capital expenditure charged against the general fund	(0.1)
(102.0)		**(87.1)**
(0.3)	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement	(0.2)
(995.6)	**Balance at 31 March**	**(1,019.7)**

◦ The 2017/18 figures have been restated following an adjustment to the depreciation figure.

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction or enhancement.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Pensions reserve

2017/18		2018/19
£m		£m
1,331.1	**Balance at 1 April**	**1,210.7**
(200.4)	Re-measurement of the net defined benefit liability/(asset)	(44.1)
163.2	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	182.9
(83.2)	Employer's pension contributions and direct payments to pensioners payable in the year	(88.6)
1,210.7	**Balance at 31 March**	**1,260.9**

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.

Accumulated absences adjustment account

2017/18 £m		2018/19 £m
26.8	**Balance at 1 April**	**26.6**
(26.8)	Settlement or cancellation of accrual made at the end of the preceding year	(26.6)
26.6	Amounts accrued at the end of the current year	24.7
(0.2)	**Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**(1.9)**
26.6	**Balance at 31 March**	**24.7**

The accumulated absences adjustment account absorbs the differences that would otherwise arise on the general fund balance from accruing for annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

Note 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:

2017/18 £m		2018/19 £m
(15.3)	Interest received	(24.7)
33.9	Interest paid	33.6

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2017/18 restated £m		2018/19 £m
45.0	Depreciation ◦	57.6
1.1	Impairment and downward/(upward) valuations ◦	(36.7)
5.3	Amortisation of intangible assets	5.8
(6.3)	Increase/(decrease) in provision for bad debts	(4.1)
(18.7)	Increase/(decrease) in creditors	24.4
9.7	(Increase)/decrease in debtors	(13.1)
1.2	(Increase)/decrease in inventories	(0.3)
1.4	Movement in pension liability	133.7
18.5	Carrying amount of non-current assets sold	52.9
6.6	Other non-cash items charged to the surplus or deficit on the provision of services	(6.4)
63.8	**Total**	**213.8**

◦ The 2017/18 figures have been restated following an adjustment to the depreciation figure.

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

2017/18		2018/19
£m		£m
(6.6)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(16.3)
0	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1.0)
(120.8)	Capital grants credited to the surplus on the provision of services	(96.8)
(127.4)	**Total**	**(114.1)**

Note 31 - Cash flows from investing activities

2017/18		2018/19
£m		£m
(113.4)	Purchase of property, plant and equipment, investment property and intangible assets	(93.0)
(6,237.9)	Purchase of short term and long term investments	(11,373.4)
2.8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1.0
6,332.5	Proceeds from the sale of short term and long term investments	11,346.1
140.6	Other capital grants and receipts from investing activities	99.7
124.6	**Net cash flows from investing activities**	**(19.6)**

Note 32 - Cash flows from financing activities

2017/18		2018/19
£m		£m
1,029.3	Cash receipts from short term and long term borrowing	1,319.8
(0.5)	Appropriate to/from Collection Fund Adjustment Account	3.1
(1,118.8)	Repayment of short term and long term borrowing	(1,239.2)
(5.0)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(4.9)
(95.0)	**Net cash flows from financing activities**	**78.8**

Note 33 - Reconciliation of liabilities arising from financing activities

	1 April 2018	Financing cash flows		Non-cash changes	31 March 2019
		Acquisitions	Repayments	LOBO	
	£m	£m	£m	£m	£m
Long term borrowing	471.4	256.8	(257.4)	0.4	471.2
Short term borrowing	493.3	1,063.0	(981.8)	1.7	576.2
PFI liabilities	151.5	0	(4.9)	0	146.6
Total	**1,116.2**	**1,319.8**	**(1,244.1)**	**2.1**	**1,194.0**

	1 April 2017	Financing cash flows		31 March 2018
		Acquisitions	Repayments	
	£m	£m	£m	£m
Long term borrowing	584.4	93.4	(206.4)	471.4
Short term borrowing	469.8	935.9	(912.4)	493.3
PFI liabilities	156.5	0	(5.0)	151.5
Total	**1,210.7**	**1,029.3**	**(1,123.8)**	**1,116.2**

Note 34 - 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 35.

Lancashire County Pension Fund

The Lancashire County Pension Fund is administered by Lancashire County Council.

The council incurred costs of £0.5 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 £73.0 million to the fund in 2018/19.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire County Council.

The council's Chief Executive and Director of Resources is responsible for the preparation and sign off of the Lancashire County Pension Fund accounts. For this service, the pension fund is recharged an element (2%) of the Chief Executive and Director of Resources' salary.

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.

For 2018/19 there are no transactions for services to organisations in which chief officers have declared interests.

Members

Members of the council have direct control over the council's financial and operating policies. Members are also appointed by the council to boards or committees of various organisations to act on behalf of the council in their official capacities. The total of Members' allowances paid in 2018/19 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 transactions during 2018/19 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 2019
	£	£	£
Transport for the North	(514)	4,183	0

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. The interests are detailed in the table below:

Company	Interest	Relationship
Lancashire Renewables Limited	87.5%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Active Lancashire Limited	100%	Subsidiary
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire Enterprise Partnership Limited	100%	Subsidiary (Dormant company)
Lancashire Workforce Development Partnership Limited	100%	Subsidiary (Company dissolved 29 June 2018)
Burnley Education Trust	75%	Member (Dormant entity)

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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.

Details of transactions with the other companies are shown in the following tables.

Lancashire Renewables 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. The company was renamed Lancashire Renewables Limited with effect from 28 March 2018.

2017/18		2018/19
£m		£m
(0.4)	Income received during the year from Lancashire Renewables Limited	0
23.3	Payments made during the year to Lancashire Renewables Limited	31.5
0.2	Amounts owed at the year end from Lancashire Renewables Limited	0.2
(1.0)	Amounts owed at the year end to Lancashire Renewables Limited	(1.6)

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.

2017/18		2018/19
£m		£m
1.0	Payments made during the year to Marketing Lancashire Limited	0
(0.5)	Amounts owed at the year end to Marketing Lancashire Limited	0

Active Lancashire Limited

Active Lancashire Limited is a county sport partnership and charity operating in the Lancashire and South Cumbria public health regions.

2017/18		2018/19
£m		£m
0.2	Payments made during the year to Active Lancashire Limited	0

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.

2017/18		2018/19
£m		£m
(0.9)	Income received during the year from Local Pensions Partnership	(0.8)
0.2	Payments made during the year to Local Pensions Partnership	0.2
0.3	Amounts owed at the year end from Local Pensions Partnership	0.1
0	Amounts owed at the year end to Local Pensions Partnership	(0.5)
17.5	Loan to Local Pensions Partnership	17.5

Penna PLC

Penna PLC is a recruitment consultancy company, which during the course of 2017/18 and 2018/19 has provided recruitment and key management personnel services to Lancashire County Council.

2017/18		2018/19
£m		£m
0.1	Payments made during the year to Penna PLC	0.3

Note 35 - Pooled budgets

Pooled budget for learning disabilities

2017/18		2018/19
£m		**£m**
	Funding provided to the pooled budget	
(113.7)	Lancashire County Council	(113.8)
(1.4)	NHS Morecambe Bay CCG	(1.2)
(1.4)	NHS Fylde and Wyre CCG	(1.6)
(0.2)	NHS Blackpool CCG	(0.2)
(0.1)	NHS Greater Preston CCG	0
(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)
(123.4)	**Total**	**(123.4)**
	Expenditure met from the pooled budget	
136.6	Lancashire County Council	141.7
1.9	NHS Morecambe Bay CCG	1.6
1.9	NHS Fylde and Wyre CCG	2.2
0.3	NHS Blackpool CCG	0.3
0.1	NHS Greater Preston CCG	0
2.7	NHS Chorley and South Ribble CCG	2.8
1.5	NHS Greater Preston – central pool	1.5
1.4	NHS West Lancashire CCG	1.5
1.5	NHS East Lancashire CCG	1.7
147.9	**Total**	**153.3**
24.5	**Net (surplus)/deficit arising on the pooled budget during the year**	**29.9**
22.5	**Council share of the net (surplus)/deficit**	**27.6**

The council is the host partner of the pooled funds in respect of learning disability services and the better care fund. The arrangements are made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The council has a pooled budget arrangement with the Lancashire Clinical Commissioning Groups for the provision of support for people with learning disabilities. Any surplus or deficit is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

Better care fund

2017/18		2018/19
£m		**£m**
	Funding provided to the pooled budget	
(12.6)	Lancashire County Council (Disabled facilities grant)	(13.7)
(26.5)	NHS East Lancashire CCG	(27.0)
(13.7)	NHS Greater Preston CCG	(13.5)
(11.8)	NHS Chorley and South Ribble CCG	(12.0)
(11.1)	NHS Fylde and Wyre CCG	(11.8)
(10.7)	NHS Morecambe Bay CCG	(10.9)
(7.5)	NHS West Lancashire CCG	(7.7)
(93.9)	**Total**	**(96.6)**
	Expenditure met from the pooled budget	
25.8	Lancashire County Council (Social care)	26.3
18.2	NHS East Lancashire CCG	18.5
9.3	NHS Greater Preston CCG	9.2
8.3	NHS Chorley and South Ribble CCG	8.5
7.3	NHS Fylde and Wyre CCG	7.8
7.3	NHS Morecambe Bay CCG	7.5
5.1	NHS West Lancashire CCG	5.1
12.6	Lancashire County Council (Disabled facilities grant)	13.7
93.9	**Total**	**96.6**
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 36 – 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

2017/18		2018/19
£m		£m
(44.7)	Growth deal	(34.8)
(26.1)	City deal *	(27.9)
(0.8)	LEP core activity funding	(0.8)
(0.3)	Growth hub	(0.3)
(71.9)	**Total income**	**(63.8)**

* The City deal total includes contributions of £13 million from Lancashire County Council in 2018/19. (2017/18: £11 million)

Expenditure

2017/18		2018/19
£m		£m
44.7	Growth deal	34.8
35.0	City deal	20.9
0.4	LEP core activity funding	0.8
0.3	Growth hub	0.3
1.4	Growing places investment fund	3.7
81.8	**Total expenditure**	**60.5**

In 2018/19 expenditure totalling £18 million was spent on LCC schemes. (2017/18: £28.7 million)

Reserves

2017/18		2018/19
£m		£m
(38.3)	**Balance at 1 April**	**(28.4)**
(71.9)	Income	(63.8)
81.8	Expenditure	60.5
(28.4)	**Balance at 31 March**	**(31.7)**

Note 37 – Material items of income and expense

In 2018/19 the council redeemed its Lender Option Borrower Option (LOBO) loans. The amount paid in total was £69 million. This transaction is estimated to result in a net saving to the council of £20 million over the remaining life of the loans.

Note 38 – Events after the reporting period

The statement of accounts was authorised for issue by the Chief Executive and Director of Resources on 22 May 2019. The statement of accounts has subsequently been adjusted to reflect the estimated increase in pension liabilities as a result of the McCloud judgement.

McCloud judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the ruling.

In a written statement by the Treasury on 15 July 2019 in respect of public service pensions the government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

This would lead to an increase in Local Government Pension Scheme liabilities. The council's actuaries have estimated the potential increase in scheme liabilities for the council to be approximately £17.7 million. The pension valuation process determines employer and employee contribution rates. The next triennial actuarial valuation will take effect from 1 April 2020.

Technical annex

Singing ringing tree, Burnley

Income, expense, gains and losses on financial instruments – 2018/19

The gains and losses on financial instruments recognised in the comprehensive income and expenditure statement are shown in the following tables:

	Financial liabilities	Financial assets			Total
	Amortised cost	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss	
	£m	£m	£m	£m	£m
Interest expense	51.0	0	0	0	51.0
Loss on de-recognition	0	0	7.8	0	7.8
Impairment losses	0	2.2	0.1	0	2.3
Fees paid	1.2	0	0	0	1.2
Interest payable and similar charges	**52.2**	**2.2**	**7.9**	**0**	**62.3**
Interest income	0	(6.2)	(2.3)	0	(8.5)
Gain on de-recognition	0	0	(21.9)	(2.3)	(24.2)
Interest and investment income	**0**	**(6.2)**	**(24.2)**	**(2.3)**	**(32.7)**
Net impact on the surplus or deficit on provision of services	**52.2**	**(4.0)**	**(16.3)**	**(2.3)**	**29.6**
Loss on revaluation	0	0	10.0	0	10.0
Impact on other comprehensive income	**0**	**0**	**10.0**	**0**	**10.0**
Net gain/(loss) for the year	**52.2**	**(4.0)**	**(6.3)**	**(2.3)**	**39.6**

Income, expense, gains and losses on financial instruments – 2017/18

	Financial liabilities	Financial assets		Financial assets and liabilities	Total
	Amortised cost	Loans and receivables	Available for sale	Fair value through profit and loss	
	£m	£m	£m	£m	£m
Interest expense	33.6	0	0	0	33.6
Loss on de-recognition	0	0	9.6	0.1	9.7
Fees paid	0.4	0	0	0	0.4
Interest payable and similar charges	**34.0**	**0**	**9.6**	**0.1**	**43.7**
Interest income	0	(4.4)	(2.3)	(1.3)	(8.0)
Gain on de-recognition	0	0	(15.4)	(1.0)	(16.4)
Interest and investment income	**0**	**(4.4)**	**(17.7)**	**(2.3)**	**(24.4)**
Increase in fair value	0	0	0	0.3	0.3
Net impact on the surplus or deficit on provision of services	**34.0**	**(4.4)**	**(8.1)**	**(1.9)**	**19.6**
Gain on revaluation	0	0	(11.8)	0	(11.8)
Impact on other comprehensive income	**0**	**0**	**(11.8)**	**0**	**(11.8)**
Net gain/(loss) for the year	**34.0**	**(4.4)**	**(19.9)**	**(1.9)**	**7.8**

Fair value of financial assets and liabilities

Financial instruments, except those classified at amortised cost, are carried in the balance sheet at fair value. For most assets, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy.

Level 1	Fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
Level 2	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
Level 3	Fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Allowances for impairment have been calculated for assets held at amortised cost by applying a forward looking 'expected loss' impairment model that focuses on the risk that a loan will default rather than whether a loss has been incurred.

Fair value of financial assets

31 March 2018				31 March 2019	
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			
39.2	39.2	Local authority bonds		0	0
96.4	96.4	Bonds, equity and property funds		0	0
135.6	**135.6**	**Subtotal**		0	0
		Financial assets at fair value through other comprehensive income			
0	0	Bond, equity and property funds	1	276.3	276.3
0	0	Local authority bonds		0	0
0	**0**	**Subtotal**		**276.3**	**276.3**
		Financial assets at fair value through profit and loss			
62.7	62.7	Bond, equity and property funds	1	0	0
		Financial assets held at amortised cost			
0	0	Local authority bonds	2	88.3	117.1
11.5	12.3	Long term bank deposits	2	11.5	12.3
31.3	37.2	Lease receivables	2	30.3	37.6
23.3	31.9	Long term loans to companies	2	23.3	26.9
66.1	**81.4**	**Subtotal**		**153.4**	**193.9**
264.4	**279.7**	**Total**		**429.7**	**470.2**
305.0		Assets for which fair value is not disclosed #		150.5	
569.4		**Total financial assets**		**580.2**	
		Recorded on balance sheet as:			
31.3		Long term debtors		30.3	
170.4		Long term investments		399.4	
220.4		Short term debtors		81.9	

128.5		Short term investments		0.1	
18.8		Cash and cash equivalents		68.5	
569.4		**Total financial assets**		**580.2**	

The fair value of short term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made. This shows a notional future profit (based on economic conditions at the end of the financial year) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

31 March 2018				31 March 2019	
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	400.0	Long term PWLB loans	2	353.9	414.5
52.0	106.9	Long term LOBO loans	2	0	0
80.5	84.4	Other long term loans	2	117.3	120.5
157.4	248.7	PFI liabilities	2	151.5	243.1
628.8	**840.0**	**Total**		**622.7**	**778.1**
697.8		Liabilities for which fair value is not disclosed #		713.2	
1,326.6		**Total financial liabilities**		**1,335.9**	
		Recorded on balance sheet as:-			
210.3		Short term creditors		141.9	
487.5		Short term borrowings		571.3	
471.4		Long term borrowings		471.2	
157.4		Other long term liabilities		151.5	
1,326.6		**Total financial liabilities**		**1,335.9**	

The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date.

This shows a notional future loss (based on economic conditions at the end of the financial year) arising from a commitment to pay interest to lenders above current market rates.

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Nature and extent of risks arising from financial instruments

The council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks.

The council's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central finance team, under policies approved by the council in the annual Treasury Management Strategy.

The strategy also imposes a maximum sum and duration which the council can invest in an institution. This is dependent upon the quality of credit rating and in 2018/19 the investment portfolio has maintained a very high AA credit rating.

A main principle of the 2018/19 credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating.

Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to the council.

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies.

Credit risk – treasury investments

The table below summarises the credit risk exposures of the council's treasury investment portfolio by credit rating:

2017/18		Credit rating	2018/19	
Long term	Short term		Long term	Short term
£m	£m		£m	£m
0.5	62.7	AAA	198.6	0
146.1	65.5	AA	177.3	0
146.6	**128.2**	**Total**	**375.9**	**0**
23.8	0.3	Credit rating not applicable	23.5	0.1
170.4	**128.5**	**Total investments**	**399.4**	**0.1**

The maximum single commercial exposure is to Svenska Handelsbanken at £45 million, which is lower than the 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. Loss allowances on treasury investments have been calculated on the 12 month expected credit loss model by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. For local government and central government investments these have been excluded for this loss allowance calculation.

In 2018/19 there are no treasury investments that have suffered a significant increase in credit risk since initial recognition.

Credit risk: trade receivables

The impairment allowance on trade debtors has been calculated using the lifetime credit losses basis. The impairment allowance loss on other financial assets has been calculated based on the expected 12 month credit loss.

	Trade debtors	Financial investments	Total
	£m	£m	£m
Balance at 1 April	**(16.0)**	**0**	**(16.0)**
Impairment allowance for trade debtors	(2.2)		**(2.2)**
Impairment allowance for corporate bonds and long term loans		(0.1)	**(0.1)**
Balance at 31 March	**(18.2)**	**(0.1)**	**(18.3)**

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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:

2017/18		2018/19
£m		£m
493.9	Less than 1 year	568.6
493.9	**Total short term borrowing**	**568.6**
57.9	1 to 2 years	264.6
194.7	3 to 5 years	75.6
91.2	6 to 10 years	110.4
269.6	More than 10 years	167.2
613.4	**Total long term borrowing**	**617.8**
1,107.3	**Total borrowing**	**1,186.4**

The council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the Public Works Loans Board and access to the investment portfolio which is also considered to be liquid. There is no significant risk that the council will be unable to raise finance to meet its commitments under financial instruments.

Market risk

Market risk is the possibility that financial loss might arise as a result of changes in interest rates and stock movements.

The council is exposed to interest rate movements on its borrowings and investments. Movement in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

Borrowing at variable rates	The interest expense charged to the surplus or deficit on the provision of services will rise
Borrowing at fixed rates	The fair value of the liabilities will fall
Investments at variable rates	The interest income credited to surplus or deficit on the provision of services will rise
Investments at fixed rates	The fair value of the investments will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the comprehensive income and expenditure statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in other comprehensive income or the surplus or deficit on the provision of services as appropriate.

There is a significant level of short term borrowing which needs to be regularly refinanced as part of the strategy to benefit from low short term interest rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the council to switch from short term to long term borrowing should the UK enter a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by 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.
- Long term loans of over £200 million with the Public Works Loans Board with maturity dates beyond 2025 with guaranteed interest rates.

The council's strategy takes advantage of market conditions whilst managing interest rate risk. The treasury management team proactively reviews interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The effect if interest rates were 1% higher with all other variables held constant

The following table attempts to quantify the interest rate risk. The impact of a 1% fall in interest rates would be the same but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise.

	2018/19
	£m
Increase in interest payable on variable rate borrowings	5.4
Increase in interest receivable on variable rate investments	(0.6)
Impact on surplus on the provision of services	**4.8**
Decrease in fair value of fixed rate other comprehensive income investment assets	(26.5)
Impact on other comprehensive income and expenditure	**(21.7)**
Decrease in fair value of fixed rate loans and investments	(25.3)
Decrease in fair value of fixed rate borrowings	(54.4)

Defined benefit pension schemes

As part of the terms and conditions of employment of its employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The council's principal pension arrangement for its employees is the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the fund are calculated in accordance with the LGPS regulations. The regulations require an actuarial valuation to be carried out every three years and require the contributions to be set with a view to targeting the fund's solvency. The detailed provisions are set out in the fund's funding strategy statement.

The council also participates in some other defined benefit pension arrangements, governed under statute, but these other schemes are unfunded.

These other arrangements relate to:

Teachers

The council's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The council is, however, responsible for paying some additional pensions to retired teachers 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.

NEST pension scheme

The council's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

Governance and risk management

The liability associated with the council's pension arrangements is material to the council. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

Lancashire County Pension Fund

The fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund. The Pension Fund Committee comprises twelve county councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Borough Council, Blackpool Council and trade unions. The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the panel and committee are published in the Investment Strategy Statement.

Risks and investment strategy

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the fund with maximising the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the forecast cash flow.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The objective of the fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund investment strategy.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the investment panel and its investment advisors.

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund's currency risk is routinely monitored by its investment advisors in accordance with the risk management strategy.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur financial loss. The selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner. Deposits are not made with banks and financial instructions unless they meet the fund's credit criteria. The fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments, and the fund has immediate access to its cash holdings.

Other risks

Actions taken by the government, or changes to European legislation, could result in stronger local pension funding standards, which could materially affect the council's cash flow.

Amendments, curtailments and settlements

The provisions of the fund were amended with effect from 1 April 2014. For service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the fund, and who take on part of the council's assets and liabilities as a result of employing members who have accrued benefits with the council.

Schemes for teachers and transferred NHS staff

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the council.

Funding the liabilities

Contributions to the arrangements are set by the government for teachers and NHS staff pension schemes, having taken advice from the government actuary, no liability is reflected in the council's balance sheet. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the council is responsible. Only this additional pension to retired teachers' part of the liability which directly falls to the council is recognised within the council's balance sheet and these liabilities are shown under teachers' pension scheme figures within the following tables. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment risk

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the council's contributions to them.

Transactions relating to retirement benefits

The council recognises the costs of post-employment/retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement.

The following transactions have been made in the comprehensive income and expenditure statement and the movement in reserves statement during the year:

- In 2018/19 £50.5 million was paid to the Department for Education for teachers' pension costs. This represents 16.5% of teachers' pensionable pay (2017/18: £51.4 million and 16.5%).
- In 2018/19 the council paid £0.1 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 15% of pensionable pay (2017/18: £0.1 million and 14%).
- The council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2018/19 these amounted to £8.4 million, representing 2.7% of pensionable pay (2017/18: £8.6 million and 2.7%).

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 £44.1 million (2017/18: £200.4 million gain) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £248.3 million.

Transactions relating to retirement benefits

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2018/19	**2017/18**	**2018/19**	**2017/18**
	£m	**£m**	**£m**	**£m**
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	125.1	128.0	0	0
Past service cost	25.5	0	0	0
(Gain)/loss from settlements and curtailments	0.7	1.9	0	0
Administration expenses	2.0	1.9	0	0
Financing and investment income and expenditure				
Net Interest expense	26.5	28.3	3.1	3.3
Total post-employment benefit charged to the surplus or deficit on the provision of services	**179.8**	**160.1**	**3.1**	**3.3**
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)	(277.0)	(32.4)	0	0
Experience (gains)/losses on liabilities	0	0	0	0
Actuarial (gains)/losses arising on changes in financial assumptions	227.9	(165.4)	5.1	(2.7)
Actuarial (gains)/losses arising on changes in demographic assumptions	0	0	0	0
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**130.7**	**(37.7)**	**8.2**	**0.6**
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	179.8	160.1	3.1	3.3
Actual amount charged against the general fund balance for pensions in the year				
Employers' contributions payable to the scheme	**78.5**	**73.0**	**10.1**	**10.2**

Assets and liabilities in relation to retirement benefits

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

2017/18			2018/19	
Local government pension scheme	Teachers' pension scheme		Local government pension scheme	Teachers' pension scheme
£m	£m		£m	£m
3,033.9	0	Fair value of plan assets	3,376.7	0
(4,040.3)	(125.6)	Present value of the defined benefit obligation	(4,474.6)	(123.7)
(1,006.4)	**(125.6)**	**Net liability arising from defined benefit obligation**	**(1,097.9)**	**(123.7)**

The pension liability on the balance sheet is £1,221.6 million, reflecting a payment in advance of £39.3 million in respect of the contributions and deficit payable for 2019/20. The pensions reserve balance of £1,260.9 million represents the valuation provided by the actuary for the pension liability as at 31 March 2019, which does not take account of the payment in advance.

Reconciliation of the movements in fair value of the scheme assets:

2017/18		2018/19
£m		£m
2,944.8	**Opening balance as at 1 April**	**3,033.9**
32.4	Re-measurement (assets)	276.9
74.1	Interest on plan assets	79.6
(1.9)	Admin expenses	(2.0)
(1.1)	Settlements	0
73.0	Employer contributions	78.5
22.7	Contributions from scheme participants	24.1
(110.1)	Benefits/transfers paid	(114.3)
3,033.9	**Closing balance as at 31 March**	**3,376.7**

Reconciliation of present value of the scheme liabilities

2017/18			2018/19	
Funded liabilities: Local government pension scheme	**Unfunded liabilities: Teachers' pension scheme**		**Funded liabilities: Local government pension scheme**	**Unfunded liabilities: Teachers' pension scheme**
£m	**£m**		**£m**	**£m**
(4,140.7)	**(135.2)**	**Opening balance as at 1 April**	**(4,040.3)**	**(125.6)**
(128.0)	0	Current service cost	(125.1)	0
0	0	Past service cost	(25.5)	0
(102.4)	(3.3)	Interest on pension liabilities	(106.0)	(3.1)
(22.8)	0	Contributions from scheme participants	(24.1)	0
110.1	10.2	Benefits/transfers paid	114.3	10.1
(3.4)	0	Curtailment cost	(0.7)	0
2.8	0	Gain/loss from settlements	0	0
		Re-measurement gains and (losses):		
0	0	- Experience gains/(losses) on liabilities	0	0
165.4	2.7	- Actuarial gains/(losses) arising from changes in financial assumptions	(227.8)	(5.1)
0	0	- Actuarial gains/(losses) arising from changes in demographic assumptions	0	0
78.7	0	Lump sum early payment of contributions	(39.4)	0
(4,040.3)	**(125.6)**	**Closing balance as at 31 March**	**(4,474.6)**	**(123.7)**

Local Government Pension Scheme assets comprised:

31 March 2018	Asset category	Quoted in active markets (Y/N)	31 March 2019
£m			**£m**
(12.7)	**Cash and cash equivalents**	N	**19.6**
	Bonds (by sector):		
56.3	Corporate	Y	39.6
72.4	Government	Y	118.7
128.7	**Sub-total bonds**		**158.3**
	Property (by type):		
83.4	Retail	N	81.3
201.9	Commercial	N	233.4
285.3	**Sub-total property**		**314.7**
	Private equity:		
0	UK	N	0
220.2	Overseas	N	259.5
220.2	**Sub-total private equity**		**259.5**
	Other investment funds:		
384.5	Infrastructure	N	477.3
46.1	Property	N	51.7
1,981.8	Miscellaneous	N	2,095.6
2,412.4	**Sub-total other investment funds**		**2,624.6**
3,033.9	**Total assets**		**3,376.7**

Basis for estimating assets and liabilities

2017/18		2018/19
Mortality assumptions		
Longevity at 65 for current pensioners		
22.7 years	Male	22.8 years
25.4 years	Female	25.5 years
Longevity at 65 for future pensioners		
25.0 years	Male	25.1 years
28.0 years	Female	28.2 years
Financial assumptions		
2.1%	Rate of CPI inflation	2.2%
3.6%	Rate of increase in salaries	3.7%
2.2%	Rate of increase in pensions	2.3%
2.6%	Rate for discounting scheme liabilities	2.4%

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates and salary levels. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer, an independent firm of actuaries. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary are shown 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)	89.3	(89.3)
Rate of inflation (increase or decrease by 1%)	796.7	(796.7)
Rate of increase in salaries (increase or decrease by 1%)	102.2	(102.2)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(782.9)	782.9

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.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation and discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis indicates the change in the defined benefit obligation for changes in the key assumptions.

Impact on the council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible.

Actuarial valuations are required to be carried out every 3 years. The last 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 deficit at the valuation was therefore £690 million. The fund's employers are paying additional contributions in order to meet the shortfall.

The impact of an increase in scheme liabilities arising from the McCloud/Sargeant judgement will be measured through the pension valuation process, which determines employer and employee contribution rates. The next triennial actuarial valuation of the Fund will take effect from 1 April 2020.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2020 are £66.1 million. Expected contributions for the teachers and health workers in the year to 31 March 2020 are £50.5 million and £0.1 million respectively.

Guaranteed minimum pension equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the 'Barber' judgement) and this includes providing equal benefits accrued from that date to reflect the differences in guaranteed minimum pensions. The 26 October 2018 Lloyds Bank court judgement provided further clarity in this area. In response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement". Therefore, it is concluded for the main public service pension schemes including the Local Government Pension Scheme, it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgement, at least at the present time.

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 2019. 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:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and non-domestic rates income

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

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. 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 has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

Charges to revenue for non-current assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- 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	5-50 years depending upon the nature of the asset
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 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.

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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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets, measured at:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI), and;
- Fair value through profit or loss (FVPL).

Financial assets measured at amortised cost

Where the council's business model is to hold investments to collect contractual cash flows, the financial assets are classified as amortised cost.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

There is no recognition of gains or losses on fair value until reclassification or derecognition of the asset.

Financial assets measured at fair value through other comprehensive income (FVOCI)

The council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the council is not subject to a high degree of credit risk. These assets are measured at FVOCI.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For these financial assets held by the council, this means that the amount presented in the balance sheet is the fair value of the financial instrument and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price;

- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any changes in the fair value of the assets are charged to other comprehensive income and expenditure in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

Any gains or losses that arise on the derecognition of the asset are credited or 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 financial instruments revaluation reserve.

Financial assets measured at fair value through profit of loss (FVPL)

Financial assets that are measured at FVPL are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair value gains and losses are recognised in the surplus or deficit on the provision of services as they arise.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Expected credit loss model

The council recognises expected credit losses on its financial assets held at amortised cost or FVOCI, (subject to materiality) either on a 12-month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the council.

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 effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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.

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's policy is to spread the gain or loss over the term remaining on the loan, against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase or settlement. 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.

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
Operational property, plant and equipment	Current value - existing use value

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

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

Assets 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 three 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.

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

The balance of control for local authority maintained schools, foundation, voluntary aided and voluntary controlled schools are all deemed to lie with the council, therefore schools' assets, liabilities, reserves and cash flows are recognised in the council's financial statements as if they were transactions of the council.

Schools' non-current assets (school buildings and playing fields) are recognised on the balance sheet where the council directly owns the assets, where the council holds the balance of control of the assets or, where the school or the school governing body own the assets or have had rights to use the assets transferred to them.

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the council's property, plant and equipment as the council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

School assets are derecognised in full on the date that a school transfers to academy status.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency.

DSG is allocated to budgets delegated to individual schools and centrally retained council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Group accounts and explanatory notes

St Annes Pier

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

2017/18 restated				2018/19		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
947.4	(921.4)	26.0	Schools	968.0	(941.3)	26.7
29.7	(2.9)	26.8	Chief executive services ◦	38.6	(3.5)	35.1
28.2	(9.3)	18.9	Growth, environment and planning ◦	24.2	(9.2)	15.0
504.2	(153.7)	350.5	Adults ◦	507.2	(155.9)	351.3
173.8	(12.9)	160.9	Education and children's services ◦	183.0	(14.6)	168.4
96.5	(80.2)	16.3	Public health and wellbeing ◦	89.6	(75.7)	13.9
232.9	(58.6)	174.3	Highways and transport ◦	228.8	(55.1)	173.7
61.0	(26.1)	34.9	Finance ◦	61.0	(28.0)	33.0
7.4	(0.4)	7.0	Adult services and public health and wellbeing ◦	7.9	(0.5)	7.4
44.8	(24.9)	19.9	Strategy and performance ◦	40.2	(25.2)	15.0
24.0	(2.1)	21.9	Corporate ◦	21.4	(2.7)	18.7
2,149.9	**(1,292.5)**	**857.4**	**Cost of services**	**2,169.9**	**(1,311.7)**	**858.2**
19.5	(6.5)	13.0	Other operating income and expenditure	54.0	(9.1)	44.9
65.6	(10.9)	54.7	Financing and investment income and expenditure	83.8	(30.9)	52.9
0	(846.2)	(846.2)	Taxation and non-specific grant income	0	(853.5)	(853.5)
2,235.0	**(2,156.1)**	**78.9**	**(Surplus)/deficit on provision of services**	**2,307.7**	**(2,205.2)**	**102.5**
0	(0.7)	(0.7)	Taxation on profit on ordinary activities (Note 6)	1.3	0	1.3
2,235.0	**(2,156.8)**	**78.2**	**Group (surplus)/deficit**	**2,309.0**	**(2,205.2)**	**103.8**
		(125.8)	(Surplus)/deficit on revaluation of non-current assets			(170.9)
		(200.4)	Re-measurement of the net defined benefit pension liability/(asset)			(44.1)
		0	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			10.0
		(11.8)	(Surplus)/deficit on revaluation of available for sale assets			0
		(338.0)	**Other comprehensive income and expenditure**			**(205.0)**
		(259.8)	**Total comprehensive income and expenditure**			**(101.2)**

◦ The 2017/18 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

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2018/19

	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 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**	**(41.7)**	**(1,027.9)**
Movement in reserves during 2018/19								
Total comprehensive income and expenditure	109.2	0	0	109.2	(205.0)	(95.8)	(5.4)	(101.2)
Adjustment between accounting basis and funding basis under regulations	(100.4)	(1.0)	(22.2)	(123.6)	123.6	0	0	0
(Increase)/decrease in year	**8.8**	**(1.0)**	**(22.2)**	**(14.4)**	**(81.4)**	**(95.8)**	**(5.4)**	**(101.2)**
Balance at 31 March 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**	**(47.1)**	**(1,129.1)**

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)**

31 March 2018		Note	31 March 2019
£m			£m
2,838.1	Property, plant and equipment		3,029.5
28.7	Heritage assets		28.7
42.3	Investment properties	8	47.5
20.1	Intangible assets		14.7
167.6	Long term investments		397.4
46.4	Long term debtors		44.5
3,143.2	Long term assets		3,562.3
130.0	Short term investments		1.4
2.3	Inventories		2.7
256.8	Short term debtors		118.6
9.1	Payments in advance		9.3
18.8	Cash and cash equivalents		68.6
7.7	Assets held for sale		5.5
424.7	Current assets		206.1
(480.7)	Short term borrowing		(564.9)
(249.8)	Short term creditors		(184.0)
(11.5)	Receipts in advance		(13.5)
(8.5)	Short term provisions		(9.8)
(5.8)	Other current liabilities		(5.0)
(756.3)	Current liabilities		(777.2)
(26.1)	Long term provisions		(18.6)
(1.3)	Deferred tax liability	9	(2.6)
(472.7)	Long term borrowing		(472.6)
(1,283.6)	Other long term liabilities		(1,368.3)
(1,783.7)	Long term liabilities		(1,862.1)
1,027.9	Net assets		1,129.1
(394.1)	Usable reserves	10	(408.5)
(592.1)	Unusable reserves	10	(673.5)
(27.0)	Subsidiary usable reserves	10	(27.5)
(14.7)	Subsidiary unusable reserves	10	(19.6)
(1,027.9)	Total reserves		(1,129.1)

2017/18		Note	2018/19
£m			£m
(78.2)	Net surplus/(deficit) on the provision of services		(103.8)
67.4	Adjustments to net surplus/deficit on the provision of services for non-cash movements	11	208.0
(127.4)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	11	(114.1)
(0.7)	Taxation paid		0
(138.9)	**Net cash flows from operating activities**		**(9.9)**
124.8	Investing activities	12	(18.8)
(95.4)	Financing activities	13	78.5
(109.5)	**Net increase/(decrease) in cash or cash equivalents**		**49.8**
128.3	Cash and cash equivalents at the beginning of the reporting period		18.8
18.8	**Cash and cash equivalents at the end of the reporting period**		**68.6**

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 2019 have been used for consolidation.

Note 3 - Entities not consolidated

Details of the council's relationships with other entities are outlined below:

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

Company	Interest	Relationship
Lancashire Renewables Limited	87.5%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Active Lancashire Limited	100%	Subsidiary
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire Enterprise Partnership Limited	100%	Subsidiary (Dormant company)
Lancashire Workforce Development Partnership Limited	100%	Subsidiary (Company dissolved 29 June 2018)
Burnley Education Trust	75%	Member (Dormant entity)

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Note 4 - Entities consolidated

Lancashire County Developments Limited has been consolidated into the council's group accounts.

Lancashire County Developments Limited

Company registration number: 01624144

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989.

Lancashire County Developments Limited (LCDL) is an economic development agency for the County. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The council controls 80% of the members' voting rights, with the other two members of the company (Blackburn with Darwen Borough Council and Blackpool Council) having 10% of voting rights each. It is classed as a subsidiary of the county council.

County Councillors have been appointed as directors on the board. The council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited - owns and manages 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

2017/18		2018/19
£000		**£000**
	Fees in respect of Lancashire County Council	
113	Fees incurred with regard to external audit services provided by Grant Thornton	87
4	Fees incurred for other audit work undertaken by Grant Thornton	4
9	Fees payable in respect of other services provided by Grant Thornton	9
126	**Total fees for Lancashire County Council**	**100**
	Fees in respect of Lancashire County Developments Limited	
30	Fees incurred with regard to external audit services provided by Beever and Struthers	32
10	Fees payable in respect of other services provided by Beever and Struthers during the year	0
40	**Total fees for Lancashire County Developments Limited**	**32**
166	**Total**	**132**

Note 6 - Group taxation

Taxation expenses are only applicable to subsidiary company of Lancashire County Council.

31 March 2018		31 March 2019
£m		**£m**
(0.7)	Deferred tax: origination and reversal of timing differences	1.3
(0.7)	**Total deferred tax**	**1.3**
(0.7)	**Taxation on profit on ordinary activities**	**1.3**

Factors affecting the tax charge for the year

31 March 2018		31 March 2019
£m		**£m**
(3.6)	**Profit on ordinary activities before taxation**	**6.7**
(0.7)	Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19%	1.3

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2017 restated	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018	Transfers out 2018/19	Transfers in 2018/19	Balance at 31 March 2019
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total earmarked reserves of the council	**(341.3)**	**132.8**	**(108.9)**	**(317.4)**	**108.6**	**(99.8)**	**(308.6)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(18.4)	0.1	0	(18.3)	0	(0.5)	(18.8)
Total revenue and capital reserves of the subsidiary	**(27.1)**	**0.1**	**0**	**(27.0)**	**0**	**(0.5)**	**(27.5)**
Total reserves	**(368.4)**	**132.9**	**(108.9)**	**(344.4)**	**108.6**	**(100.3)**	**(336.1)**

Note 8 – Group investment properties

31 March 2018		31 March 2019
£m		£m
(3.9)	Rental Income from investment property	(4.2)
1.2	Direct operating expenses arising from investment property	0
(2.7)	**Total**	**(4.2)**

The items of income and expense shown in the table have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

31 March 2018		31 March 2019
£m		£m
46.2	**Balance as at 1 April**	**42.3**
0	Additions	0
(0.4)	Reclassifications	0
(0.3)	Disposals	(1.2)
(3.2)	Net gains/(losses) from fair value adjustments	6.4
42.3	**Balance as at 31 March**	**47.5**

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or for the repairs, maintenance or enhancement of the properties.

The table summarises the movement in the value of investment properties over the year.

Valuation process for investment properties

The fair value of the investment property is revalued annually by the council's internal estates department. Every three years the company obtains an external valuation for the commercial units.

The 2018/19 commercial unit valuations have been undertaken by Cushman and Wakefield in accordance with the appropriate sections of the current edition of the RICS Valuation — Global Standards which incorporate the International Valuation Standards and the RICS UK national supplement (RICS Red Book).

Basis of valuation

The fair value of the investment property portfolio has been estimated using the income approach. This valuation technique converts future cash flows from the property (e.g. future rental income) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Where a market approach does not include significant unobservable adjustments, these assets are categorised as level 2.

The fair value level for the council's investment property portfolio is designated as level 2 inputs.

Fair value hierarchy

Details of the council's investment properties and information about the fair value hierarchy are as follows.

31 March 2018			Property type	31 March 2019		
Balance sheet value	**Fair value**	**Fair value level**		**Fair value level**	**Balance sheet value**	**Fair value**
£m	**£m**				**£m**	**£m**
1.6	1.6	2	Residential properties	2	1.6	1.6
40.7	40.7	2	Commercial units	2	45.9	45.9
42.3	**42.3**		**Total**		**47.5**	**47.5**

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Note 9 - Deferred taxation

31 March 2018		31 March 2019
£m		£m
2.0	**Balance as at 1 April**	**1.3**
(0.7)	Charge for the year	1.3
1.3	**Balance as at 31 March**	**2.6**

* The taxation figures for 2018/19 are not yet available

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:

2017/18		2018/19
£m		£m
(23.4)	General fund	(23.4)
(223.8)	Earmarked reserves	(217.3)
(70.2)	School reserves	(67.9)
(317.4)	**Total earmarked reserves of the council**	**(308.6)**
(76.7)	Capital grants unapplied reserve	(98.9)
0	Usable capital receipts	(1.0)
(394.1)	**Total usable reserves of the council**	**(408.5)**
(27.0)	Usable reserves of the subsidiary	(27.5)
(421.1)	**Total usable reserves of the group**	**(436.0)**

The table below shows the group's unusable reserves:

31 March 2018 £m		31 March 2019 £m
(4.1)	Available for sale financial instruments reserve	0
38.4	Financial instruments adjustment account	52.0
0	Financial instruments revaluation reserve	5.9
(857.7)	Revaluation reserve	(989.9)
(995.6)	Capital adjustment account	(1,019.7)
1,210.7	Pensions reserve	1,260.9
(10.4)	Collection fund adjustment account	(7.4)
26.6	Accumulated absences adjustment account	24.7
(592.1)	**Total unusable reserves of the council**	**(673.5)**
(14.7)	Revaluation reserve for subsidiary	(19.6)
(606.8)	**Total unusable reserves of the group**	**(693.1)**

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The revaluation reserve for the subsidiary is detailed below.

31 March 2018 £m		31 March 2019 £m
(17.5)	**Balance as at 1 April**	**(14.7)**
3.5	Upward revaluation of assets	(6.2)
(0.7)	Deferred taxation	1.3
2.8	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(4.9)**
(14.7)	**Balance as at 31 March**	**(19.6)**

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

31 March 2018		31 March 2019
£m		£m
(15.0)	Interest received	(24.5)
33.9	Interest paid	33.6

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

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31 March 2018 restated		31 March 2019
£m		£m
45.0	Depreciation ◦	57.6
1.1	Impairment and downward/(upward) valuations ◦	(36.7)
5.3	Amortisation of intangible assets	5.8
(6.3)	Increase/(decrease) in provision for bad debts	(4.1)
(19.0)	Increase/(decrease) in creditors	24.3
10.7	(Increase)/decrease in debtors	(13.3)
1.2	(Increase)/decrease in inventories	(0.3)
1.4	Movement in pension liability	133.7
18.5	Carrying amount of non-current assets sold	52.9
9.5	Other non-cash items charged to the surplus or deficit on the provision of services	(11.9)
67.4	**Total**	**208.0**

◦ The 2017/18 figures have been restated following changes to the depreciation charge

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

31 March 2018		31 March 2019
£m		£m
(6.6)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(16.3)
0	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	(1.0)
(120.8)	Capital grants credited to the surplus on the provision of services	(96.8)
(127.4)	**Total**	**(114.1)**

Note 12 - Group cash flows from investing activities

31 March 2018		31 March 2019
£m		£m
(113.4)	Purchase of property, plant and equipment, investment property and intangible assets	(93.0)
(6,239.5)	Purchase of short term and long term investments	(11,375.8)
4.6	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4.1
6,332.5	Proceeds from the sale of short term and long term investments	11,346.2
140.6	Other capital grants and receipts from investing activities	99.7
124.8	**Net cash flows from investing activities**	**(18.8)**

Note 13 - Group cash flows from financing activities

31 March 2018		31 March 2019
£m		**£m**
1,028.9	Cash receipts from short term and long term borrowing	1,319.5
(0.5)	Appropriate to/from collection fund adjustment account	3.1
(1,118.8)	Repayment of short term and long term borrowing	(1,239.2)
(5.0)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(4.9)
(95.4)	**Net cash flows from financing activities**	**78.5**

Pension fund accounts and explanatory notes

River Lune
Photo credit: Jacqui White

Lancashire County Pension Fund

Fund account

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2017/18		Note	2018/19
£m	**Dealing with members, employers and others directly involved in the Fund**		**£m**
374.9	Contributions [1]	6	170.9
11.5	Transfers in from other pension funds	7	11.0
386.4			**181.9**
(254.8)	Benefits	8	(275.3)
(17.9)	Payments to and on account of leavers	9	(16.4)
(272.7)			**(291.7)**
113.7	**Net (withdrawals)/additions from dealings with members**		**(109.8)**
(62.4)	Management expenses	10	(76.3)
51.3	**Net (withdrawals)/additions including fund management expenses**		**(186.1)**
	Returns on investments		
138.7	Investment income	11	193.5
221.9	Profit and losses on disposal of investments and changes in the value of investments	13	781.5
360.6	**Net return on investments**		**975.0**
411.9	**Net increase in the net assets available for benefits during the year**		**788.9**
7,209.3	**Opening net assets of the scheme**		**7,621.2**
7,621.2	**Closing net assets of the scheme**		**8,410.1**

[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 for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m.

Net assets statement as at 31 March 2019

31 March 2018		Note	31 March 2019
£m			£m
7,448.2	Investment assets	13	8,327.3
162.0	Cash deposits	13	67.1
7,610.2	**Total net investments**		**8,394.4**
23.4	Current assets	19	22.0
(12.4)	Current liabilities	20	(6.3)
7,621.2	**Net assets of the fund available to fund benefits at the end of the reporting period**		**8,410.1**

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2019 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.

An up-front contribution of £137.0 m was received from employers during the year ended 31 March 2018, relating to the years ending 31 March 2019 and 2020. The upfront contribution was recognised in the year of receipt and therefore contribution income for the year ended 31 March 2019 is significantly reduced when compared to the prior year. Contribution income of £170.9m together with transfers in of £11.0m part funded the payment of £291.7m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2019, 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 2018/19 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.

It is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees, whether active, deferred or retired members, of Lancashire County Council, the district councils in Lancashire and a range of other scheduled and admitted bodies within the geographic county of Lancashire. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee comprises twelve County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at [Lancashire Fund Information.](#)

The Lancashire Local Pension Board, established in 2015, assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at [Lancashire Fund Information.](#)

The investments of the Fund are managed by 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 432 employer organisations (2017/18: 412) within Lancashire County Pension Fund including the County Council itself, of which 300 have active members (2017/18: 287) as detailed in the following table:

31 March 2018	Lancashire County Pension Fund	31 March 2019
412	Total number of employers	432
287	Number of employers with active members[1]	300
	Number of active scheme members[2]	
25,126	County Council	25,721
26,220	Other employers	27,422
51,346	**Total**	**53,143**
	Number of pensioners	
23,722	County Council	24,692
23,723	Other employers	24,651

47,445	**Total**	**49,343**
	Number of deferred pensioners[2]	
37,410	County Council	37,691
35,873	Other employers	36,299
73,283	**Total**	**73,990**
172,074	**Total membership**	**176,476**

[1] includes employers for whom admission to the Fund is in progress
[2]March 2018 membership numbers have been adjusted to transfer 5,330 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 5,089 pending leavers has been made at 31 March 2019.

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 2019. 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.

Currently, employer contribution rates range from 0.0 % to 28.0 % of pensionable pay and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

	Service Pre 1 April 2008	Service post 1 April 2008 and pre 1 April 2014	Service post 1 April 2014
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme).
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2018/19* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19,* 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 2019 but not yet adopted by the Code. It is anticipated that the 2019/20 code will introduce amendments in respect of:

- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- *Annual Improvements to IFRS Standards 2014 - 2016 Cycle*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

The amendments noted above are not considered likely to have a significant impact on the accounts of the Fund.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the fund 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 or out are accounted for when received or paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Investment income

Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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.

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.

Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits or losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its pension fund management expenses 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 2018/19, £0.7m of fees is based on such estimates (2017/18: £11.5m).

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).

The investments of the Fund are managed by the Local Pensions Partnership and, other than direct property holdings and a number of legacy assets, the investments have been transitioned into pools within the partnership. Lancashire County Council is a shareholder of the Local Pensions Partnership. The Fund does not have a direct investment in the partnership itself and no investment balance is included on the net asset statement of the Fund. The pooled investments are disclosed in more detail in note 13 and note 22 provides information on the transactions between the Fund and the partnership.

Freehold and leasehold properties

The properties were valued at open market value at 31 March 2019 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). 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, 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 and are recognised in the net asset statement at amortised cost.

Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised in the fund account as part of the change in value of investments.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 24).

Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The AVC providers to the Pension Fund 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 for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

The net pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

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.

Directly held property

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. Under the classifications permitted by IAS7 and the Code, the Fund has determined that the tenant leases are operating leases. The risks and rewards of ownership of the properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.

Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 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 £1,796.5 m. There is a risk that these investments might be under or overstated in the accounts. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,134.1m. There is a risk that these investments might be under or overstated in the accounts. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
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 £352.0m in the financial statements. There is a risk that this may be under or overstated. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
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 £124.0m. There is a risk that these investments may be under or overstated in the accounts. Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.

Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex 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 (Mercer) 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 £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £185m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £220m.

Note 6 - Contributions receivable

2017/18		2018/19
£m	**By category**	**£m**
56.5	Members	58.7
	Employers:	
221.3	Normal contributions [1]	96.8
89.9	Deficit recovery contributions [1]	11.4
7.2	Augmentation contributions [2]	4.0
318.4	Total employers contributions	112.2
374.9	**Total contributions receivable**	**170.9**
	By type of employer	
174.9	County Council [1]	57.8
176.5	Scheduled bodies [1]	93.1
23.5	Admitted bodies	20.0
374.9		**170.9**

[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 for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m

[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 2018/19, £0.3m is voluntary and additional regular contributions (2017/18: £0.4m).

Note 7 - Transfers in from other pension funds

2017/18		2018/19
£m		**£m**
11.5	Individual transfers in from other schemes	11.0
11.5		**11.0**

Note 8 - Benefits payable

2017/18		2018/19
£m	**By category**	**£m**
213.6	Pensions	226.5
35.1	Commutation and lump sum retirement benefits	43.0
6.1	Lump sum death benefits	5.8
254.8		**275.3**
	By type of employer	
107.1	County Council	116.4
126.5	Scheduled bodies	137.5
21.2	Admitted bodies	21.4
254.8		275.3

Note 9 - Payments to and on account of leavers

2017/18		2018/19
£m		**£m**
0.6	Refunds to members leaving service	0.6
17.3	Individual transfers	15.8
17.9		**16.4**

Note 10 - Management expenses

2017/18		2018/19
£m		£m
3.8	Fund administrative costs	3.7
57.3	Investment management expenses[1]	71.7
1.3	Oversight and governance costs [1,2]	0.9
62.4		**76.3**

[1]£3.2m investment property management expenses have been reclassified from oversight and governance costs to investment management expenses in the 2017/18 comparatives.

[2] Oversight and governance costs above include external audit fees which amounted to £34,169 (2017/18: £34,169). Additional fees of £10,500 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime.

Investment management expenses

2017/18		2018/19
£m		£m
0.4	Transaction costs[1]	1.0
45.0	Fund value based management fees [2]	48.3
0.3	Transition fees	-
11.5	Performance related fees[3]	22.4
0.1	Custody fees	-
57.3		**71.7**

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

[3]Performance related fees in the year ended 31 March 2018 included a non-recurring fee on global equities of £2.3m.

Note 11 - Investment income

2017/18		2018/19
£m		£m
3.3	Fixed interest securities	2.1
0.8	Index linked securities	-
103.4	Pooled investment vehicles	157.2
2.2	Pooled property investments	1.7
28.9	Net rents from properties	32.0
0.1	Interest on cash deposits	0.5
138.7	**Total investment income**	**193.5**

Note 12 - Property income

2017/18		2018/19
£m		£m
32.2	Rental income	36.7
(3.3)	Direct operating expenses	(4.7)
28.9	**Net income**	**32.0**

Note 13 - Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in value during the year [1]	Market value as at 31 March 2019
	£m	£m	£m	£m	£m
Fixed interest securities	116.8	321.3	(329.1)	1.7	110.7
Index linked securities	178.0	122.2	(3.1)	(13.5)	283.6
Pooled investment vehicles	6,321.5	507.0	(496.3)	711.0	7,043.2
Pooled property investments	113.3	8.3		2.4	124.0
Direct property	715.5	34.8		11.6	761.9
	7,445.1	**993.6**	**(828.5)**	**713.2**	**8,323.4**
Other investment balances:					
Cash deposits	162.0				67.1
Investment income due	3.1				3.9
Net investment assets	**7,610.2**				**8,394.4**

[1] £781.5m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

	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.

Investments analysed by fund manager

31 March 2018			31 March 2019	
£m	% of net investment assets		£m	% of net investment assets
Investments managed by LPPI Private Equity Fund				
83.5	1.1%	Capital Dynamics	75.9	0.9%
37.1	0.5%	HGGC	67.6	0.8%
22.1	0.3%	Hermes GPE	38.5	0.5%
26.1	0.3%	Insight Venture Partners	38.0	0.5%
30.0	0.4%	Permira	35.3	0.4%
32.1	0.4%	Genstar Capital	33.6	0.4%
10.0	0.1%	Adveq TMC	25.7	0.3%
13.1	0.2%	Colbeck Capital Management	23.4	0.3%
17.4	0.2%	BV Investment Partners	22.3	0.3%
15.1	0.2%	Waterland	20.4	0.2%
14.1	0.2%	ECI Partners	18.8	0.2%
14.4	0.2%	Mid Europa Partners	17.6	0.2%
15.1	0.2%	CVC Capital Partners	17.2	0.2%
21.4	0.3%	Nordic Capital	16.8	0.2%
15.2	0.2%	Thoma Bravo	15.4	0.2%
9.6	0.1%	CBPE Capital	14.8	0.2%
10.0	0.1%	Advent Life Sciences	14.0	0.2%
16.5	0.2%	Apax Partners	14.0	0.2%
16.1	0.2%	Hg Capital	13.2	0.2%
10.8	0.1%	Rutland Fund Management	12.5	0.2%
7.5	0.1%	Endeavour Vision	12.0	0.1%

14.1	0.2%	Ironbridge Equity Partners	11.3	0.1%
13.2	0.2%	SL Capital Partners	10.9	0.1%
6.3	0.1%	NorthEdge Capital	9.9	0.1%
6.0	0.1%	Advent Venture Partners	9.8	0.1%
9.9	0.1%	Alpha Group	7.9	0.1%
6.1	0.1%	Littlejohn & Co	6.5	0.1%
6.0	0.1%	Advent International	5.7	0.1%
6.3	0.1%	Triton Partners	5.7	0.1%
7.0	0.1%	LPP internal managers	4.5	0.1%
6.5	0.1%	Chequers Capital	3.6	-
3.5	0.1%	Charterhouse Capital Partners	3.4	-
4.4	0.1%	Accent	3.0	-
-	-	True Capital	1.8	-
-	-	MCP	1.6	-
1.8	-	Abingworth Management	1.0	-
0.8	-	Private Equity Partners	0.8	-
1.8	-	EQT Partners	0.5	-
0.1	-	Italian Capital Management	0.1	-
531.0	**7.0%**		**635.0**	**7.6%**
Private equity investments managed outside of LPPI Private Equity Fund				
16.7	0.2%	Trilantic Capital Partners	15.4	0.2%
16.7	**0.2%**		**15.4**	**0.2%**
Investments managed by LPPI Credit Investments Fund				
200.4	2.6%	Prima Mortgage Investment Trust LLC	180.6	2.2%
114.8	1.5%	Bluebay	96.1	1.2%
-	-	Robeco	87.4	1.0%
73.8	1.0%	White Oak	78.8	0.9%
-	-	Primerica	70.3	0.8%
84.3	1.1%	Apollo	67.1	0.8%

61.9	0.8%	Venn Commercial Real Estate	66.7	0.8%
67.2	0.9%	King Street	59.2	0.7%
64.5	0.9%	Permira	49.3	0.6%
51.7	0.7%	Monarch	47.1	0.6%
38.5	0.5%	M&G	32.3	0.4%
37.2	0.5%	MFO King Street	29.3	0.3%
35.7	0.5%	Kreos	26.7	0.3%
10.4	0.1%	Muzinich Private Debt Fund	13.5	0.1%
14.4	0.2%	Blackrock	6.6	0.1%
8.5	0.1%	Westmill	6.6	0.1%
79.7	1.0%	LPPI internal managers	5.4	0.1%
128.1	1.7%	Pictet	-	-
1,071.1	**14.1%**		**923.0**	**11.0%**
Credit investments managed outside of LPPI Credit Investments Fund				
198.3	2.6%	Heylo Housing Trust	352.0	4.2%
138.0	1.8%	CRC	111.5	1.3%
56.6	0.7%	Neuberger Berman	52.1	0.6%
48.3	0.6%	Pimco Bravo	31.8	0.4%
31.2	0.4%	EQT	10.1	0.1%
18.8	0.3%	Hayfin	5.6	0.1%
491.2	**6.4%**		**563.1**	**6.7%**
Investments managed by LPPI Fixed Income Fund				
92.0	1.2%	PIMCO	157.6	1.9%
91.8	1.2%	Wellington	155.9	1.8%
-	-	LPPI internal managers	1.2	-
183.8	**2.4%**		**314.7**	**3.7%**
Liquid credit investments managed outside of LPPI Fixed Income Fund				
282.0	3.7%	LPPI internal and LCC Treasury Management	181.6	2.1%

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282.0	**3.7%**		**181.6**	**2.1%**
Investments managed by LPPI Global Equities Fund				
1,306.2	17.2%	LPPI internal managers	1,531.8	18.3%
482.5	6.3%	Magellan	551.1	6.6%
469.0	6.2%	Robeco	548.8	6.5%
466.7	6.1%	First Eagle	540.4	6.4%
315.1	4.1%	Wellington	368.6	4.4%
174.9	2.3%	Baron	188.2	2.2%
-	-	MFS	0.5	-
-	-	Macquarie	0.2	-
3,214.4	**42.2%**		**3,729.6**	**44.4%**
Investments managed by LPPI Infrastructure Investments Fund				
84.2	1.1%	GLIL Infrastructure LLP	266.9	3.2%
95.0	1.2%	Guild Investments Limited	105.4	1.3%
111.4	1.5%	Elisandra Spain	102.1	1.2%
79.5	1.0%	Semperian PPP	93.6	1.1%
44.8	0.6%	ISquared Global Infrastructure	56.7	0.7%
47.2	0.6%	Global Infrastructure Partners	54.3	0.5%
61.6	0.8%	Cape Byron Infrastructure	41.6	0.5%
34.2	0.5%	Meridiam Infrastructure	41.6	0.5%
30.8	0.4%	ISQ Viridian	34.6	0.4%
32.7	0.4%	EQT Infrastructure	31.8	0.4%
35.6	0.5%	LPPI internal managers	29.9	0.4%
24.9	0.3%	Capital Dynamics	27.8	0.4%
20.7	0.3%	Stonepeak Infrastructure	24.2	0.3%
15.5	0.2%	Glennmont	9.0	0.1%
6.3	0.1%	Icon Infrastructure Partners	6.9	0.1%
3.0	0.1%	Stonepeak Claremont	3.9	-
727.4	**9.6%**		**930.3**	**11.1 %**

Infrastructure investments managed outside of LPPI Infrastructure Investments Fund				
104.6	1.4%	Arclight Energy	103.2	1.2%
77.1	1.0%	Icon Infrastructure Partners	55.6	0.7%
49.4	0.7%	Highstar Capital	31.5	0.4%
32.7	0.4%	Capital Dynamics Red Rose	25.5	0.3%
263.8	**3.5%**		**215.8**	**2.6%**
Property				
715.5	9.4%	Knight Frank	761.9	9.1%
46.0	0.6%	M&G Europe fund	47.9	0.6%
39.0	0.5%	Gatefold Hayes	40.3	0.5%
28.3	0.4%	Kames Target	28.3	0.3%
-	-	BaseCamp Real Estate Partners Ltd	7.4	0.1%
828.8	**10.9%**		**885.9**	**10.6%**
7,610.2	**100.0%**		**8,394.4**	**100.0%**

The following individual investments represent over 5% of the net assets of the fund.

31 March 2018			**31 March 2019**	
£m	**% of total fund**		**£m**	**% of total fund**
3,214.4	42.2%	LPPI Global Equity Fund	3,729.6	44.4%
727.4	9.6%	LPPI Infrastructure Fund	930.3	11.1%
1,071.1	14.1%	LPPI Credit Strategies Fund	923.0	11.0%
531.0	7.0%	LPPI Private Equity Fund	635.0	7.6%

Fixed interest securities

31 March 2018		31 March 2019
£m		**£m**
32.5	UK corporate bonds quoted	63.8
14.2	Overseas public sector	12.0
70.1	Overseas corporate bonds quoted	34.9
116.8		**110.7**

Index linked securities

31 March 2018		31 March 2019
£m		**£m**
178.0	UK quoted	283.6
178.0		**283.6**

Pooled investment vehicles

31 March 2018		31 March 2019
£m	**UK funds:**	**£m**
183.8	Fixed income funds	314.7
108.2	Private equity	137.0
760.1	Infrastructure	955.8
1,110.3	Long term credit investments	997.0
67.3	Property funds	68.6
	Overseas funds:	
242.8	Fixed income funds	195.3
439.5	Private equity	513.4
231.1	Infrastructure	190.3
31.2	Long term credit investments	10.1
3,214.4	Equity funds[1]	3,729.6
46.0	Property funds	55.4
6,434.7		**7,167.2**

[1]Equity funds are held in the LPPI Global Equity Fund which includes UK equities.

Direct property investments

31 March 2018		31 March 2019
£m		**£m**
601.8	UK – freehold	624.8
113.7	UK – long leasehold	137.1
715.5		**761.9**

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 2018		31 March 2019
£m		£m
637.0	**Opening balance**	**715.5**
	Additions:	
18.3	• Purchases	3.4
15.5	• New construction	31.2
9.2	• Subsequent expenditure	0.9
(17.9)	Disposals	-
53.4	Net increase in market value	10.9
715.5	**Closing balance**	**761.9**

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.

2017/18		2018/19
£m		£m
29.3	Leases expiring within one year	36.3
81.1	Leases expiring between one and five years	109.8
126.1	Leases expiring later than five years	112.2
236.5	**Total future minimum lease payments receivable under existing non-cancellable leases**	**258.3**

The above disclosures have been reduced by a credit loss allowance of 2.1 % per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property management agents.

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 property managers to fill these voids.

Cash deposits

31 March 2018		31 March 2019
£m		£m
109.1	Sterling	43.5
52.9	Foreign currency	23.6
162.0		**67.1**

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 2019

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	110.7		
Index linked securities	283.6		
Pooled investment vehicles	7,043.2		
Pooled property investments	124.0		
Cash deposits		67.1	
Investment accruals	3.9		
Debtors		22.0	
Total financial assets	**7,565.4**	**89.1**	
Financial liabilities			
Creditors			6.3
Total financial liabilities			**6.3**

31 March 2018

	Fair value through profit or loss	Loans and receivables at amortised cost	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			12.4
Total financial liabilities			**12.4**

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Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £781.5m (2017/18: £221.9m) 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.

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.

Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

Loans and receivables are excluded from this table as they are held at amortised cost.

31 March 2019

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	4,155.9	-	3,409.5	7,565.4
Loans and receivables	67.1	-	-	67.1
Non-financial assets at fair value through profit and loss (property holdings)	-	761.9	-	761.9
Net investment assets	**4,223.0**	**761.9**	**3,409.5**	**8,394.4**

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
Loans and receivables	162.0	-	-	162.0
Non-financial assets at fair value through profit and loss (property holdings)	-	715.5	-	715.5
Net investment assets	**3,561.4**	**832.4**	**3,216.4**	**7,610.2**

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 Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties ;existing lease terms; nature of tenancies,	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

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Description of asset	Assessed valuation range[1]	Value at 31 March 2019	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Fixed income funds	-	198.2	198.2	198.2
Private equity funds	7.7%	650.3	700.4	600.2
Infrastructure funds	7.7%	1,146.1	1,234.3	1,057.9
Long term credit excluding index linked	7.7%	1,007.3	1,084.9	929.7
Index linked long term credit	-	283.6	283.6	283.6
Pooled property investments	4.0%	124.0	129.0	119.0
Level 3 investments		**3,409.5**	**3,630.4**	**3,188.6**

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity	Infrastructure funds	Long term credit investments	Property funds	Total level 3 investments
	£m	£m	£m	£m	£m	£m
Market value 1 April 2018	**244.8**	**547.7**	**991.2**	**1,319.4**	**113.3**	**3,216.4**
Purchases during the year and derivative payments	-	125.4	191.4	122.7	8.3	447.8
Sales during the year and derivative receipts	(62.8)	(124.9)	(90.7)	(221.0)	-	(499.4)
Unrealised gains / losses	3.1	40.9	4.0	41.3	2.4	91.7
Realised gains / losses	13.1	61.2	50.2	28.5	-	153.0
Market value 31 March 2019	**198.2**	**650.3**	**1,146.1**	**1,290.9**	**124.0**	**3,409.5**

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 2018/19 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.7%
Total equities	9.8%
Alternatives	7.7%
Total property	4.0%

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 2019	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	4,380.0	9.8%	4,807.4	3,952.5
Alternatives	2,946.8	7.7%	3,173.7	2,720.0
Total property	886.0	4.0%	921.5	850.6
Total bonds (including index linked)	110.6	6.7%	118.0	103.2
Total assets available to pay benefits	**8,323.4**		**9,020.6**	**7,626.3**

Asset type	31 March 2018	Potential market movements (+/-)	Potential value on increase	Potential 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**

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 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2018	Asset type	31 March 2019
£m		£m
162.0	Cash and cash equivalents	67.1
162.0	**Total**	**67.1**

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Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

		Impact of	
	31 March 2019	1% increase	1% decrease
Asset type	£m	£m	£m
Cash and cash equivalents	67.1	0.7	(0.7)
Total change in assets available		**0.7**	**(0.7)**

Asset type	31 March 2018 £m	Impact of 1% increase £m	Impact of 1% decrease £m
Cash and cash equivalents	162.0	1.6	(1.6)
Total change in assets available		**1.6**	**(1.6)**

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 2019 and as at the previous year end.

31 March 2018 £m	Currency exposure – asset type	31 March 2019 £m
3,653.8	Overseas equities	4,243.0
505.2	Overseas alternatives	395.7
46.0	Overseas property	55.4
84.3	Overseas bonds (including index linked)	46.9
4,289.3	**Total overseas assets**	**4,741.0**

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 8.0%.

An 8.0% 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 (2017/18: 8.5%).

An 8.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2019	Potential market movement +/- 8.0%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	4,243.0	341.1	4,584.1	3,901.9
Overseas alternatives	395.7	31.8	427.5	363.9
Overseas property	55.4	4.5	59.9	50.9
Overseas bonds (including index linked)	46.9	3.8	50.7	43.1
Total assets available to pay benefits	**4,741.0**	**381.2**	**5,122.2**	**4,359.8**

Currency exposure - asset type	Asset value at 31 March 2018	Potential market movement +/- 8.5%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas bonds (including index linked)	84.3	7.2	91.5	77.1
Overseas equities	3,653.8	310.6	3,964.4	3,343.2
Overseas alternatives	505.2	42.9	548.1	462.3
Overseas property	46.0	3.9	49.9	42.1
Total assets available to pay benefits	**4,289.3**	**364.6**	**4,653.9**	**3,924.7**

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remain outstanding, and the cost of replacing the derivatives position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivatives contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £67.1m (31 March 2018: £162.0m) and was held with the following institutions:

31 March 2018	Summary	Rating	31 March 2019
£m			£m
	Bank deposit accounts		
154.5	Northern Trust	A+	58.3
7.5	Svenska Handelsbanken	A+	7.6
	Cash float with property manager		
-	Barclays Bank Plc	A-	1.2
162.0	**Total**		**67.1**

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 £6.3m at 31 March 2019, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by 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 2018 to 31 March 2019 for Prudential and 1 September 2017 to 31 August 2018 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**	**27.3**	**28.0**
Income (incl. contributions, bonuses, interest and transfers in)	0.0	5.9	5.9
Expenditure (incl. benefits, transfers out and change in market value)	(0.1)	(4.2)	(4.3)
Value at the end of the year	**0.6**	**29.0**	**29.6**

Note 19 - Current assets

31 March 2018		31 March 2019
£m		**£m**
7.7	Contributions due – employers	8.0
6.3	Contributions due – members	4.9
9.4	Sundry debtors	9.1
23.4		**22.0**

Note 20 – Current liabilities

31 March 2018		31 March 2019
£m		**£m**
1.6	Unpaid benefits	0.8
10.8	Accrued expenses	5.5
12.4		**6.3**

Note 21 - Contractual commitments

As at 31 March 2019 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 £566.2m (2018: £546.6m). 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 £190.9m (2018: £462.4m). 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 £21.9m (2018: £47.3m). These amounts are expected to be drawn down over the next 6 months based on valuation certificates.

During the year, the Fund has invested in an indirect real estate fund with an outstanding commitment of £22.0m as at 31 March 2019(2018: £0m).

Note 22 - Related party transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £0.5m (2017/18: £0.6m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £32.6m to the Fund in 2018/19. A contribution prepayment of £118m was received in 2017/18 for the years ending 31 March 2018, 2019 and 2020. Total employer contributions from the Council in 2017/18 amounted to £152m. 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 2019 amount to £5.5m (2017/18: £6.8m).

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 2019 payroll, are included within the debtors figure in note 19.

Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2018/19 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2019.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Finance and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2018/19

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/18 – 31/03/19	56,667	8,557	65,224
Director of Finance	01/04/18 – 31/03/19	1,938	293	2,231
Chief Executive and Director of Resources	01/04/18 – 31/03/19	4,029	-	4,029

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

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/Finance	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	-	874

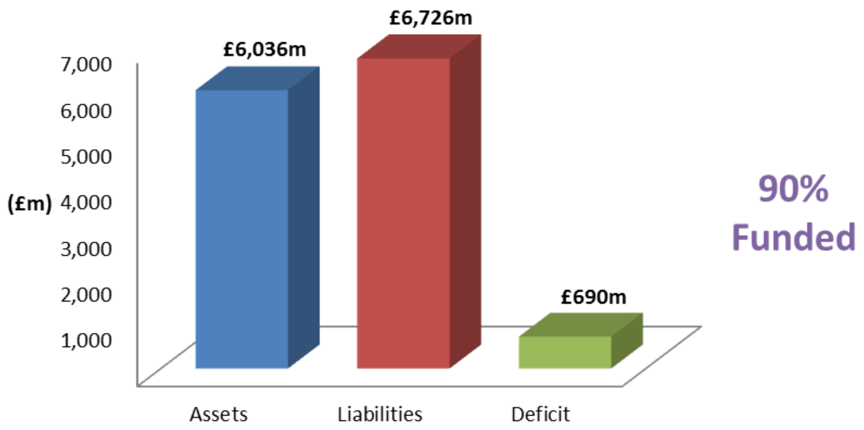
[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.
[2] The Chief Executive and Director of Resources was a new post and was appointed on 3 January 2018.
[3] Following a restructure the role of Director of Financial Resources was replaced with Director of Finance during the year ended 31 March 2018.

Note 24 - Funding arrangements

Accounts for the year ended 31 March 2019 - 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 2019/20 is approximately £46 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.

Actuarial present value of promised retirement benefits for the purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI inflation / CARE benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% 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 decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected rate of long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £10,022 million. Interest over the year increased the liabilities by c£261 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£72 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £64 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was then an increase in liabilities of £568 million due to "actuarial losses" (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 2019 is therefore £10,987 million.

The McCloud case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangement will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £64 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

Mark Wilson
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

Governance statements

Harris Museum and Art Gallery, Preston
Photo credit: Jeanette Moister

Executive summary

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

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

On the 20 May 2019 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 Chief Executive and Director of Resources.

Governance issues

Overall it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these generally work well our review has identified the following issues which are currently underway but not yet completed:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Reshaping the Council Through our Peoples Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation • Further embed a focus on service delivery • Develop a sustainable financial strategy	Chief Executive Director of Corporate Services Director of Strategy and Performance Director of Finance	31 March 2020 Autumn 2019 Ongoing
Getting to Good (Children's Social Care)	Executive Director of Education and Children's Services	Ongoing
Response to Special Educational Needs and Disability (SEND) inspection	Executive Director of Education and Children's Services	Ongoing
Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	Executive Director of Education and Children's Services	31 March 2020
Managing major projects	Executive Director of Growth, Environment and Transport	Ongoing
Intermediate care for older people in a residential setting	Executive Director of Adult Services and Health & Wellbeing	31 March 2020
Core systems and data	Director of Strategy and Performance	31 March 2020
Future provision of ICT Services	Director of Finance	31 March 2020
Recruitment and Retention	Director of Corporate Services	31 March 2020

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

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

-- County Councillor Geoff Driver CBE
Leader of the Council

-- Angie Ridgwell
Chief Executive and Director of Resources

Signed on behalf of Lancashire County Council

Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority of Chief Executives (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 including the Corporate Strategy (the cornerstone of our policy framework)	• Meetings are held in public and many are webcast • Decisions are recorded on the Council's website • Scheme of delegation	• Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members (CCPI) • Directors complete assurance statements
Council's leadership team	**Scrutiny and review**	**External and internal audit and review**
• Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team • Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs • The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct	• Scrutiny Committees review council policy, decisions and budget proposals • Work to deliver local public sector accountability	• External audit provides an opinion on the Council's annual statement of accounts and 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 Risk 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. Corporate Management Team have recently reviewed the content of the register. 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 County Council operates. The quarterly report to the Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme. Financial Monitoring Boards have also been established for service challenge options that have been agreed as part of budget savings.

In February 2019, Full Council agreed a new corporate strategy 'Our Vision for Lancashire' that includes a new set of high-level metrics which will enable the overall success and progress of the strategy to be monitored and demonstrated. Scrutiny Committees will play a key role in year 1 in ensuring that the high-level metrics are the right ones and that the targets are appropriate.

In addition to the high-level metrics relating to the strategy, the CCPI will continue to regularly receive the more detailed, service specific performance metrics which enable members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary).

The CMT receives a suite of performance dashboards monthly; these include executive summaries, written by each executive director, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action by the corporate management team. Any concerns with the quality of the data are highlighted immediately and the recovery plan will focus on improving the data. Once there is confidence in the data, performance concerns are the focus of discussion. This approach requires a deeper understanding of data presented and is driving up the quality of data and reporting across the council.

Managing our resources (value for money)

The Council's external auditors, in their assessment of 2018/19, regarded the following as the significant value for money challenges that were faced by the Council during the year:

- Financial sustainability
- Internal Control

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

Financial projections are reported to both the 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 along with the use of reserves and capital receipts to ensure funding requirements are met.

The forecast will need to be reviewed in light of any central government funding proposals for local government.

Financial sustainability

Financial sustainability remains the greatest risk facing the County Council. However, whilst the council's financial position has not been fully stabilised, over the course of the last year considerable work has been done to improve it.

As a result, it is anticipated that available reserves will be sufficient to support the council's expenditure until at least 2022/23. Full Council approved in February around £77m of savings, some of which were subject to further consultations. However, a forecast gap in funding of £47m by 2022/23 remains, with work continuing to identify further savings so that a financially sustainable position can be achieved.

For the 2019/20 budget, consultation on budget proposals were undertaken with a variety of stakeholders and partners including discussions with the

Trades Unions. A number of savings proposals included within the agreed 2019/20 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 professional estimates.

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 2018/19 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.

The role of the Audit, Risk and Governance Committee

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

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

In addition to the standard items on the agenda, the committee considered reports on the following:

- Whistleblowing and Counter Fraud

- Overpayment of Salaries
- General Data Protection Regulations
- Delays and Overspends on Major Projects
- Neighbourhood Wellbeing Grants

In July 2018, the Chairman presented his first annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness. As part of the report the committee agreed a new skills and knowledge framework. Committee members subsequently carried out a skills and development review and as a result training and development opportunities have been put in place.

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the Council's governance, risk management and control frameworks and therefore the extent to which the Council can rely on them. The Internal Audit Annual Report and opinion has been considered in the development of the Annual Governance Statement.

Audit work has progressed well against an ambitious plan and 80% of the work completed by the year end has yielded favourable assurance over the design and operation of the services, systems and processes audited.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that moderate assurance can now be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2018/19.

External assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

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.

The General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA 2018) came into force in the UK on 25 May 2018. The legislation makes provision for the processing of personal data. Preparations for GDPR and DPA 2018 began at the start of 2017 with the Information Governance team systematically assessing each part of the legislation and putting controls and processes in place to ensure the authority would be compliant when the legislation came into force on 25 May 2018.

In September 2018 the Internal Audit service carried out an audit of the council's compliance with GDPR and the Data Protection Act 2018. The audit gave the council 'Substantial Assurance' and zero actions to complete. However, the focus on implementing GDPR impacted on other areas of work. As a result, in January 2019, the Information Commissioner's Office (ICO) wrote to the Chief Executive raising concerns about the time the council was taking to process subject access requests. This had come about because of the demands placed upon the Information Governance team by the introduction of GDPR and staff turnover at that critical time. The Chief

Executive assured the ICO that information governance was an issue we take very seriously and agreed an action plan to resolve the issue.

Scrutiny committees

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

There is also a cross party Budget Scrutiny Review Panel. The Panel:

- Provides further support to the overall budget monitoring process
- Considers and formulates recommendations on Cabinet budget proposals
- Monitors progress of agreed budget savings

The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the County Council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.

Political governance

During the year, the Political Governance Working Group was re-established with the remit to make recommendations to Full Council on revisions to the Constitution, Standing Orders and other democratic processes and procedures. The working group operates on a cross party basis with representation from all political groups. The working group recommended changes to standing orders that were adopted by Full Council. The agreed changes focused on Full Council procedures, including Question Time and Notices of Motion. Two of the changes were approved based on a six-month trial period.

Local government and social care ombudsman

During 2018/19 Full Council considered one public report from the Local Government & Social Care Ombudsman on the Blue Badge service. In this instance the Ombudsman found fault causing injustice. Full Council noted the actions already taken and endorsed further actions to remedy the complaint.

Lancashire County Developments Limited

Lancashire County Developments Limited is an owned subsidiary of the county council. As a material entity it forms part of the council's group accounts. The county council has the power to change decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet, and receive financial and performance reports. In the 2018 / 19 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.

Looking back on 2018/19

Several improvement actions were identified as part of the 2017/18 Annual Governance Statement. All of these 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:

A new Operational Plan was adopted. The Plan summarised the priorities, delivery focus approach and aspirations for 2018/19. Building on past achievements the council pursued several operational priorities over the

1. Establish a new leadership and management team

Vacancies to the Corporate Management Team (CMT) were filled. A permanent appointment to the post of Chief Executive and Director of Resources was made in October 2018, and a new Executive Director of Education and Children's Services took up post in January 2019. There were also in year changes to the senior management structure with two new director posts established in Education and Children's services and a realignment in Growth, Environment, Transport and Community Services following the resignation of two directors. Further to this a senior management restructure was completed in January 2019. The restructure grouped together complimentary services and provided the necessary capacity to lead the development of our partnership and organisational aspirations. It also provided corporate capacity to drive the system and the change required across the organisation.

To provide visible leadership and engage the organisation, the CMT worked closely together to complete several individual and collective actions that included:

- Leading on a new corporate strategy
- Agreeing a vision and values for the organisation
- Completing a staff survey
- Implementing new employee engagement processes including a new performance engagement system
- Introducing new leadership and management training modules

2. Embed a focus on service delivery

The focus in 2018 was to view our services through the eyes of users and develop them to be the best they can. A 'service challenge' was applied to each service area. This put users at the heart of the service and empowered delivery staff to design the optimum solution. In all cases the objective of the service challenge was to secure a better service at a lower cost.

To support this, services were benchmarked against other county councils and managers were actively encouraged to speak to other high performing authorities and organisations to understand the differences in their costs and outcomes, and how they could be improved.

In February 2019, Full Council agreed around £77m of savings proposals resulting from 43 service challenges. Work is continuing under the second phase of the service challenge process and further information about this process is set out later in the AGS.

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 address the budget gap a number of work streams have been established that include:

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

As a result of the work mentioned above, phase one of the process has produced significant savings.

In addition, Internal Scrutiny Committee received an update on commercialisation work and an approach on how the County Council is seeking to improve and strengthen its working relationships with the Voluntary Community Faith Sector in Lancashire has also been agreed.

Continue to improve children's services following Ofsted inspection

The Ofsted re-inspection of Children's Services in June 2018 noted significant improvements, with an overall effectiveness judgement of requires improvement to be good and good for our adoption service.

However, there is still more to do to ensure that all children receive a consistently good service. The Lancashire 'Getting to Good Plan' was approved by the Cabinet in December 2018, sets out the actions required to address the 11 recommendations in the Ofsted report, further improving the quality of practice and outcomes for children.

The Getting to Good Plan focuses on six key areas:

- **Prevention**
  We are committed to working with partners to utilise our collective resource to secure a county-wide approach within which all partners coordinate, prioritise and maximise their efforts to achieve successful outcomes for children and families
- **Effective partnership working**
  A Children's Partnership Board has been established to ensure partners are working collaboratively in addressing shared strategic priorities. The Neglect Strategy has been updated and was officially launched by the Lancashire Safeguarding Children Board in April 2019.
- **Purposeful practice**
  A Statement of Social Work has been developed which sets out our values and principles, with clear links to the Knowledge and Skills Statement (national standards for social workers). There is a strong focus on practice, casework consistency and developing more strength-based approaches to working with children and families.
- **Permanence and corporate parenting**
  Effective long-term planning for a child's upbringing is essential and an Improvement Partner is working with the service to help develop our practice in relation to permanence. Processes are being streamlined and policies and procedures updated to simplify them. Workshops are taking place to develop practitioners understanding of permanence and a permanence tracker is now in use to track cases which will reduce drift and delay in achieving permanence for children.
- **Effective use of performance data**
  Whilst significant progress has been made in improving the accuracy of performance data, we need to improve the use of data so that it

is an effective tool to help manager's measure progress and examine trends. We are working with North Yorkshire Children's Services, as part of the DfE Partners in Practice Innovation Programme to review our systems and use of data.

- **Workforce development**

In order to improve the quality of practice in line with the recommendations made by Ofsted, we need to ensure we have a workforce with the right skills, support and tools to do the job and provide strong leadership. We are successfully recruiting to social work posts through our centralised recruitment panel. The retention of our newly qualified social workers - ASYE (assessed and supported year in employment) improves year on year. An evaluation of our Social Work Academy has confirmed its key role in supporting a good induction of these social workers to Lancashire and a career with us.

There are new Governance arrangements within the Getting to Good Plan that include the Lancashire Health and Wellbeing Board, Corporate Parenting Board, Children's Services and Education Scrutiny Committees. Each of these Boards/Committees will review and challenge the areas relevant to themselves.

Managing major projects

The County Council is currently involved in several major capital projects and significant risks can be associated with such projects. During 2018/19 the Council implemented steps to ensure robust risk management practices are in place.

Initial review work was undertaken of a sample of major capital schemes including Lancashire Central 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 of the capital programme was strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets rests. A comprehensive review of the projects for 2018/19 including prior year slippage has been undertaken by project and programme managers, supported by finance and commissioning managers. The primary purpose of the review was to propose a delivery programme for 2018/19 which was approved by Cabinet and which now forms the agreed baseline for monitoring purposes. The review was focused on:

- Updating the delivery programme for 2018/19 informed by the delivery performance in 2017/18 and previous years
- Reviewing the level of funding available for unallocated budgets and the requirement for these to continue to be carried forward
- Removal of budgets previously included in 2018/19 which have been carried forward from previous years where there is no expectation or plan of delivery in 2018/19
- Of the new approved projects, a realistic assessment of 2018/19 delivery was made with timeframes and budgets being moved to future years where appropriate.

All this gave a proposed delivery programme for 2018/19 which had been risk-assessed as being deliverable and to which project and programme managers would be held accountable using the following actions:

- Detailed monitoring of the delivery programme through 2018/19 to ensure any slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track.
- Detailed report of performance through reports developed to enable the Capital Board to undertake this monitoring and challenge.

During 2018/19 the Audit, Risk and Governance Committee received two separate reports setting out the progress made on this issue.

Neighbourhood wellbeing grants

At its meeting on 14 December 2017, Full Council resolved to appoint an independent auditor to carry out an investigation into the way Neighbourhood Wellbeing Grants were recommended, approved and paid.

The findings of the investigation were presented to the Audit, Risk and Governance Committee on 29 October 2018. The independent auditor concluded that the approval of the projects was undertaken in accordance with the County Council's decision making processes and was therefore lawful. However, the Cabinet Member (at that time in 2017) should have limited their involvement to setting the overall scheme objectives and principles. Officers should have been asked to administer all other aspects of the scheme, including determining which projects were recommended for funding, using pre-determined criteria.

As a result of these findings, the Committee asked to receive a further report setting out the responsibilities of County Council officers in relation to council expenditure. In addition, a protocol was to be set out when grants are awarded to community groups and other voluntary bodies. On 28th January 2019, the Committee agreed a protocol to ensure robust governance. It was also agreed that further efforts would be made to contact the recipients of the Neighbourhood Wellbeing Grants to request details of the outcomes achieved.

Response to special educational needs and disability (SEND) inspection

Lancashire local area SEND services were inspected by Ofsted and the Care Quality Commission (CQC) in November 2017 to judge how effectively the special educational needs and disability (SEND) reforms had been implemented, as set out in the Children and Families Act 2014. The inspection identified two fundamental failings and twelve areas of significant concern.

The partners in Lancashire were required to produce a Written Statement of Action (submitted April 2018) setting out the immediate priorities for action. This action plan has been supported by five thematic delivery plans which are monitored monthly against the action plan deadlines by the SEND Partnership team. Progress is reported bi-monthly to the SEND Partnership Board and the Department for Education (DfE) and NHS England (NHSE).

External monitoring by the DfE and NHSE has been taking place quarterly, with the last meeting in December 2018. The overall assessment, on the progress the Lancashire SEND Partnership is making, is now considered to be Green/Amber (concurring with our own view).

The DfE/NHSE appointed advisors also concluded in December 2018 that sufficient progress has been made in implementing the Written Statement of Action to cease the quarterly monitoring meetings. The robust governance arrangements and the draft Improvement Plan 2019-2021 provided the necessary assurance that improvement is and will continue to be a priority for Lancashire. The Improvement Plan has therefore replaced the Written Statement of Action. Further monitoring will be undertaken in July 2019 prior to a possible re-inspection in the autumn.

Improving health and wellbeing

The Health and Wellbeing Board continued to receive regular progress reports and updates on the delivery and development of the Better Care Fund plan. Improved performance on the discharge of patients from hospital was also reported.

The NHS Long Term plans confirm the continuation of the Better Care Fund into 2019/2020 but with a national review of it underway. Alongside this review and the anticipated new framework, planning of a Lancashire wide review is underway that would reset the Better Care Fund in a context of an integrated care system. In developing further the Better Care Fund there are plans to hold a workshop on integration with a focus on transformation.
During 2018, Cabinet agreed *The Care, Support and Wellbeing of Adults in Lancashire Vision* and *The Housing with Care Strategy*.

The Care, Support and Wellbeing of Adults in the Lancashire Vision sets out how the County Council, together with its partners, will help people to live as independently and healthily as possible. The Vision recognises the need to keep pace with people's changing needs and expectations, whilst addressing the increasing demands upon public services at a time of significant financial pressure.

The Lancashire Vision also signals how services will be designed and delivered in the future, acknowledging that partners, the NHS in particular, have a key role to play in preventing and reducing long term physical and mental health conditions, and addressing the significant variations in health outcomes within the Lancashire population.

The Housing with Care Strategy outlines the County Council's intentions in relation to the development of housing with care and support for older adults and younger adults with disabilities. It will be used to engage with a wider audience as part of a collaborative approach to developing a range of high-quality housing with care and support schemes across Lancashire by 2025 for both older adults and younger adults with disabilities.

Our vision for Lancashire

The County Councils Corporate Strategy 'Our Vision for Lancashire' was approved by Full Council in February 2019. The strategy sets out the five key objectives and ambitions for Lancashire and is the cornerstone of our policy framework providing a 'golden thread' linking our key strategies and plans.

The strategy enables staff to understand how their roles and responsibilities contribute to our key objectives and ambitions, and it will enable teams to develop service plans and work programmes with a clear focus on delivering key priorities. The strategy also enables our key partners, stakeholders and businesses to be clear about our longer-term ambitions, which will enable them to understand how it aligns to their own plans and facilitate collaborative work to deliver high quality, best value services to meet the needs of Lancashire residents.

Along with the strategy document, Full Council agreed a set of high-level key metrics. These will be monitored on a regular basis by the Cabinet Committee on Performance Improvement. Scrutiny Committees will play a key role in year one in ensuring that the high-level metrics are the right ones, or if more need to be added, and that the targets set are appropriate.

In addition to the high-level key metrics relating to the vision, the Cabinet Committee on Performance Improvement will continue to regularly receive the more detailed, service specific key performance metrics which enable members to monitor ongoing service delivery and performance.

Both the strategy document and the accompanying high-level key performance metrics will be kept under regular review and will be updated to ensure they remain current and relevant in a fast-moving world. It is anticipated that the vision will have a lifespan of at least 5 years, with an annual review and refresh.

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Core systems and data

As part of the senior management restructure completed in January 2019, Core Systems and Business Intelligence were brought together under the direction of the Director of Strategy and Performance. This allows them to be considered in their entirety to ensure synergies are optimised so that consistent and triangulated management information is delivered alongside measurably improved service performance.

Such a move is consistent with the highest performing councils and ensures the delivery of organisational performance sits with the directorate ultimately responsible for the setting of the organisation's strategic direction.

The quality of data in the Council's Core Systems has continued to improve during 2018/19. Children's Services continue to hold a Data Quality and Performance meeting on a monthly basis. Led by a Head of Service, this group has made significant progress in data quality over the last year.

In Adults Social Care improvements in the quality of data within the systems continue. The development of performance trackers have enabled the team to focus on using these as exception reports. This in turn has helped managers and staff Improve data accuracy.

An improvement plan for our Highways and Asset Management System has been implemented and a Highways Improvement Board continues to operate. A comprehensive training and support plan for the service was also delivered. A follow up audit review has also been completed.

Core Systems working with Business intelligence and BTLS (our ICT providers) also completed a review of reporting across the authority. This will help shape our Business Intelligence and Reporting Strategy.

The development of an architectural vision for the digital strategy is underway, working closely with BTLS. This includes a landscape review of existing technologies.

The Internal Audit Service have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems.

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Intermediate care for older people in a residential setting

A review of the Lancashire intermediate care system was commissioned using money from the Better Care Fund and included consideration of the best practice model for each service area including the community beds. Consultants were appointed and undertook initial investigatory work before carrying out a wider review.

Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

Payment by results (PBR) claims continue to be made where significant and sustained progress is evidenced. The current positive position is anticipated to further improve as all available data and information systems are fully utilised to maximise PBR claim opportunities. It was recently agreed that we look to maximise our claims by accelerating progress with partners and getting them to share this responsibility. This is an identified action in the Children Services 'Getting to Good' plan. It is anticipated that the target of 8,620 PBR claims will be achieved by the time the 5-year programme ends in 2019/20.

Governance challenges for 2019/20 and actions to be taken

Reshaping the council

A lot of excellent work has taken place over the past 12 months. However, there is a risk that the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond.

Without the required workforce plans, capacity and skills in place, or the necessary drive to support and deliver a financially sustainable organisation, there is a risk that change opportunities will be missed that may result in us not meeting the needs of service users or delivering a balanced budget.

Therefore, building on the achievements of the Operational Plan, the County Council will pursue three priorities over the coming year:

1. **Through our People Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation**

   This will focus on:
   - Supporting the development of managers through continued leadership and management modules
   - Workforce sustainability including succession planning and recruitment and retention
   - Continuing use of the apprenticeship levy to increase the number of apprentices and support critical development needs
   - Continuing to respond to the issues raised in the staff survey
   - Managing absence effectively

2. **Further embed a focus on service delivery**

   Building on the success of the service challenge work carried out during 2018, a phase 2 service challenge process is being implemented to help reduce the £47m financial gap that is still anticipated by 2022/23. To take this forward a new board has been established to oversee the process. Three cross cutting strands have been identified to develop new savings proposals. These are:

- Organisational
- Finance and commercial
- Health and care

In addition to the cross-cutting themes, some services from phase 1 will be subject to further challenge based on updated benchmarking data.

3. Develop a sustainable financial strategy

The council has faced an unprecedented period of financial challenge since 2010. Whilst good progress has been made to date in addressing the forecast financial shortfall over the Medium Term Financial Strategy period, further work is required to ensure the council can achieve a financially sustainable position.

In reports throughout the financial year to Cabinet, it is clear that the council is committed to the delivery of a significant savings programme with £77m of new savings agreed by Full Council during 2018/19.

There are inherent risks with savings plans of this scale and scope and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the council's risk and opportunity register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Should any of these savings proposals ultimately not be achieved they will need to be replaced with alternative savings to avoid increasing the size of the funding gap. £7.5m of the savings proposals are subject to the outcome of specific consultations.

The Medium Term Financial Strategy (MTFS) includes government funding as announced in the settlement on 29 January 2019, with no change to the additional funding announced as part of the provisional settlement in December 2018.

As part of the local government finance settlement the Chancellor of the Exchequer announced several new 75% business rates pilot schemes, with Lancashire being successful in its bid. This means that in order to secure the additional growth from business rates authorities agree to forgo their revenue support grant. The bid contained the County Council, along with 11 district councils, Lancashire Fire and Rescue Authority and the two unitary authorities of Blackburn with Darwen and Blackpool which could see potentially a one-off extra c£10m retained across Lancashire based on current growth estimates.

It is currently anticipated that a new system of local government finance, the "fair funding formula", will be in place in 2020/21 which involves local government retaining 75% of the business rates and a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known at this time.

Getting to Good – children's social care

Our services for children's social care have improved significantly. The service knows itself well and appropriate action has taken place to improve services and multi-agency strategic partnerships are stronger leading to a more shared approach. However, there is still more to do to ensure that all children receive a consistently good service and, as previously mentioned, Cabinet have agreed a 'Getting to Good' plan.

The plan provides a framework for the next phase of our improvement journey, in line with our ambition that we deliver consistently good services to children and families in Lancashire.

The plan sets out the actions that will be undertaken, the expected outcomes and improvement measures. It also provides details of lead officers, targets and due dates. More detailed action plans, led by specific Delivery Boards, will drive specific service improvement. Sitting alongside this document is our Purposeful Practice Framework and our Corporate Parenting Strategy. It is also part of several strategies and plans that fit together to deliver improvement for children. The plan will be overseen by the Lancashire Getting to Good Board which will meet six weekly to review progress, maintaining focus and pace.

However, this plan is set in the context of increasing demand for services and an increasingly challenging financial backdrop. Therefore, we need to improve the way we manage demand for services and ensure that our improvement is sustainable. The plan therefore also includes actions to support us in delivering the best and most efficient services.

Work continues at pace in preparation for inspection, with a Peer Challenge on the services approach to Permanence the long-term plan for a child's upbringing (LGA) scheduled for June 2019.

Response to special educational needs and disability (SEND) inspection

Work will continue to implement the Special Educational Needs and Disabilities Improvement Plan. This plan was considered by the Special Educational Needs and Disabilities Partnership Board at their meeting in January 2019. Following a period of consultation, the revised plan was approved by the same Board at their meeting on 1 April 2019.

To ensure continued momentum, initial work has included:

- Implementing an Audit Programme, to improve the quality of Education Health and Care plans, including training auditors and completing a pilot to test the approach
- Undertaking Special Educational Needs and Disabilities reviews in schools
- Increasing the involvement and profile of the Parent Carer Forum
- Implementing Local Area Partnerships, to improve communication and access for parents
- Holding area based informal sessions for parents to meet professionals
- Implementing an electronic case management system
- Publishing the draft Joint Strategic Needs Assessment
- Agreeing a Speech and Language Service specification and rolling this out across Lancashire

The SEND Improvement plan was also shared with the Health and Wellbeing Board at their meeting in May 2019. Ahead of the Ofsted re-inspection of SEND in 2019, a review meeting in preparation will take place with DfE/NHSE advisors in July 2019.

Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

The County Council currently receives funding towards working with troubled families. However, post 2019/20 there is no information available as to whether this funding will continue. It is assumed that funding will remain at 2019/20 levels. However, if the funding does cease this will result in a pressure on the County Council's budget.

Managing major projects

As stated earlier, there are now control measures in place for projects that reflect the Major Projects Review. Key projects for the coming year will be included in the following programmes:

- Preston, South Ribble and Lancashire City Deal (e.g. Cuerden site)
- Growth Deal (e.g. Advanced Manufacturing Research Centre/ Preston West Distributor)
- Enterprise Zones (e.g. Samlesbury)

Each project will be developed in line with the processes established in the Major Projects Review and the Capital Board will continue to monitor progress.

Intermediate care for older people in a residential setting

The review of the Lancashire intermediate care system was completed in April 2019. The recommendations from the review will be taken forward and monitored through a Quality Assurance Panel (chaired by the Director of Adult Services) and the Health and Wellbeing Board.

Future provision of ICT services

An independent review was commissioned from The Society of IT Management to look at the options available for consideration regarding the current BTLS contract, which ends on 31 March 2021.

In January 2019, Cabinet considered a report from this work that provided an evaluation of the principal options available to the County Council which need to be considered in advance of the contract end date to allow sufficient time for effective implementation. A further progress report will be presented to Cabinet in due course.

Core systems and data

Whilst significant progress has been made in improving the accuracy of performance data, we need to improve the use of data so that it is an effective tool to help manager's measure progress and examine trends.

For Adults' Services, the new posts of Practice Improvement Officers will be in place during quarter 1 of 2019/20. They will work very closely with the quality and continuous improvement managers within Adult Social Care. A programme of work is being developed, specifically in relation to the delivery of service challenge, which must be underpinned by accurate data. Adult Services will be using their established performance management groups to monitor performance and data quality within each service area.

For Children's Services there is a clear work programme of continuous improvement managed through the data quality and performance group. The 'Getting to Good' Board has a comprehensive performance dashboard with very clear ownership across the service. Individual managers understand their roles and responsibilities regarding performance and data quality and liaise closely with business intelligence. Going forward there will be a move towards proactive trend analysis with a focus on insight and impact.

The Corporate Strategy was agreed at Full Council in February 2019 and a workshop is being held in June 2019 with Chairs and Deputy Chairs of Scrutiny Committees to establish a suite of metrics to be reported quarterly to the Cabinet Committee on Performance Improvement. Once established these metrics will be subject to audit and the data quality reviewed accordingly.

A project to replace the 'Passport to Independence' trackers will identify potential suppliers of data analytics and will establish the resources and costs of implementation. If approved, the implementation of the solution will pave the way to better analytic capability for the council. Data quality issues are likely to be identified for the data sources and a programme of work will be needed to improve data quality. This will be managed through the Accuracy Steering Group.

A Digital Strategy is being drafted that includes a work stream relating to data and developing information architecture across the core systems.

Recruitment and retention

As an organisation we are experiencing skills shortages in key professional and technical areas such as social care and design and construction. This is a risk in our corporate risk and opportunity register. As outlined in our draft People Strategy we have already taken some steps to address this issue. We have set up a recruitment website – 'Make a difference in Lancashire' and we have held specific recruitment events. We will also continue to use the apprenticeship levy to increase the number of apprentices in the workforce and use it to support critical development needs in the County Council.

Monitoring implementation

The key governance challenges facing the Council in 2019/20 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

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

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

Conclusion

Overall, the County Council has the appropriate systems and processes in place to ensure good governance is maintained. Whist these work generally well, the council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the County Council will continue to be monitored by the Audit, Risk 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 2019 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 176,476 members across 300 organisations with active members and a range of other organisations with only deferred or pensioner members.

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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

https://www.yourpensionservice.org.uk/media/1204/governance-policy-statement-updated-january-2018.pdf

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 2019.

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 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 proposes 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 four dimensions of the running of a pension fund. Many of these functions are now performed under contract by Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance against Investment Strategy are taken 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 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 through pooling with LPP.

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 or reduced.

Fulfilling the core functions of an Audit Committee.

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

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

The various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds, are key from an operational point of view.

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 Limited 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 function.

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.

Assurance provided by internal audit

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by Local Pensions Partnership Ltd's own internal audit service.

A short programme of work has been completed in respect of the county council's responsibilities, resulting in substantial assurance that the controls are adequately designed and effectively operated. The longer programme of work addressing LPP's activities has included seven audit engagements, the outcomes of which have been mixed. In particular the internal auditor has provided assurance that controls over benefits administration, cyber security, and investments' legal & regulatory compliance, are ineffective.

Whistle blowing and receiving and investigating complaints from the public

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 Audit, Risk and Governance Committee.

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.
- 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 Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2018/19 were:

- 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.

Actions Planned for 2019/20

The following specific actions are proposed for during 2019/20.

- The triennial valuation of the Fund
- To monitor the administration service as changes continue to be made within LPP.
- To review the cost of LPP and estimated savings made.
- To revise the Funding Strategy Statement as necessary

Conclusion

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the fund. The Committee have noted the issues raised by the Head of Internal Audit in relation to the Local Pension Partnerships internal audit and will continue to ensure that they are held to account for any areas of concern and that the Head of Internal Audit performs extra work in these areas to provide further assurance.

Signed

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___________________________	___________________________
County Councillor Eddie Pope Chair of the Pension Fund Committee	Abigail Leech Head of Fund Lancashire County Pension Fund

Date: ___________________________

Independent auditor's report

This version of the statement of accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

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Lancashire County Pension Fund - independent auditor's report

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Glossary of terms and contact information

Gawthorpe Hall

A

Accounting policies

The rules and practices applied by the council that determine how the transactions and other events are reflected in the financial statements.

Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred or because the actuarial assumptions have been changed.

Associate

An associate is an entity over which an investor has significant influence.

C

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads and computer equipment.

Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the comprehensive income and expenditure statement and transferred into capital grants unapplied via the movement in reserves statement.

Capital receipts

Income received from the sale of land, buildings or equipment.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a ‘true and fair’ view of the financial position, financial performance and cash flows of the council.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the council’s control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the council; or
- A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Creditors

Amounts owed by the council for goods and services received but not paid for as at 31 March.

D

Debtors

Amounts owed to the council for goods and services provided but where the income had not been received by 31 March.

Depreciation

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

E

Earmarked reserves

The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

F

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

I

Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

Intangible assets

Assets which do not have a physical substance for example computer software licences.

International financial reporting standards (IFRS)

Defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

J

Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

M

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Minimum revenue provision

The minimum amount that the council must charge to the accounts to provide for the repayment of borrowing associated with capital expenditure.

N

Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

O

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the council.

Operational assets

Assets used by the council in the delivery of services for which it has responsibility.

P

Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of errors.

Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

R

Related party

Related parties are bodies or individuals that have the potential to control or influence the council or be controlled or influenced by the council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Members, and senior officers and their close family members.

Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the council. Examples include works on property owned by other parties and capital grants to other organisations.

S

Subsidiary

A subsidiary is a company that is controlled by a holding or parent company.

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 and businesses in the county understand all of the services that we provide and how council tax and business rates are spent during the year. If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

Corporate Finance
Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected:
None;

Treasury Management Activity Outturn 2018-19
Appendix A refers

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

Executive Summary

The report set out at Appendix A is a review of the council's treasury management activities occurring in 2018/19.

Recommendation

The committee is asked to note the review of treasury management activities for 2018/19.

Background and Advice

As part of the council's governance arrangements for treasury management, the Audit, Risk and Governance 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 meetings are used as a basis for this report to the committee.

The review at Appendix A covers the economic conditions during 2018/19, the borrowing activity, the investment activity and the actuals measured against 2018/19 Prudential and Treasury Management indicators.

The review confirms that the treasury management activity undertaken during the financial year complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and other relevant regulations.

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:

Lancashire County Council

Risk management

The council's treasury management strategy sets out a policy in respect of managing the risks associated with the council's borrowing and investment activity. The review at Appendix A describes how the council performed in relation to this strategy in 2018/19.

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

Paper	Date	Contact/Tel
Treasury Management Strategy	February 2018	Paul Dobson 01772 534725
CIPFA Treasury Management Code of Practice	2017	Paul Dobson 01772 534725

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management Activity 2018/19

Introduction

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management ("the Code"), which requires authorities to produce Prudential Indicators and a Treasury Management Strategy Statement on the financing and investment activity annually. The Code also recommends that members agree a treasury management report after the end of each financial year.

Investment and borrowing decisions are taken in light of long term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. This is in the context of the current and forecast economic condition. Consideration is also given to risks and compliance with Prudential Indicators. Therefore this report provides commentary on these factors for 2018/19:

- Economic environment
- Borrowing activity
- Investment activity
- Performance against the Prudential Indicators

Economic environment 2018/19

The UK economy has continued to show growth although this is below recent growth trends.

The continued uncertainty regarding the outcome of the discussions for the UK to leave the European Union have been impacting the economy. However, UK growth has also been affected by global factors. There continues to be uncertainty with the USA introducing protectionist policies which could lead to potential trade wars with both China and the European Union. The European Union has shown signs of a rapid slowdown in economic growth

Despite the low economic growth, employment data has remained positive with unemployment remaining low throughout the year. Labour market data for the three months to January 2019 showed the unemployment rate fell to a new low, 3.9% while the employment rate of 76.1% was the highest on record. The year also saw wages increasing.

Inflation as measured by the Consumer Prices Index (CPI) was 3.0% in April 2018. It fell steadily to below the Bank of England's target of 2% in both January and February 2019, with the latest figures showing Consumer Prices Index at 1.9%.

The continued uncertainty over the economy meant that the Bank of England has continued with its policy of slow and gradual increases in interest rates. Therefore the only change in the base rate came in August when the base rate was increased from 0.50% to 0.75%. Treasury management activity was undertaken with the expectation that interest rates would remain at the historically low levels but that there may be small increases. The latest forecast from Arlingclose, the council's treasury advisers, is for interest rates to remain at 0.75% for the foreseeable future.

Treasury Holdings 2018/19

In summary the holdings at the beginning and end of the year were as follows:

	31/3/2018	**31/3/2019**
	£m	£m
Long term borrowing	454.350	478.650
Short term borrowing	495.571	556.196
Total borrowing	**949.921**	**1,034.846**
Long term investments	207.618	381.874
Short term investments	113.079	97.427
Total investments	**320.697**	**479.301**

Borrowing Activity 2018/19

The Code requires that the council, in the medium term, only borrows for capital purposes (with the underlying need to borrow for capital purposes being measured by the Capital Financing Requirement adjusted for premiums and debt relating to other authorities). Total borrowing in the year was managed within the operational and authorised borrowing limits as approved in the Treasury Management Strategy which reflects the underlying need to borrow for capital.

In previous years the council has pursued a policy of taking short term borrowing as short-term interest rates have been lower than long-term rates. This policy is reflected in the debt portfolio at the beginning of the year with there being a high level of short term borrowing. Consequently, the council had a significant requirement to replace existing short term borrow in year along with a requirement to fund new capital expenditure.

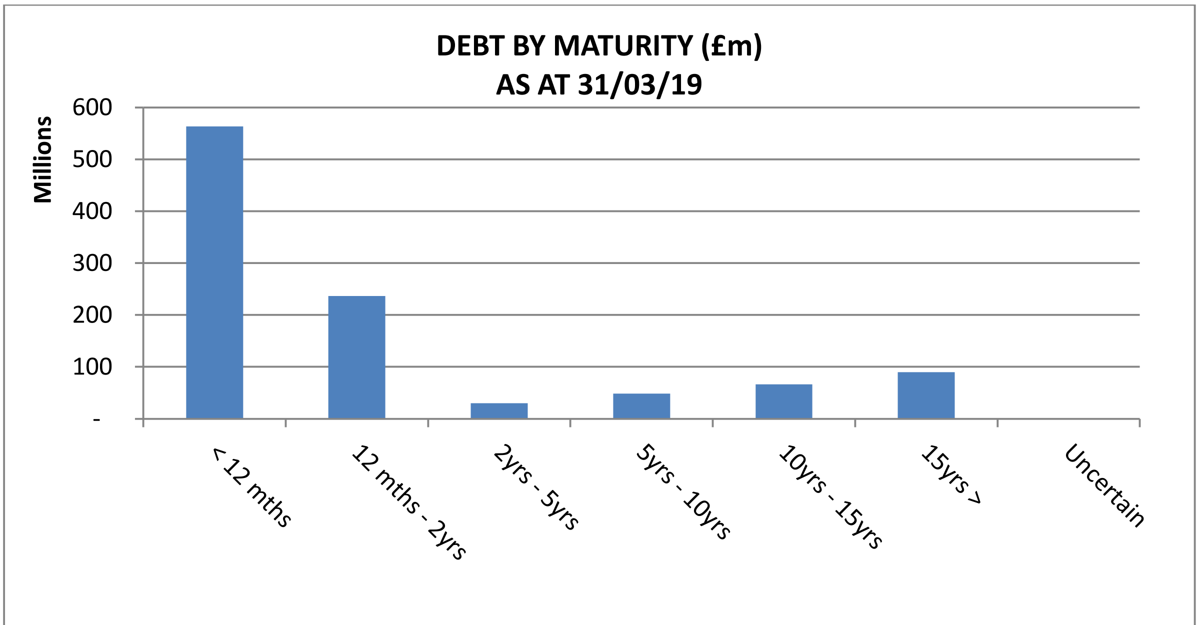
In general the policy of taking short term borrowing was continued during 2018/19. However, there is significant economic uncertainty and interest rates are at historically low levels. Therefore the benefits of short-term borrowing was monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates may rise. As Public Works Loan Board rates did fall during the year it was considered beneficial to take some longer term borrowing in the year to reduce the risk of potential future interest rate rises.

During the year the decision was also taken to repay the Lender Option Borrower Option Loan (LOBO). The table and graph below summarise the activity undertaken and the maturity profile of the debt at the year end.

Analysis of Borrowing Outstanding

	Debt 31/03/2018		Borrowing	Repayments	Debt 31/03/2019	
	£m	%	£m	£m	£m	%
Fixed Rate Funding						
Public Works Loan Board	213.100	22.4	30.000	-7.500	235.600	22.8
Market Borrowing	518.500	54.6	712.300	-628.000	602.800	58.3
Total Fixed Rate Funding	**731.600**		**742.300**	**-635.500**	**838.400**	
Variable Rate Funding						
Public Works Loan Board	125.750	13.2	0.000	0	125.750	12.1
LOBO *	50.000	5.3	0.000	-50.000	0.000	0.0
Shared Investment Scheme	42.571	4.5	577.776	-549.651	70.696	6.8
Total Variable Rate Funding	**218.321**		**577.776**	**-599.651**	**196.446**	
Total Loan Debt	**949.921**	**100**	**1,320.076**	**-1,235.151**	**1,034.846**	**100**

*Lender option borrower option



Overall the average rate of interest paid in 2018/19 on the debt administered by the council was 2.10% per annum compared with an average rate of 2.07% in 2017/18.

The council did not enter into any new other long term liability arrangements in the year. The outstanding Private Finance Initiative liability at 31 March 2019 was £151.5m.

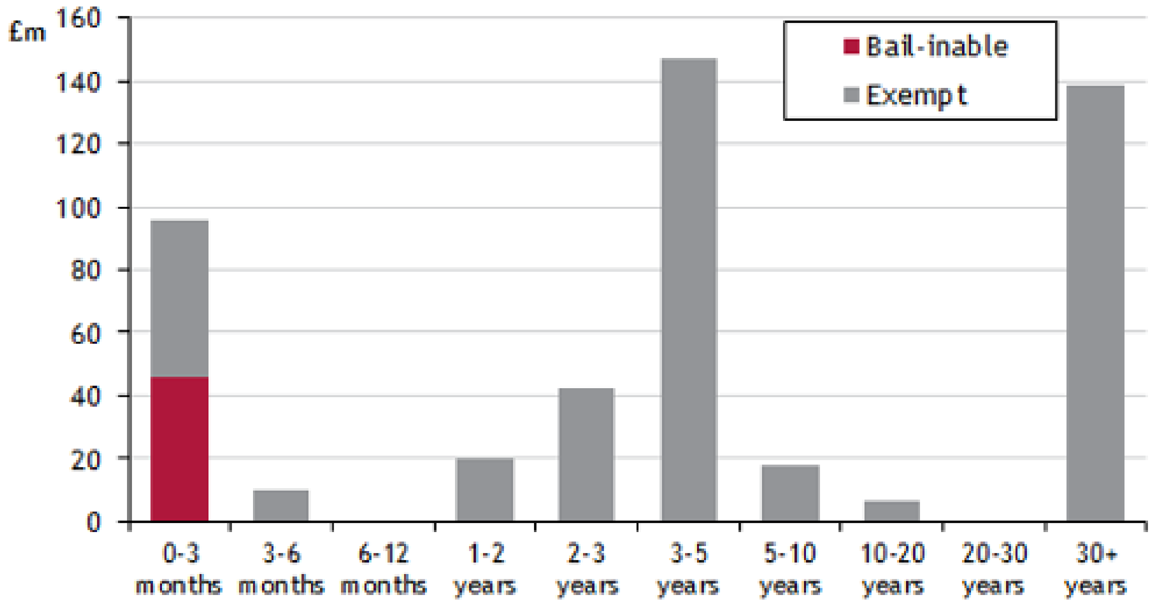
Investment Activity

The council invests its reserves and other cash balances. The total value of investments held (excluding fair value adjustment), at 31 March 2019 was £479.301m. This is £158.604m higher than at 31 March 2018. The table below shows the investment holdings and the movements during the year:

Maturity Range	Position at 31/3/2018 £m	2018/19 Movement £m	Position at 31/3/2019 £m
Call accounts and under 1 year	113.078	-15.651	97.427
Bank deposit 1-2 years	0.000	1.300	1.300
Bank and local authority deposits 2-3 years	1.300	-1.300	0.000
Bank deposit 5 years +	10.000	0.000	10.000
Local authority bonds	35.624	52.699	88.323
UK Government and supranational bonds	160.695	121.556	282.251

In undertaking investments consideration is given to the risk and liquidity within the portfolio which are affected by the maturity of the investment, asset type, country invested in and the credit rating. The position of the investment portfolio on these areas are reviewed as follows.

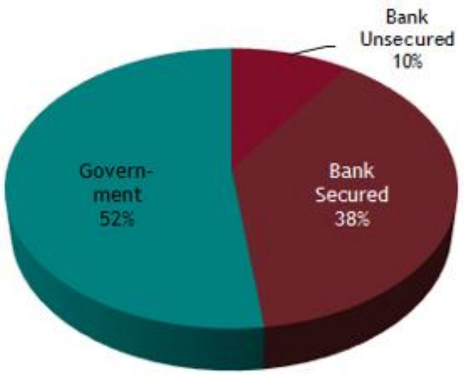
Investments by Maturity



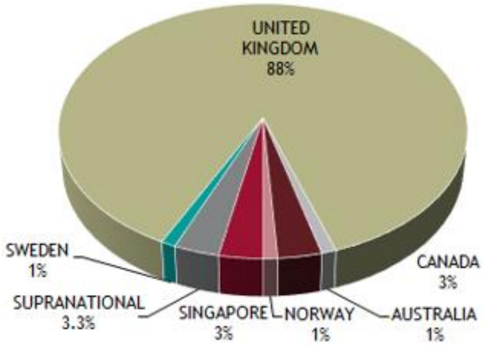
The graph shows the maturity dates of assets along with the exposure to bail-in in the event of a bank default (i.e. the risk that the investment may be lost or the principal repaid significantly reduced). As can be seen the exposure to bail in is relatively low and arises mainly in the short term with the use of call accounts. The very long term investments are principally investment in the UK government via Gilts.

Therefore the credit risk is low and the assets are saleable and do not have to be held to maturity thereby allowing the market risk to be managed.

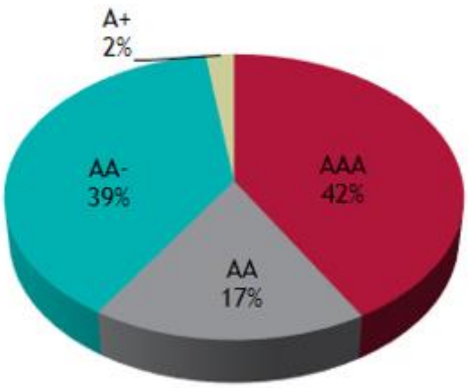
Total investments analysed by asset type



Total Investments analysed by Country



Total Investments analysed by credit rating



Security

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 2018/19. This defined “high credit quality” organisations as those having a minimum long-term credit rating of A+. In practice the average credit rating in 2018/19 was higher at AA.

Investments with banks were held in call accounts only. Any longer term deposits have been restricted to deposits with other local authorities.

Liquidity Management

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.

The council undertakes cash flow forecasting daily to determine the maximum period for which funds may prudently be committed.

Yield

The rates of return on the council's short-dated money market investments reflect prevailing market conditions and the council's objective of optimising returns commensurate with the principles of security and liquidity.

Overall the investment portfolios returned an average rate of 4.31% in 2018/19 which can be attributed to the categories as follows:

Maturity Range	Average Balance £m	Average Rate
Call and under 1 year	96.231	0.96%
Bank and local authority deposits 1-2 years	1.300	0.88%
Bank & local authority deposits 5 years +	10.000	2.95%
Local authority bonds	40.796	4.08%
UK government & other bonds	351.766	5.30%
Total	**500.093**	**4.31%**

Impact of the Treasury Management Strategy on the council's revenue budget

In 2018/19 there was a net underspend of £27.568m against the financing charges budget, as shown in the following table. This underspend has arisen principally for two reasons namely: the implementation of the approved changes to the Minimum Revenue Provision (MRP) policy and the gain on the sale of investments. A changed MRP policy was approved by Cabinet in July 2018 which meant that the council had effectively made overpayments in MRP in previous years. These overpayments were used to reduce the charge in 2018/19.

Income received in the year was £16.792m higher than budgeted. 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 £13.7m. There have also been net gains of £2.6m resulting from sales on corporate bonds and on the traded bond portfolio. It is difficult to predict the movement in the markets and to assess the potential for gains therefore no provision for surplus on sale of assets was included in the 2018/19 budget.

Financing Charges 2018/19

	Budget 2018/19 £m	Year End Position £m	Variance £m
Minimum Revenue Provision	23.432	12.453	-10.979
Interest Paid	23.604	23.807	0.203
Interest Received/surplus on sale	-7.997	-24.789	-16.792
Total	**39.039**	**11.471**	**-27.568**

Treasury Management and Prudential Indicators 2018/19

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 2019 compared to the 2018/19 indicators set in the Treasury Management Strategy is set out below. All activity in the year complied with the Prudential Indicators and Treasury Management Policy Statement for the year.

Prudential Indicators

Authorised limit for external debt The authorised limit is a prudent estimate of debt which reflects the council's capital expenditure plans and allows sufficient headroom for unusual cash movements.	**2018/19**	**Actual**
	£m	**£m**
Borrowing	1,150	1,035
Other long term liabilities (PFI schemes)	175	152
TOTAL	**1,325**	**1,187**

Operational boundary for external debt The operational boundary is a prudent estimate of debt but has no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the council's current plans.	**2018/19**	**Actual**
	£m	**£m**
Borrowing	1,100	1,035
Other long term liabilities (PFI schemes)	155	152
TOTAL	**1,255**	**1,187**

Capital Financing Requirement to Gross Debt	**2018/19**	**Actual**
	£m	**£m**
Capital Financing Requirement	907	918
Estimated gross debt	1,003	1,035
Debt to Capital Financing Requirements	111%	113%

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.

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 debtors and transferred debt. The adjusted gross debt is slightly above the Capital Financing Requirement which represents borrowing in advance for capital and is allowable within the Code.

Treasury Management Indicators

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**	**Actual**
	£m	**£m**
1 year impact of a 1% rise	30	4.8

Maturity structure of debt Limit on the maturity structure of debt helps control refinancing risk.	**Upper Limit %**	**Actual %**
Under 12 months	75	54
12 months and within 2 years	75	23
2 years and within 5 years	75	3
5 years and within 10 years	75	5
10 years and above	75	15

Minimum Average Credit Rating To control credit risk the council requires a very high credit rating from its treasury counterparties.	**Benchmark**	**Actual**
Average counterparty credit rating	A	AA

Agenda Item 12

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected: (All Divisions);

Corporate Risk & Opportunity Register - Quarter 2 2019/20
Appendix A refers

Contact for further information:
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Paul.bond@lancashire.gov.uk

Executive Summary

This report provides an updated (Quarter 2) Corporate 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 as set out at Appendix A.

Background and Advice

Following the corporate approach to reporting on risk and opportunity the quarter 2 Risk and Opportunity register was reported to Corporate Management Team following a review of the register. The register has now been updated to show progress against the risks and opportunities. Following this committee meeting the register will be presented to the next Cabinet Committee for Performance Improvement. An updated Corporate Risk and Opportunity Register is attached at Appendix A.

A summary of the key updates to the register are set out below.

Corporate risks (CR)

CR1 Reshaping the County Council

This risk replaces the previous risk on delivering the operational plan and focuses on having the right workforce plans, capacity and skills to ensure we are sufficiently innovative/radical to transform services at the required pace in order to achieve the scale of change needed to deliver a balanced budget.

This has been updated and includes updates and actions in relation to workforce planning, recruitment and building the Lancashire brand.

It also covers further embedding a focus on service delivery though a second phase of the service challenge process. This has been updated to include the work streams.

CR 2 - Protect and safeguard children

In June 2019 a Peer Challenge was undertaken with a focus on the Multi Agency Safeguarding Hub (MASH) and demand management. There has been a further 2.9% increase in the number of children on a Child Protection Plan since the last quarter.

CR 3 - Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care

There has been some positive improvement in performance which have included Children Looked After (CLA) visits within timescale and the number of reviews completed within timescale.

CR4 - Increase in demand, including rise in number of contacts and referrals and an increase in Children Looked After numbers

A bid has been submitted to the Department for Education to secure funding for Family Safeguarding. In June 2019 a Peer Challenge was undertaken with a focus on Multi Agency Safeguarding Hub (MASH) and demand management.

CR5 – Recruit and retain experienced staff across the organisation

This risk replaced the risk that focused on Children's Services and is now authority wide. It sets out what has and what is being done corporately to both retain and recruit staff.

CR6 - Managing our data well and producing effective management information

Work in this area is on-going. There is an update on the corporate reporting strategy and the outcome of the workshops. Scrutiny committee members have met to look at Key Performance Indicators in the context of the new corporate strategy.

CR7 - 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

For this risk there are updates on the support work around service challenge and highways.

CR8 - Delivering major projects/schemes on time and within budget

Update on project and programme management for the 2019/20 delivery programme.

CR9 - Delivering a statutory service for children and young people with special educational needs and/or disabilities

Continued positive progress in delivery of the Improvement Plan but with some slippage, clearly highlighted in the Plan, which is monitored through the Partnership Board. The narrative reflects the update presented to Children's Scrutiny Committee.

CR10 - Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

No change.

CR 11 Future provision of ICT services

A report will be presented to August Cabinet.

CR12 - Intermediate care for older people in a residential setting

The Carnall Farrer Review of Intermediate Care concluded with the final report at the end of May 2019. When the report was reviewed at the Better Care Fund Steering Group, it was identified that there was additional benefits to including information from neighbouring authorities.

Corporate Opportunities (CO)

CO1 - Delivering growth and prosperity for the whole of Lancashire

No change

CO2 - Apprenticeship Levy and Apprentice % in Public Sector

Includes an update on transactional spend.

CO3 – Fair Funding and Business Rate Retention

Update on the business rate retention pilot in Lancashire.

CO4 – Working collaboratively with key health partners

Update on the initial work being undertaken to develop a county council offer to the health economy.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Corporate Risk & Opportunity Register Q2 2019/20

Risk Identification Number (RIN)	Description	Risk Type	Possible Risk Consequences	Current Controls	Risk Score	Mitigating Actions	Residual Score	Risk Owner	Direction of Travel
CR1	**Reshaping the County Council**		• Inability to deliver a balanced budget post 2022/23	• Service Challenge Board has been established chaired by the Director of Strategy & Performance • Financial Monitoring Boards have been established that are each chaired by the relevant Executive Director • Programme Office is managing the overall programme of activity	20		16 Major/ Likely	Overall Risk Owner is Corporate Management Team (CMT) however there is a lead officer for each work stream	This risk is being monitored by the Service Challenge Board, Financial Monitoring Boards and CMT
	1. Through our People Strategy, ensuring adequate workforce plans, capacity and skills are in place across the organisation	Organisational	• That the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond • Change opportunities will be missed that may result in us not meeting the needs of service users or delivering a balanced budget. • 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	• Vision and Values communicated and plan to further embed • Implemented a new recruitment system and building a Lancashire brand. This has: ○ Improved speed of recruitment ○ Streamlined processes ○ Improved flexibility ○ Established a new career site ○ Introduced a new on-boarding function • Improved the health & wellbeing of our staff & improved attendance at work • Reviewed and updated performance Engagement • Increased employee engagement opportunities • New online DBS system		• Develop a new behavioural framework as the basis from which to drive organisational change • Commence development for new Lancashire Induction • Continue new suite of leadership and management modules to support development of LCC managers, linked to national occupational standards and apprenticeships • Heads of Service developing and implementing action plans in response to results of staff survey • Staff Survey 'pulse surveys' to evaluate progress against baseline • Cross organisational themes to be assessed and links to People Strategy • Development of 'Inspiration matters' short briefings will link to the newly communicated Values to support the embedding in the organisation. • Staff identified and enrolling on MSc and MBA via Apprenticeship Levy • Continue to embed a healthy workplace • Develop a workforce planning framework • Implement an enhanced induction offer linked with on-boarding • Payroll integration • Further develop social media presence			Draft People Strategy to be informed by outcome of staff survey

Appendix A

	2. Further embed a focus on service delivery	Organisational	• Unable to meet Terms and Conditions savings targets • Services become unsustainable and we cannot fulfil our statutory duties • Compounds ability to set balanced budget and unable to deliver a balanced budget post 2022/23 • Insufficient reserves	• New governance structure established. Phase 1 savings being monitoring by Service Challenge Board and Financial Monitoring Boards • Continue to work with staff to develop new options and revisit options • Continue to seek out, learn from and adapt services to follow best practice • Corporate Management Team have agreed to a second phase of the service challenge process • Treasury Management / Investment and Capital Strategy agreed at January Audit, Risk & Governance Committee		• Develop process for further challenge. This will include: ○ Further challenge for some phase 1 services based on updated benchmarking data Cross cutting themes. There will be a number of work streams under each crosscutting theme with a named lead ▪ Organisational ▪ Operational design ▪ Terms & conditions ▪ Commissioning ▪ Property ▪ Transport ▪ Finance & Commercial ▪ Schools ▪ Broader commercial activity ▪ Health & Care ▪ Front door • Business Rate pilot - progress with district council partners - governance arrangements and implementation. • Progress further work / analysis of a small number of proposals identified within service challenges but not sufficiently developed to make December Cabinet.			Service Challenge Phase 2 programme to be completed by Autumn 2019
CR2	Protect and safeguard children	People/Service delivery	• Children are put at risk of harm. • High profile safeguarding incidents can attract national media attention and trigger an early inspection by Ofsted and ultimately Department for Education (DfE) intervention	• The protection and safeguarding of children, and oversight, is at all levels from Chief Executive to front-line managers to ensure there is an accurate understanding of the quality of practice. • Clear governance and accountability arrangements are in place via the Getting to Good Board and the six boards which report to it: ○ Workforce Development Board ○ Purposeful Practice Board ○ Multi-Agency Safeguarding Hub (MASH) and Demand Management Board ○ Permanence and Children In Our Care Board ○ Data Quality and Performance Board ○ Children's Partnership Board • There are effective partnership arrangements at a strategic and operational level. • External reviews of front-line practice is provided by Ofsted, DfE, Local Government Association (LGA) and North West Association of Directors of Children's Services (ADCS) to provide external, independent evaluation of the quality of practice.	12	• In line with revised "Working Together" new multi-agency safeguarding arrangements are being established, to ensure there is a shared responsibility for safeguarding and promoting the welfare of children. • Getting to Good Plan is now completed following the Ofsted inspection to ensure continued improvement. • In June 2019 a Peer Challenge was undertaken with a focus on Multi Agency Safeguarding Hub (MASH) and demand management.	12 Major/ possible	Director of Children's Services	Safeguarding arrangements have been strengthened. Ofsted inspection (June 2018) - Inspectors broadly agreed with our self-assessment. There has been a further 2.9 % increase in the number of children on a Child Protection Plan since the last quarter (Q3 - 1329, Q4 – 1368, Q1 19/20 1407). The risk remains static, and work continues via the Getting to Good Board, and the six Boards which feed into it.

CR3	Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care.	People/service delivery	• Local authority is legally and financially liable, and may be subject to judicial review if found in breach of its statutory responsibilities. • Further DfE intervention if Ofsted judge Children's Services to be inadequate.	• The protection and safeguarding of children, and oversight, is at all levels from Chief Executive to front-line managers to ensure there is an accurate understanding of the quality of practice. • Clear governance and accountability arrangements are in place via the Getting to Good Board and the six boards which report to it: ○ Workforce Development Board ○ Purposeful Practice Board ○ MASH and Demand Management Board ○ Permanence and Children In Our Care Board ○ Data Quality and Performance Board ○ Children's Partnership Board • There are effective partnership arrangements at a strategic and operational level. • External reviews of front-line practice is provided by Ofsted, DfE, LGA and North West ADCS to provide external, independent evaluation of the quality of practice.	16	• The Getting to Good Plan has been produced to address the recommendations from the inspection and progress will be monitored via the Getting to Good Board. • Sufficiency strategy: both the Bungalow (complex needs unit) and Slyne Road (Adolescent Support Unit) are now registered with Ofsted. Building work at South Avenue (the crisis unit) is not yet complete. • Children's services will be re-inspected in 2019 under the Inspection of Local Authority Children's Services (ILACS) inspection framework. The focus will be on permanence. Preparation for this inspection has commenced and will include an external peer review by the Local Government Association in May/June 2019.	12 Major/ possible	Director of Children's Services	There has been some positive improvement in performance which have included Children Looked After (CLA) visits within timescale improved (Q4 87%, Q1 88%, CLA Reviews in timescales have improved - (Q3 90%, Q4 91%, Q1 94%). Some areas for further improvement Care Leavers in employment, education or training (EET) declined slightly - (Q4 92%, Q1 90%) and Care Leavers in suitable accommodation has also deteriorated - (Q4 49%, Q1 46%) The focus continues to be on a cultural shift from compliance with statutory requirements to improving the quality of practice. Further work is required to address variability in the quality of practice, to ensure that all children in need receive a consistently good service. The pace of change needs to accelerate as part of our continuing improvement journey from requires improvement to be good.

									The Getting to Good Plan sets out agreed priorities and timescales.
CR4	Increase in demand, including rise in number of contacts and referrals and an increase in Children Looked After (CLA) numbers	People	• Potential drift and delay - impact on timeliness of assessment, plans and interventions with children & families. • Financial implications.	• Clear governance and accountability arrangements are in place via the Getting to Good Board and the six boards which report to it. The MASH and Demand Management Board and Children in Our Care Board has the main function of monitoring Demand Management and CLA numbers.	16	• Permanence Action Plan has been developed to help reduce the Children Looked After (CLA) numbers. • Sufficiency Strategy includes targets to reduce CLA numbers through prevention of S20 accommodation and children exiting from care. • Successful life chances bid will support children on the edge of care. • Increased use of Family Group Conferencing as a demand management strategy. • Adolescent Support Unit and Outreach Service help to prevent the need for accommodation. • Amendment to pre proceedings protocol, and introduction of permanence protocol guidance and toolkit. • Bid for DfE funding for Family Safeguarding. • In June 2019 a Peer Challenge was undertaken with a focus on MASH and demand management.	16 Major/ Likely	Director of Children's Services	The number of referrals to Children's Social Care has reduced after a large increase the previous quarter. Q4 18/19 - 3198, Q1 19/20 2856, a 10.6% reduction The number of Children Looked After has reduced by 7 since the last quarter (Mar - 2128, June 2121). Average social worker caseloads have decreased in the last quarter, from 22.6 as at the end of Q4 18/19 to 19.8 as at the end of Q1 19/20. The risk is being managed via the Getting to Good Board, and the six Boards which feed into it.
CR5	Recruit and retain experienced staff across the organisation	People/service delivery	• Inability to deliver effective services • Shortage of skilled staff in specific service areas • High caseloads • Increased staff turnover Increased agency spend • Lack of succession planning • Low morale • Negative impact on productivity levels	• Workforce Group established in Children's Social Care to ensure strong focus on recruitment and retention and workforce development. • Social Work Academy established providing robust induction and continuous professional development for social workers, including newly qualified staff. • In Children's Social Care Advanced Practitioner posts established to support social workers to aid staff retention. • Leadership Academy in Children's Social Care now in place with particular focus on up-skilling first line managers to strengthen leadership of practice. • Implemented a new recruitment system and building a Lancashire brand. This has:	16	• A strategic approach is planned to further develop council-wide succession planning requirements, to include the recruitment to 'Hard to fill' posts and reduce the reliance on costly agency staff. This will include career pathways. • Proposals will be presented to Corporate Management Team on reshaping the apprenticeship programme to maximise the apprenticeship levy and support the delivery of the People's Strategy • Continue to improve staff engagement through regular pulse surveys • Introduce leadership and management module courses • Corporate induction programme to be reviewed • Develop a more focused graduate offer • Improve the health and wellbeing of staff through initiatives such as the 'time to change' programme	12 Major/ possible	Director of Corporate Services	Level

				○ Improved speed of recruitment ○ Streamlined processes ○ Improved flexibility ○ Established a new career site ○ Introduced a new on-boarding function					
CR6	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/Care Quality Commission (CQC)/LGA and other external organisations will be using inaccurate information to judge performance.	• 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. • Performance and Data Quality Group (Children's Services) is a well-established group facilitated by the Practice Improvement Officer. Heat maps have been designed to monitor Annex A data quality. • Clear governance structure in place to ensure a continued focus on data quality/accuracy: ○ Data Quality and Performance Group. ○ Practice Improvement Meetings (PIMs) looking at performance and data quality. ○ Children's Portfolio Review Boards have oversight of development of systems ○ Governance Boards established for Early help Module, Education Health Care (EHC) Plans module and the Education Management System. • A Corporate Reporting Strategy has been developed by Business Intelligence in conjunction with Core Systems and BTLS. This is also featuring as part of the developing Digital Strategy & links to the developing data strategy which is part of the Digital First strategy.	16	• 'Project Accuracy' for Adults Services focussing on procedures and data quality is progressing. A 'Proof of Concept' project is underway which will quantify the cost and resource needed in order to develop the trackers from core systems. This solution will form part of the toolkit for use across the council. • Draft Digital Strategy – the developing strategy has a work stream relating to data and developing an information architecture across the core systems. • A strategy for Business Intelligence and reporting is being developed and has been presented to Corporate Management Team. Proof of concept is now being developed. • Scrutiny Committee work shop has taken place that considered a range of performance measures that will inform the development of a Performance Management Framework • All requests to the Business Intelligence team for new reports are made using Redmine and are closely monitored. Requests will be challenged/prioritised and potentially refused in order to provide capacity in the Business Intelligence team to test the core systems at peak periods. • A work start has been appointed until 31st December 2019 to support the administration of the consultations and recruitment to the Business Intelligence Analyst post for research and consultation will reduce the impact of the experienced member of staff leaving. • CMT and Executive Directors have been alerted that additional resource will be needed to analyse consultation responses with a clear time table for the work. • Workshops have taken place with the Business Intelligence Service, BTLS and Core Business Systems to identify and understand how accurate data will assist. The outcome of these workshops will form the basis of requirements for how the council manages reporting in the future. This will be an integral part of the Digital Strategy.	12 Major/ possible	CMT	Children's - Regular meetings with Deputy Director Children's Services and Executive Director Escalation via Improvement and Accountability Board.

			• Service planning and management will be severely compromised. • Potential for incorrect payment of providers, staff etc						
CR7	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	• Failure to deliver transformational change. Failure to deliver efficiencies and cost reductions. • Failure to produce the information needed to support management decision making. • Lack of management buy-in from service areas to drive forward change. • Failure to ensure that services work to new practices in a consistent way so as to maximise the benefit from investment in new technology. • Ineffective reporting arrangements. Statutory returns will be compromised, so incorrect performance will be reported nationally. • Ineffective working practices and targeting of resources to work priorities. • May impact on response times. • OFSTED/CQC/LGA and other external organisations will be using inaccurate information to judge performance.	• Roadmaps have been developed for all key major systems. Governance arrangements in place with full impact assessment carried out for all system changes. • Central co-ordination, control and monitoring in place which assists in performance management of BTLS. Corporate wide approach implemented for all system changes involving services, Learning and Development, Business Intelligence etc. on wider impacts and how system changes are managed into the business. ▪ Service challenge prioritisation has now taken place alongside existing work plans. Services have given their priorities. ▪ Sign off arrangements for roadmaps, including prioritisation of work, are in place. Boards have been established for major system implementations. ▪ Corporate performance information being developed as part of systems implementations though long term reporting tool needs developing and implementing. Joint strategic needs assessment (JSNA) and other needs assessments. Discussed with various management teams on an ongoing basis. Weekly provision of information to operational managers for LCS. ▪ New operating process and procedures developed and implemented to overcome recurring issues/problems - continuous improvement cycle implemented.	16	• Continued monitoring of data within Lancashire Children's Service. • Internal Audit have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems. • New system roadmaps developed to provide more control over system changes. Core Systems are continually reviewing request against council priorities and strategies. • Working closely with services, Programme Office and BTLS to firm up the detailed requirements of the service challenges and the resourcing of this additional work. Issues and implications logged at Finance Monitoring Boards (FMBs) and overarching approach has been escalated to CMT for consideration • Monthly meetings with Highways Service continue, with focus on discussing and managing operational issues, with a continuous tracking of issues and timescales for rectifying these. • After comprehensive work with the service and a review by audit, a programme of work has been identified and underway. A Highways Improvement Board has been established which includes a comprehensive training and support plan for the service which has now begun.	12 Major/ possible	Director of Programmes & Project Management	Risk being managed downwards

			• Service planning and management will be severely compromised. • The activity and changes required to enable delivery of the service challenges presents a risk to delivery of both the necessary changes but importantly the savings.						

CR8	Delivering major projects/schemes on time and within budget	Development & regeneration	• Scheme viability in doubt due to speculative estimating and project management
			• Pressure on capital programme
				• Capital Programme reports to Cabinet
				• Improved approach adopted regarding the deliverability of current and future schemes. These include:
				  ○ Reporting of cost ranges for new schemes
				  ○ Routine updating of cost estimates
				  ○ Inclusion of contingency at industry standards and benchmarks
				• Governance of the capital programme has been strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets sits.
				• Restructuring to ensure the service has the resources with the right skill sets
				• Update reports to Audit, Risk & Governance Committee
					16	• Active project and programme management including:
						  ○ Detailed monitoring of the delivery programme through 2019/20 to ensure slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track.
						  ○ Performance reports developed to enable the Capital Board to undertake this monitoring and challenge.
							12 Major/ possible	Exec Director Growth, Transport and communit y services	Level

CR9	Delivering a statutory service for children and young people with special educational needs and/or disabilities.	People/ Organisational	• Not providing adequate service which places the local authority at risk of appeals to Special Educational Needs and Disability Tribunals (SENDIST), increased reputational risk via complaints corporately and to Local Government Ombudsman (LGO).
			• 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 Written Statement of Action (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
					25	Delivery of the SEND Improvement Plan with activity focussed around the following themes:
						Meeting Need
						• Workforce development
						• Multi-agency workforce development
						• Quality of planning, procedures and process
						Equal Partners
						• Data and information
						• Communications and engagement
						Accessible services
						• Service improvement and commissioning
						• Service transition
						Achieving Success
						• Improving outcomes and support
						• Preparing for adulthood
							12 Major/ possible	Director of Education & Skills	Continued positive progress in delivery of the Improvement Plan but with some slippage, clearly highlighted in the Plan, which is monitored through the Partnership Board.
									Providing clear evidence of improved outcomes is challenging but the Improvement Plan agreed in April 2019 sets out key performance

			• Unmet need will result in children and young people failing to meet their potential and therefore not be supported as positively as possible into adulthood. • The failure to recruit and retain staff.	○ The absence of effective diagnostic pathways for Autistic Spectrum Disorder (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 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 ○ The lack of accessibility and quality of information on the local offer Progress on implementation has been monitored by Department for education and NHS England through formal review visits. Significant achievements to date include: • Partnership Governance established • Partnership Vision and Priorities agreed • Improvements to joint commissioning arrangements • Pan Lancashire Neurodevelopmental Assessment and Diagnostic Pathway agreed • Improved engagement with parents and carers • Designated Clinical Officers in place across the local area to support parent carers and professionals to access the health care system • EHC plan process reviewed and Quality Framework agreed • Programme of action agreed with schools • Training for Governors		Continued Strategic reporting and monitoring of improvement plan at Cabinet and CMT level Active leadership of Health and Wellbeing Partnerships Challenge through Children's Services Scrutiny Committee			indicators for each theme. An informal Department for Education monitoring visit was conducted in June 2019 and a formal Department for Education monitoring visit is planned for August 19 2019 Need to retain focus in readiness for revisit expected from September 2019 onwards

CR10	Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)	People/ Organisational	• Failure to achieve Payment by Results targets due to specific requirements of the programme. • Possible reputational risk as a result of missing a national target. • 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 if progress not made with the Troubled Families Unit (TFU) Maturity Model and service transformation with partners. • Risk of additional scrutiny of programme	• No governance procedures in place with responsibility for (TFU) oversight. Robust tracking processes in place with view to maximising payment by result claim opportunities. • Ongoing data matching to identify new eligible families • Ongoing data matching to identify new eligible families • Robust tracking processes in place with view to maximising payment by result claim opportunities. However, no governance procedures in place with responsibility for oversight. • Ongoing data matching to identify new eligible families • The target in the med term fin strategy 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. As at 29 March 2019 payment by results claims had been made for 4,035 families (47% of the target for the life of the programme) where significant and sustained progress was evidenced. • 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. • The service has a reduced capacity to meet the TFU targets since the implementation of a £1.25m budget reduction to the Children and Family Wellbeing Service (CFW) service. This has reduced caseload capacity from 10k families a year to 7k families a year. The TFU target is to 'turn around' 8620 families.	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 Common Assessment Framework (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 Major/ Likely	Director of Public Health	Level
CR11	Future provision of ICT services	Organisational	• The BTLS contract has an expiry date of 31 March 2021 and covers ICT and transactional payroll services. Failure to put in place suitable arrangements will impact on organisational effectiveness and service delivery	• The Society of IT Management have undertaken an independent review of our options that considered current BTLS service performance, how it benchmarks with other local authority services, particularly with regard to cost, and to consider the best options available to the council with regard to future service requirements	16	• The Society of IT Management are providing expert consultancy services to the county council for the contract renegotiation process with the outcome to be reported back for approval at the Cabinet meeting in August.	12	Director of financial services	Risk is reducing

			• May impact on the service challenge savings options that need ICT solutions • If any potential renegotiations are unsuccessful need to consider how the services will be transferred successfully back to the authority.						
CR12	Intermediate care for older people in a residential setting	People/ Organisational	• Operational issues leading to service failures • Unavailability of community beds for older people on a short term basis • Prolonged period of rehabilitation and recuperation before the person goes home • Delayed transfer from hospital • Reputational challenge for the Council if care homes operated by the council are judged by CQC as 'Requires Improvement'	• A review of the Lancashire intermediate care system was commissioned using money from the Better Care Fund, and included consideration of the best practice model for each service area including the community beds. Consultants have now been appointed and are undertaking initial investigatory work. • Working with NHS colleagues to agree joint action plans • Discussion with CQC on lessons learnt and action plans • County Council care homes will formally be part of Radar and Quality Improvement Planning (QIP) safeguarding systems • A quarterly Quality Assurance Panel will be set up with Director of Adult Services and Head of Service presenting a progress report against the action plans the Executive Director, Head of Safeguarding and an external NHS representative.	16 (Major /Likely)	• The Carnall Farrer Review of Intermediate Care concluded with the final report at the end of May 2019. When the report was reviewed at the Better Care Fund Steering Group, it was identified that there was additional benefits to including information from neighbouring authorities • The Better Care Fund steering group agreed to ask Carnall Farrar to extend the scope of the review to include this additional information into the report documentations. • Reports or presentations to partnership meetings with the NHS including the Health and Wellbeing Board (HWB) are being scheduled accordingly, and it will come to LCC CMT for consideration. • Earlier drafts of this work suggest opportunities for significant improvement and cost savings across the NHS – local government system. • The findings of this report will not by themselves provide definitive answers as to whether LCC should continue to be a provider of some these services, but it will provide important context for more in-depth local discussions with NHS partners to determine answers to those questions.	12 Major/ Possible	Executive Director for Adult Services and Health & Wellbeing	The revised timeline we are working to is: • w/c 8 July – update modelling for all areas • w/c 15 July – update Integrated Care Partnership - level reports • 22nd and 23 July – update the Lancashire-wide report

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 growth and prosperity for the whole of Lancashire	Development & regeneration	• 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 and is delivering through partners 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. The national policy framework is being shaped by a new Industrial Strategy with priorities and funding streams in development.	12	• Work with the LEP and local authority partners to ensure national resources to support growth and regeneration are secured. • Maximise the support from key local and national public and private sector stakeholders outside 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. • Economic Development's main European Regional Development Fund (EDRF) 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.	16 Major/ likely	CMT	The LEP Review will present some significant challenges for local partners as the LEP is required to establish it's own legal entity and further distance itself from any local authority support. We are now looking to move forward with the production of a Local Industrial Strategy to maximise new funding opportunity. New national housing and transport infrastructure funds will be targeted in support of local strategic priorities. Whilst the opportunity to secure EU funds (underwritten by central government) looks more positive in the medium term, we are also preparing in the event that EU Structural funds are replaced with competitive rounds of regional productivity funding. More may be signalled on this as the government's Industrial Strategy is confirmed.
	To fully and effectively utilise the remaining European Structural Funds available to Lancashire and to position the County to benefit from future regional funding regimes.		It is looking increasingly likely that the current European Structural and Investment Fund (ESIF) programme will run through to its planned conclusion at the end of 2020. Some early policy announcements have been made around a replacement UK Shared Prosperity Fund but it is unclear how this will compare to EU funding in terms of scale, focus and priorities.	• 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 Ministry of Housing, Communities and Local Government (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.					

	Establishment of robust pan-Lancashire collaboration arrangements.		Uncertainty over potential securing of a Devolution Deal or allocation of national resources and freedoms/flexibilities to the Lancashire level.	• Local authorities across Lancashire are reviewing their collective approach to establishing effective joint working. Agreement on the way forward will enable swifter progress to be made on identified priorities.		• Local authorities across Lancashire are reviewing their collective approach to establishing effective joint working. Agreement on the way forward will enable swifter progress to be made on identified priorities.			The County Councils' political and officer leadership will play a full and active role in shaping & accelerating arrangements in Lancashire.
CO2	Apprenticeship Levy and Apprentice % in Public Sector	People/ 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 was 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. The consultations are moving into committed expenditure for apprenticeships. A clearer picture is needed of how this links to the overall skills gaps and the R&R needs of services for their future workforce planning. The first year published report on the % in LCC against headcount, shows 0.66%	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. • Learning and Development (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 • Close working relationship with the Local Government Association (LGA) and we are focussing currently on Higher degree apprenticeships. LGA will be supporting LCC in developing a strategy and future spending plan. • Recent work with Finance looking at transactional spend in Services on training has not identified anything which could have been Levy based.	15 Outstan ding/ possible	Dir of Corporate Services	We now have more Standards available to us, which we have been waiting for and we have developed a draft strategy with the LGA support which we intend to share with Director, HR, Finance , CMT
CO3	Fair Funding and Business rate Retention	Organisational /Financial	Potential increase in funding to help balance the budget post 22/23 However, several grants could end in 2020. Business rate baseline applied from 2020 and councils encouraged to try to increase their rate revenues instead of being dependent on Government grants. However the impact may depend on technical decisions within rate retention e.g. how to divide revenue between counties and districts (tier splits)	• Implemented business rate pilot with Lancashire district and unitary councils • Proportion of business rate retention is 75% • Responded to consultations on Fair Funding Review	12	• Fair Funding Review continue to lobby through the LGA and respond to further consultations up until summer 2019 • Work with Lancashire councils to embed the business rate retention pilot • Given the uncertainties regarding Brexit the Government may roll forward the local government settlement so this would possibly delay the pilot	12 Major/ possible	Dir of Finance	March 2020

CO4	Working collaboratively with key health partners	Organisational /financial	Opportunity to work more closely with Health partners to align plans, strategies and budgets as part of the Integrated Care System for Lancashire and South Cumbria and Integrated Care Partnerships. The opportunity needs to be balanced against the risk of lessened control over County Council budgets and the delivery models which may be put in place, with our health partners, to achieve our intended outcomes for people in Lancashire	• Engagement through Lancashire-wide forums eg Integrated Care System Board, Joint Committee of Clinical Commissioning Groups, Collaborative Commissioning Board, Children & Maternity Commissioners Network.	12	• Outline proposals in respect of public health grant developed and discussed with both CMT and Clinical Commissioning Group (CCG) lead officers	15 Outstanding/ possible ?	Executive Director of Adult Services & Health & Wellbeing	Level

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, 29 July 2019

Electoral Division affected:
(All Divisions);

Chairman's Annual Report 2018/19
Appendix A refers

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

Executive Summary

Previously the committee agreed to receive and consider an annual report so it can review the work it has completed and assess its effectiveness.

The second Annual Report is set out at Appendix A.

Recommendation

The committee is asked to comment on and note the Chairman's Annual Report.

Background and Advice

Previously 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 second Annual Report is set out at Appendix A.

Consultations

N/A

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. The annual report provides a means by which the committee can review its own effectiveness.

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

Appendix A

Annual Report 2018/19

Audit, Risk and Governance Committee

Lancashire County Council

www.lancashire.gov.uk

Lancashire County Council

Contents

Chairman's Introduction

As the Chairman of the Audit, Risk and Governance Committee I am very pleased to present the second annual report which sets out the role of the Audit, Risk & Governance Committee, and summarises the work we have undertaken during the financial year 2018/19.

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 should like to thank the Internal Audit and Corporate Finance Teams, the External Auditors and Legal and Democratic Services.

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 such a meaningful and positive way throughout the past year.

County Councillor Alan Schofield
Chairman, Audit, Risk & Governance Committee

Role of the Audit, Risk and Governance Committee

The Audit, Risk and Governance Committee operates in accordance with the "Audit Committees, Practical Guidance for Local Authorities and Police" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018. 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.

The key functions of the Audit, Risk and Governance Committee are set out in its Terms of Reference (See Council's Constitution) and are agreed each year at the first committee meeting following Full Council's Annual General Meeting.

Key Activities

In this section the activities of the Committee during 2018/19, are summarised under the headings of the key functions.

Internal Control

The Audit, Risk & Governance Committee approved the Annual Governance Statement (AGS) for 2017/18 in July 2018. This included actions for 2018/19, within the following areas, to improve existing governance arrangements:

- A new Operational Plan
- Continue to improve children's services following the Ofsted Inspection
- Managing major projects
- Response to SEND inspection
- Improving health & wellbeing
- Core systems and data
- Intermediate care for older people in a residential setting
- Supporting disadvantaged families to fulfil their potential

The Committee actively monitors progress through the Corporate Risk and Opportunity Register and specific reports.

The Committee received and considered updates in the following areas:

- Delays and overspends on major projects
- Neighbourhood wellbeing grants
- Skills and development needs review
- Protocol for grants to the Voluntary Community and Faith Sector
- Lancashire central - Cuerden

The Committee receives regular progress reports from the Head of Internal Audit, including the summaries of the outcome of Internal Audit work.

In April 2018, 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 substantial assurance over the over the process by which the corporate register is prepared.

Training on risk management and governance was delivered as part of the training session on 'Effective Audit, Risk & Governance Committees' in June 2019.

Internal Audit

In April 2018 the Committee agreed the Internal Audit Plan 2018/19, which provides members with the opportunity to challenge and influence the plan where they have identified areas of concern.

The regular update reports of the Head of Internal Audit to the Audit, Risk and Governance 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 2017/18 was presented to the Committee in April 2018. The report 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 the year 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 Report 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 2017/18.

However, in May 2019, the Internal Auditor reported that Audit work had progressed well against an ambitious plan and 80% of the work completed by the year end has yielded favourable assurance over the design and operation of the services, systems and processes audited.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that **moderate** assurance can now be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2018/19.

As the Chairman of the Committee, I have met with the Head of Internal Audit without other officers present, and I am satisfied Internal Audit are free to carry out their duties without restrictions.

External Audit

The Council's external auditors, Grant Thornton LLP, attended all the committee meetings during 2018/19, 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 very helpful to the Committee. The Committee received and reviewed the External Audit Annual Letter.

Counter Fraud and Corruption

The Audit, Risk & Governance 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 April 2018, 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 2017/18 Accounts were prepared on time and presented to the Committee for comment and approval. We received the External Auditors report in July 2018 when it was very pleasing to note that high standards had been maintained. The External Auditor concluded that the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

At its meeting, on 30 July 2018, the Committee had been unable to approve the statement of accounts due to an unresolved issue around the accounting treatment of Lender Option Borrower Option (LOBO) loans. Following the resolution of the issue around the LOBO loans, the statement of accounts were finalised and approved by the Committee in August 2018.

A dedicated session on the draft Statement of Accounts was held in advance for the committee.

Work Plan 2018/19

In July 2018, the committee agreed its work plan for 2018/19. The plan set out the standard reports which are expected to be brought to the committee during the course of the municipal year.

It was expected that during the course of the year, the committee would also identify other areas and issues to consider as appropriate. A list of those reports are set out on page 5 of this report.

Treasury Management

The Committee receives reports on Treasury Management throughout the year, exercising its stewardship role. The Committee reviewed:

- Review of Treasury Management Activity 2017/18
- Lancashire County Council Treasury Management Investment Policy
- Treasury Management Activity 2018/19 Update
- Treasury Management Policy and Strategy 2018/19

A training session for the Committee was held again on Treasury Management.

Governance

The committee agreed the Annual Governance Statement 2017/18 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 April 2018 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 had 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 a number of actions that were implemented during 2018/19. This included:

- Providing scrutiny chairmen with a copy of the Internal Auditors Report and future audit work plan to aid future work planning
- Presenting the committee's terms of reference annually for consideration and option
- The chairman of the Audit, Risk & Governance committee giving clear direction that committee members should act objectively and independently, and that substitutions should not generally be made
- Following the completion and analysis of the Training Needs Analysis Questionnaires in 2018, training and development sessions have been delivered as follows:
    - Statement of Accounts briefing session
    - Treasury Management training by Arlingclose Ltd
    - Internal Audit comprehensive briefing session
    - Financial Management training

- Effective Audit Committee training including values of good governance, risk management and counter fraud/whistleblowing

County Councillors who are not members of the committee but had indicated a training and/or development need were invited to attend some of the sessions and a number did.

- Presenting a schedule of meetings and their agendas to the committee at the start of the municipal year.
- The committee receiving an annual report presented by the Chairman of the committee

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 2018/19 the 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 and Governance Committee meetings.

Meetings

The Audit, Risk and Governance Committee met five times in 2018/19. A work programme has been agreed by the Audit, Risk & Governance Committee. The programme will be reviewed when setting the agenda for each meeting and added to when appropriate to ensure ad-hoc requests instigated by the Committee are reported.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 29 July 2019

Electoral Division affected:
(All Divisions);

Draft Committee Work Plan 2019/20
Appendix A refers

Contact for further information:
Debra Jones, Tel: 01772 537996, Democratic Services Officer,
Debra.Jones@lancashire.gov.uk

Executive Summary

The draft work plan for the Committee for 2019/20.

Recommendation

The Committee is asked to consider the draft work plan for 2019/20, as set out at Appendix A.

Background and Advice

Appendix A sets out a draft work plan for the Committee for the 2019/20 municipal year. The work plan sets out those standard reports which are expected to be brought to the Committee during the course of 2019/20 from the following service areas:

- Internal Audit
- Legal and Democratic Services
- Corporate Finance
- External Audit - 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:

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

Audit, Risk and Governance Committee - Draft Work Plan 2019/20

Meeting	**Internal Audit** Ruth Lowry	**Legal and Democratic Services** Paul Bond	**Corporate Finance** Khadija Saeed/Neil Kissock	**Grant Thornton LLP** Robin Baker and Angela Pieri
29 July 2019	- Internal Audit Progress Report - Internal/ external audit protocol	- Corporate Risk and Opportunity Register - Committee Constitution, Terms of Reference and Membership 2019/20 - Chairman's Annual Report - Draft Work Plan 2019/20	- Approval of the council's statement of accounts 2018/19 - Treasury Management Activity - Approval of the County Council and County Pension Fund Letters of Representation 2018/19	- External Audit - Lancashire County Council Audit Findings Report 2018/19 - External Audit - Lancashire County Pension Fund Audit Findings Report 2018/19
28 October 2019	- Internal Audit Progress Report	- Corporate Risk and Opportunity Register	- Treasury Management Activity - Treasury Management Activity	- External Audit: Audit Progress Report and Sector Update 2019/20 - External Audit: Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2018/19
27 January 2020	- Internal Audit Progress Report	- Corporate Risk and Opportunity Register	- Accounting Policies used in	- External Audit Progress Report and

Appendix A

Audit, Risk and Governance Committee - Draft Work Plan 2019/20

Meeting	**Internal Audit** Ruth Lowry	**Legal and Democratic Services** Paul Bond	**Corporate Finance** Khadija Saeed/Neil Kissock	**Grant Thornton LLP** Robin Baker and Angela Pieri
			the Preparation of the Statement of Accounts 2019/20 - Treasury Management Activity 2019/20 - Treasury Management Strategy and Investment Strategy 2020/21	Sector Update 2019/20
18 May 2020	- 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 2018/19 - 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 2019/20 - External Audit Progress Report 2019/20 and Sector Update - External Audit: Lancashire County Pension Fund Audit Plan 2019/20 - Grant Thornton Fee Letter for Lancashire County Council and Lancashire County

Audit, Risk and Governance Committee - Draft Work Plan 2019/20

Meeting	**Internal Audit** Ruth Lowry	**Legal and Democratic Services** Paul Bond	**Corporate Finance** Khadija Saeed/Neil Kissock	**Grant Thornton LLP** Robin Baker and Angela Pieri
				Pension Fund 2020/21