Lancashire County Council

Audit, Risk and Governance Committee

Monday, 27th January, 2020 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.	
3.	**Minutes of the Meeting held on 28 October 2019** To be confirmed, and signed by the Chair.	(Pages 1 - 6)
4.	**Code of Conduct - Summary of Complaints**	(Pages 7 - 12)
5.	**Update Report: Outstanding Actions from 2017/18 Audit Work, Adult and Children's Services**	(Pages 13 - 16)
6.	**Internal Audit Progress Report**	(Pages 17 - 28)
7.	**External Audit Progress Report and Sector Update 2019/20**	(Pages 29 - 42)
8.	**Grant Thornton's Request for Information from the Committee Chair**	(Pages 43 - 56)
9.	**Grant Thornton's Request for Information from Management**	(Pages 57 - 70)
10.	**Accounting Policies used in the Preparation of the Statement of Accounts 2019/20**	(Pages 71 - 90)

Lancashire County Council

11. Treasury Management Strategy 2020/21 (Pages 91 - 118)

12. Corporate Risk & Opportunity Register Quarter 3 2019/20 (Pages 119 - 136)

13. 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.

14. Date of Next Meeting

The next meeting of the committee will be held on Monday 18 May 2020 at 2pm County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 28th October, 2019 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

County Councillor Alan Schofield (Chair)

County Councillors

L Beavers	J Rear
J Berry	J Shedwick
B Dawson	A Vincent
E Nash	

1. Apologies

Apologies were received from County Councillor J Shedwick.

County Councillors B Dawson and L Beavers replaced County Councillors T Martin and S Malik respectively.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 29 July 2019

It was acknowledged that an update regarding the internal audit by Deloitte of the functions of the Local Pension Partnership Ltd had been provided to the Pension Fund Committee at its meeting on 20 September 2019.

Resolved: That the minutes of the 29 July 2019 Audit, Risk and Governance Committee be agreed.

4. The Annual Audit Letter for Lancashire County Council and Lancashire County Pension Fund 2018-19

Robin Baker, Director, Grant Thornton and Angela Pieri, Senior Manager, Public Sector Audit, Grant Thornton presented the Annual Audit Letter which summarised the outcome of the work of the external auditors in 2018/19. The report included the key messages in relation to the financial statements audit and audit opinion, and value for money conclusion.

It was highlighted that:

- It was an annual audit requirement to produce this report summarising the high level findings and it was confirmed that it largely reflected the audit report that was presented to the committee at the 29 July 2019 meeting.

- The auditors had issued unqualified audit opinions for both the county council and the county council pension fund prior to the statutory deadline. This included an unqualified value for money conclusion, confirming that the county council had appropriate arrangements in place for its use of resources. The key factors in determining this had been the completed risk based internal audit work for the year and the progress made to stabilise the financial position with reduced reliance on reserves, despite ongoing challenges. However, it was noted that the certificate of completion could not be issued, as audits from previous years remained open due to an ongoing police investigation.

- Attention was drawn to the update regarding audit fee charges in the report. It was clarified that the fees were subject to approval by Public Sector Audit Appointments Ltd.

- In response to a question it was clarified that although the report stated that the delivery of savings in 2018/19 provided 'some' assurance that the county council process for delivering savings was robust; it was recognised that considerable progress had been made. The financial position for local government continued to be challenging and the cautious language in the report reflected this.

- The chair acknowledged the explanation of the additional fees of £9,000 and that the renegotiated five year contract from 2018/19 would continue to deliver an overall saving on the previous charges levied.

Resolved: That the Annual Audit Letter for 2018/19, as presented, be noted.

5. External Audit - Audit Progress Report and Sector Update 2019/20

Robin Baker, Director, Grant Thornton and Angela Pieri, Senior Manager, Public Sector Audit, Grant Thornton presented the External Audit Progress Report and Sector Update 2019/20 as of October 2019.

The following key areas were highlighted from the report:

- The work to certify the teachers' pension return was underway and should be completed this week, ahead of deadline.

- The Government had announced that a review of local government audit and accounts arrangements would be undertaken in response to concerns expressed regarding late filing and increased detail in reports over the last decade. Recommendations from the review to Government were expected early in 2020 and the committee would be kept updated with regard to any changes proposed.

- The National Audit Office were currently consulting on the proposed new Code of Audit Practice for April 2020, which would impact on audits for 2020/21. The key changes would be around the value for money audit, which may require a longer narrative regarding financial sustainability rather than the current requirement for a yes/no conclusion. In addition, it was proposed to move the submission date for the value for money audit away from that of the annual accounts in order to spread the burden of work over the year.

Resolved: That the External Audit Progress Report and Sector Update 2019/20, as presented, be noted.

6. Internal Audit Progress Report

Ruth Lowry, Head of Internal Audit, presented 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 internal audit progress report and outcomes of the work for 2019/20 for the period to 30 September 2019.

The following points were highlighted:

- Of the planned audits for the period, ten had been completed to date and the amendments to the audit plan as detailed in the report were explained and noted by the committee. The report contained details of actions arising from previous years and it was confirmed that all actions from 2015/16 and 2016/17 were now closed.

- There were six actions that remained outstanding from 2017/18, including the transition from children's to adult services (high risk) and it was explained that the actions identified in 2018 had been subsumed into a single action for the directors of Children's and Adults Services. There was a significant amount of work still underway in this area and the relevant directors had contributed to the progress update in the report. Currently no due date could be determined for completion of the action.

- The other outstanding high risk area for action to be completed was personal budgets for children's service users and direct payments to their carers. The work on this was linked with the Special Educational Needs and Disabilities Ofsted improvement plan that management was working through. Further testing in this area was underway that would be reported to the next meeting of the committee.

- The medium risks with actions outstanding were: case management of occupational therapy services; public health commissioning strategy and commissioning, design and monitoring of the capital programme. The latter two should be completed prior to February 2020, however the first had no foreseeable date for completion.

- An example of type one assurance was shared from the report that showed that the adequacy of the control framework had been audited and given assurance but was not yet in operation, therefore there could be no testing of the controls in place (type two audit work). This example highlighted the differences between the two types.

- Of the ten completed audits for this period, only Lancashire Safeguarding Children's Board (LSCB) governance of expenditure had been given limited assurance. It was explained that the LSCB had been replaced by a statutory Safeguarding Assurance Partnership, covering Lancashire, Blackburn with Darwen and Blackpool and its financial arrangements would be different from those for the LSCB. To address questions raised by members regarding scrutiny and transparency for expenditure, Ruth Lowry would circulate the full report.

Members expressed concern regarding the management response to the outstanding actions for the high risk areas and the absence of a due date for resolution, for these and the medium risk: case management of occupational therapy services. Members requested that executive directors provide a progress report to the January 2020 committee meeting, including what had been done so far to mitigate the risks.

Angie Ridgwell, Chief Executive, responded that the issues needed to be looked at in the broader context of the Children's Services improvement journey of 'getting to good' following Ofsted monitoring inspections. The service had undertaken a significant amount of work and had recently been successful in assuring a bid for Safeguarding Families funding, which would allow a remodelling of children's social care that could potentially address the issues raised in the audit and supersede the agreed actions.

It was agreed that the head of Internal Audit and the head of Legal and Democratic Services would liaise with the executive directors to ensure that any duplication of work to address the needs of both this committee and the Internal Scrutiny Committee is minimised, but that reports on each of these actions should be brought to this committee's next meeting in January 2020.

Resolved: That

(i) The Internal Audit Progress report be noted.

(ii) The committee receive an update report at the 27 January 2020 meeting from the relevant executive directors regarding the progress made toward addressing the actions identified from audit work from 2017/18 for the following areas:
  - transition from children's to adult services;
  - personal budgets for children's service users and direct payments to their carers; and
  - case management of occupational therapy services.

7. Treasury Management Activity 2019/20

Mike Jensen, Director of Investment presented the Treasury Management Activity for the first half of the financial year 2019/20.

The following points were highlighted:

- Since the report was produced there had been a deterioration in UK economic data which would influence treasury management activity. The Bank of England was preparing the economy for lower and potentially negative interest rates in the wake of the negative fiscal impact of the UK's exit from the European Union.

- With the potential to take borrowing at advantageous rates in the remainder of the year, facility to increase the current borrowing limit to take best opportunity of the market conditions was recommended.

- With regards to performance, the council's budget monitoring had so far reported a £7million underspend as a result of treasury management activity and this was likely to be substantially improved by the next reporting cycle.

- The traditional route for local authority funding has been the Public Works Loan Board (PWLB) loan, who had recently increased the cost of borrowing by 1%. In response, the county council would explore alternative opportunities for funding from the public market which could be substantially cheaper than the new PWLB rates.

- A recent change to the structure of the UK Municipal Bond Agency would see control passed from the Local Government Funding Agency to a preferred operator, via a procurement process. The agency existed primarily to reduce councils' capital long term financing costs and allowed local authorities to diversify funding sources and borrow at a lower cost than was available via the PWLB. This change would potentially provide an opportunity for improved efficiency for local authorities. Rather than looking solely at long term debt financing, the change could create an opportunity to create a broader platform for funding, including investment, where councils would have more control. The committee would be kept updated regarding these negotiations.

In response to questions it was clarified that:

- The county council's private finance initiative (PFI) would continue for a further 19 years, however alternative forms of financing would continue to be sought.

- Borrowing costs have so far been lower than budget, however, the county council would continue to seek to secure the position through continuing to review opportunities for long term cost effective options.

- Mike Jensen provided a response to a question on the potential impact on economic indicators of leaving the EU.

Resolved: That

(i) The Treasury Management Activity for the first half of the financial year 2019/20, as presented, be noted.

(ii) An increase in the Authorised Borrowing Limit from £1,375m to £1,600m for the remainder of 2019/20, be recommend to Full Council for approval.

8. Urgent Business

There was no urgent business to be considered.

9. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 27 January 2020 at 2pm at County Hall, Preston.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected:
None;

Code of Conduct - Summary of Complaints
(Appendix A refers)

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

Executive Summary

This report presents a summary of all complaints received in 2019 against county councillors under the Code of Conduct.

Recommendation

The Audit, Risk and Governance Committee is asked to note the summary and comment as appropriate.

Background and Advice

Under the Localism Act 2011, the county council is required to have a Code of Conduct for Councillors ("the Code"). The Code has three elements:

- Behavioural expectations (principally aligned with the Nolan principles)
- Requirements around registering and declaring interests
- Requirements around Gifts and Hospitality

Complaints that a councillor has breached the rules around the registration and declaration of pecuniary (i.e. financial) interests are a criminal matter and complaints would be dealt with by the police. The county council is not aware of any allegations made to the police against Lancashire County Councillors in this regard.

All other complaints that a councillor has breached the Code are dealt with according to local arrangements, agreed by Full Council in 2012. There is a three stage process:

1. An initial assessment by the Monitoring Officer. The Monitoring Officer determines whether the complaint is within the remit of the Code and not vexatious. If the Monitoring Officer identifies that a complaint is legitimate, she will explore an informal resolution, such as an apology or explanation that will satisfy the complainant without unnecessary use of resources. At this stage,

Lancashire County Council

whether a complaint is dismissed as being outside the Code, or not a breach, or upheld and resolved informally, a written response will be sent to the complainant. There is no right of appeal against the Monitoring Officer's decision at this stage.

2. Investigation. Where the Monitoring Officer is unable to resolve a complaint informally, she will undertake a full investigation, including interviews and examination of evidence. The Monitoring Officer will either determine that there has been no breach of the Code, in which case the matter is at an end, or that there has been a breach, in which case it will be referred to the Conduct Committee for determination.

3. Conduct Committee consideration. The committee will receive the report of the Monitoring Officer and determine what action to take. The councillor who is subject to the complaint will have the right to attend and make representations. The committee must take the views of the appointed "Independent Person" into account before reaching a decision.

The emphasis, in line with the government's initial intention in revising the Standards arrangements in the Localism Act 2011, is to reduce bureaucracy and seek informal resolutions where possible. This avoids lengthy and potentially resource intensive investigations into minor or vexatious complaints.

Independent Persons

Local authorities must also appoint an "independent person" whose views must be sought by the local authority before a decision is taken in relation to an allegation of misconduct and members who have had allegations made against them may, if they wish, also seek the views of the independent person. Lancashire has appointed three independent persons, to ensure that there can be appropriate separation between the roles of supporting the subject member and advising the committee, should it be necessary to do so. The Monitoring Officer has recently met with the Independent Persons, in recognition of the fact that greater involvement from the Independent Persons, even where complaints are dismissed or resolved informally, would provide significant benefits to the robustness of the process.

Complaints 2019

In general, Lancashire receives relatively few complaints about county councillors, and those received in 2019 were either found to be minor or with limited or no merit. A full summary of complaints received in 2019 is attached at Appendix A.

Key messages:

- No complaints have proceeded to formal investigation, and in only two cases has the councillor been found to have breached the code. Both were dealt with without the need for formal investigation, one with the councillor agreeing to make an apology at Full Council, and another with the Monitoring Officer meeting the councillor to set out expectations for future conduct.

- Around half of complaints were made by other county councillors or people involved in local politics (including district and parish councillors and candidates or agents at election). In other authorities, the proportion of complaints made by other politicians is even higher, and some have expressed the concern that the conduct regime has become little more than a political tool, with frequent "tit-for-tat" complaints. Lancashire has not experienced this problem.

- Where complaints are received from the public, in the main these relate to dissatisfaction with a councillor's response to an enquiry the individual has made. In general, councillors have been able to demonstrate that they have acted reasonably and / or sought to help, but have not been able to provide the resolution desired by the complainant. The council places no specific obligations on councillors in relation to how they deal with casework and local matters (such as timescales for responses) and takes the view that this is a matter purely between the councillor and their residents, as long as the wider provisions of the code are met.

- There have been fewer complaints about the use of social media than previously, which is positive. The council encourages councillors to make it clear on social media accounts that the views expressed are theirs alone, and has run training and awareness sessions for councillors on benefits and pitfalls of using social media.

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

Standards – Future Issues

In January 2019, the Committee for Standards in Public Life (the "Nolan Committee") completed a review on standards in Local Government and presented it to government for publication. Key messages included:

- There were insufficient enforceable sanctions available to local authorities in dealing with serious breaches of the code. The power to suspend (though not disqualify) should be re-instated, with a right of appeal through the Local Government Ombudsman.

- There should be a presumption that all public activities of a councillor are undertaken in their official capacity, and therefore subject to the Code. This would include, for example, all public activity on social media and even attendance at events or public pronouncements made in other capacities, including as a member of another council, school governor or trustee of a local charity.

- The categories of interest currently in place should be replaced with an "objective test" – adopting the one currently in use in Wales, which says that an interest must be declared "if the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest".

- There should not be a return to a pan-England system, as existed before 2012, but the Local Government Association should draft a new model code.

- The criminal offence of failing to declare a pecuniary interest should be abolished.

It is understood that government is currently working on its response, in consultation with representatives of local government. Should the government response lead to changes in the rules or provide further guidance to local authorities, a further report will be brought to the committee for consideration of the implications for the county council.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk Management

The county council is required to have a Code of Conduct for councillors under the Localism Act 2011.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Date	Complainant	Summary of allegation	Outcome
Feb 2019	County Councillor	Threatening language towards another councillor	No breach. Considered to be within expected norms of political debate
Feb 2019	Public	Councillor failed to respond to requests for help and did not attend arranged meeting	No breach. Councillor able to demonstrate offers of help & apologised for misunderstanding regarding the meeting
Feb 2019	County Councillor	Intimidatory and bullying language and behaviour towards another councillor	No breach. Considered to be within expected norms of political debate
April 2019	Member of Staff	Bullying behaviour in a meeting and on social media	Breach. Informal resolution: meeting held with Councillor to advise on future behaviour
April 2019	Public	Failure to attend community meetings	No breach. Councillor able to demonstrate efforts to attend and offers of support
May 2019	Public	Failure to provide adequate responses	No breach. Councillor able to demonstrate reasonable efforts to help
May 2019	County Councillor	Offensive language at Full Council meeting	Breach. Informal resolution – apology given at Full Council
May 2019	Public	Breach of confidentiality	No breach. Not within remit of Code as Councillor not acting in official capacity
July 2019	Public	Offensive behaviour and language	No response from complainant when asked for further details, therefore not pursued.
July 2019	County Councillor	Offensive comment posted on social media	No breach. Not within remit of Code as Councillor not acting in official capacity
August 2019	Public	Failure to respond to requests for help	No breach. Councillor able to demonstrate reasonable efforts to help
November 2019	Public	Threatening behaviour	No breach. Not within remit of Code as Councillor not acting in official capacity.
November 2019	Election Agent	Incomplete declaration on register of interests	No breach. Allegation based on misunderstanding / misreading of published register
November 2019	Election Candidate	Inappropriate language	No breach. Considered to be within expected norms of political debate

Appendix A

Agenda Item 5

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected:
(All Divisions);

Update Report: Outstanding Actions from 2017/18 Audit Work, Adult and Children's Services.

Contact for further information:
Ian Crabtree, (01772) 530658, Director of Adults Disability & Care Services,
ian.crabtree@lancashire.gov.uk

Executive Summary

After reviewing the Internal Audit Progress Report at its meeting on 28 October 2019, the Audit, Risk and Governance Committee requested an update report from the relevant Executive Directors regarding progress made toward outstanding actions from the 2017/18 internal audits. This report summarises actions taken in each of the following areas:

1. Transition from children's to adult services.

2. Personal budgets for children's service users and direct payments to their carers.

3. Case management of adult occupational therapy services

Recommendation

The Audit, Risk and Governance Committee is asked to note the progress made in the three audit areas identified.

Background and Advice

As stated above this report summarises actions taken in the following three areas:

1. <u>Transition from children's to adult services</u>

The internal audit actions for the Transitions Team have now been incorporated into the wider strategic piece of work which sits under the Preparation for Adulthood Steering Group.

A joint Preparation for Adulthood Steering Group is now in place co-chaired by the Director of Education and Skills in Children's Services and Director of Adults Disability and Care Services with clear terms of reference.

Lancashire County Council

A shared Preparation for Adulthood vision has been developed across the wider health and social care system and been approved by the Preparation for Adulthood Steering Group and being taken forward for action into the Special Educational Needs and Disability Partnership Board in January 2020 and a subsequent system wide strategy will follow.

A revised transition proposal has been agreed via the Preparation for Adulthood Steering Group to confirm the key roles and responsibilities for the transition service from December 2019.

Once the wider Preparation for Adulthood Strategy has been agreed a more specific transition strategy will be finalised outlining the transitions service along with policy and guidance.

The transitions team are currently in a re-organisation of the team structure that best meets the outcomes required of the team. The Transitions Team currently is comprised of three small locality teams. This is not an efficient way of managing a small team and so is moving to a countywide structure.

Key workshops with transitions staff have been scheduled in January/February 2020 to map out our current processes and to ensure we fully understand the challenges facing the Transitions Team. Better understanding of these challenges will help clearly define the transformed service.

Key engagement with internal teams

i. Communications - to ensure we have a clear communication plan so those impacted by these changes are kept up to speed and also to review both the intranet and internet webpages for transition information and guidance so there is clear understanding of the process, timescales and expectations.

ii. Core Systems - the council essentially uses a different electronic recording system for children than for adults. This causes a number of challenges for the Transitions Team who work across both systems. Work is ongoing with core systems to find solutions that will ensure a more streamlined service and one that is able to provide better data to enable more accurate demand forecasting.

iii. Business Intelligence - to determine what data we currently collect and what data we would like to collect going forwards. This will give senior strategic managers a better sense of future demand and what resources will be required to meet that demand.

Work is underway to develop a new referral form capturing the required information from schools, parents and carers and individuals as well as ensuring we have clear consent from parents and carers to store information and complete the relevant assessments.

2. Personal budgets for children's service users and direct payments to their carers

Initial action has been undertaken to train staff and amend guidance on Direct Payments, to ensure recording of information and secure compliance with financial and safeguarding requirements. Further work needs to take place to review current practice to ensure actions are completed and practice embedded and in particular that education and social care staff respond to families in a coherent way.

The remaining outstanding action will be progressed and monitored through the Special Educational Needs and Disability Improvement programme going forward to ensure progress to completion, including improving information as part of the Local Offer, recording of information and full compliance with financial and safeguarding requirements. This will necessitate a lead identified for each action and clear timescales for the completion of actions in accordance with the Special Educational Needs and Disability Partnership processes which recently received a 'substantial assurance' following an internal audit.

3. Case management of adult occupational therapy services

The internal review of case management of occupational therapy services' was generally positive and recommendations have all been implemented with one action outstanding.

That remaining action was 'to implement a case-load tracker within Liquidlogic adults' social care system rather than using a set of spreadsheets'. It was reported at the committee that it was unlikely that this improvement would be achieved in the foreseeable future.

This action has now been superseded in two ways.

Firstly, the original proposal to build a tracker was based on the approach developed in other areas of adult social care, most notably older people's social work teams, in order to get a firm grip on performance including social work waiting times, reablement performance, acute hospitals are some of the examples.

Whilst necessary at the time, the trackers were only ever intended to be an interim rather than a long term solution as they present technical limitations and are significantly resource intensive not representing the most efficient or effective way of working and thus not ideal to replicate. It was therefore agreed not to take this option forward in relation to occupational therapy.

Secondly, the council has recently procured a new analytical tool from Microsoft called 'Power BI'. This is now being deployed initially in adult social care so that the existing 'trackers' used to monitor performance can be decommissioned. In due course the intention is to ensure the performance reporting available through Power BI will offer a better way for management and staff to understand and monitor all the key metrics and that includes relevant areas of the occupational therapy service. The performance continues to be monitored under existing arrangements engaging managers at all levels.

Consultation

N/A

Implications:

N/A

Risk Management

Transition from children's to adult services is also monitored by the Special Educational Needs and Disability Partnership Board as part of the Special Educational Needs and Disability Improvement Plan.

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

Agenda Item 6

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected:
(All Divisions);

Internal Audit Progress Report
(Appendices A and B refer)

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

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 internal audit progress report and outcomes of the work for 2019/20 for the period to 31 December 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 2019/20 approved in May 2019.

Appendix A highlights key issues that the committee should be aware of at this point in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. In particular it sets out a small number of amendments to the audit plan, information about the status of action plans agreed with management, and summaries of the audits completed in the period to 31 December 2019.

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

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.

Lancashire County Council

Implications:

This item has the following implications, as indicated:

Risk Management

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

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

Not applicable.

Matters arising from internal audit work for 2019/20 completed to 31 December 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 31 December 2019 by the Internal Audit Service under the audit plan for 2019/20.

2 Work completed

2.1 Eleven audits have been completed during the last quarter and assurance has now been provided as set out in the table below. Reports on seven further audits have been drafted and are being discussed with management. Ten of the 92 audits originally on the plan (excluding follow-up work and grant certification) were removed from the plan before the end of September 2019 and three more audits have been removed, leaving 79 audits on the plan, of which 21 have now been reported. The reasons for the most recent changes to the plan are set out in section 3 below.

2019/20 assignments relating to:	**Total**	**Assurance provided**			
		Substantial	**Moderate**	**Limited**	**None**
Governance	-				
Business effectiveness	1	1			
Service delivery	15	4	8	3	
Service support	3	1	2		
Business processes	2	2			
2019/20 assignments: total to date	**21**	**8**	**10**	**3**	**-**
	100%	38%	48%	14%	-

2.2 Brief information about the outcomes of each of the audit engagements competed is set out below in section 5 onwards:

- Risk management
- Older People Service's audit and assurance arrangements
- Safeguarding service user finances in the Supported Living Service
- Shared lives recruitment
- Handling VIP enquiries within the Health, Equity and Partnerships service
- Safe Trader scheme
- Children's direct payments
- Children's Services' in-service audit framework
- Schools' procurement processes
- Management and monitoring of system changes
- Highways authority funding

2.3 As described in the audit plan for the year, audit work may be directed towards understanding the control framework of a service, system or process (the first phase of a full audit), testing the operation of an established control framework (the second phase of a full audit), or both (a full risk and control evaluation audit). Each audit in the plan has therefore accordingly been designated as 'type 1', 'type 2' or 'type 1+2', and this broadly indicates the scope of the assurance we can give.

3 Amendments to the audit plan for 2019/20

3.1 The audit plan must necessarily be flexible, as was noted when the audit plan was agreed, and a small number of changes have been made relating to work on corporate performance management, prevention of child exploitation and Oracle user access improvement.

Corporate performance management

3.2 Following the Full Council's agreement of the Corporate Strategy in February 2019, members of the council's scrutiny committees debated a suite of proposed key metrics by which achievement of the corporate objectives would be measured. These metrics were agreed by the Cabinet Committee on Performance Improvement in October 2019 and targets are now being identified for each. Whilst it was originally intended to report performance under the new measures from February 2020 this has been delayed. We will therefore defer this work and include it in the audit plan for 2020/21 when we will be able to consider the adequacy and effectiveness of the new arrangements using the revised metrics and targets.

3.3 Our previous review of corporate performance monitoring arrangements, which was completed in April 2017, confirmed that the controls in place to monitor and report the council's performance were adequate and effective overall.

Prevention of child exploitation

3.4 Following the arrival of new senior managers and directors, the council's responses to the risks of child exploitation have been reviewed and a revised action plan has been developed to address issues including practice improvement, arrangements for governance and management oversight, and internal HR issues. The actions that were agreed with the previous managers have therefore been amended and are no longer directly relevant, so they have been reported as superseded in the audit action log. The audit that was planned for the current year has been deferred into 2020/21 and, if any further actions are agreed as a result of that work, they will be logged and followed up at that point.

Oracle user access improvement plan

3.5 In July 2018/19, we completed a review of Oracle user access permissions, which provided moderate assurance that there is an adequate and effective control framework in place to protect Oracle against unauthorised access.

3.6 Since that time the council's Core System's team has been addressing some specific issues identified by both the external auditor and ourselves regarding access permissions, although we understand that these will now be subsumed into the overall Oracle Replacement project. This assignment has therefore been removed from the internal audit programme for 2019/20.

4 Follow-up work

4.1 During 2019/20 the Internal Audit Service has begun to follow up the action reported by the council as having been taken. Managers' own assessments of the current status of these actions are as follows:

Numbers of actions agreed in 2017/18, 2018/19 and 2019/20 and now due							
Action status	**As at September 2019**		**As at December 2019**				
			Total		**Risk rating**		
					High	**Medium**	**Low**
Complete	314	75%	352	74%	20	203	129
Superseded	29	7%	35	7%	5	22	8
Incomplete	24	6%	38	8%	6	23	9
Awaiting responses	50	12%	51	11%	4	29	18
Total	**417**	**100%**	**476**	**100%**	**35**	**277**	**164**
Arising in: **2017/18**			**196**	41%	18	117	61
2018/19			**254**	54%	16	151	87
2019/20			**26**	5%	1	9	16

4.2 All the actions agreed in years prior to 2017/18 have been addressed or superseded.

Actions arising in 2017/18

4.3 In October six actions arising from 2017/18 had not been completed and the committee will receive separate reports explaining progress on the two actions that addressed high risks – the transition of service users from children's to adult services, and personal budgets for children's service users and direct payments to their carers – and the implementation of a case-load tracker within the adult services' system (LAS). The register of the risks to the council's capital programme has now been finalised.

5 Audit work completed on governance controls

Risk management (Substantial assurance: type 1+2)

5.1 The council's risk management framework is based on international standards. It is embedded in the council's governance and decision making processes, identifies and reports key service and corporate risks and is periodically reviewed. It is supported by guidance, training and service-based risk champions, and effective action is taken to ensure service risk registers are updated quarterly. These, together with wider corporate and cross-cutting risks, inform the corporate risk register. Mitigating action is identified, reported and monitored.

5.2 Further improvements to the risk management framework are being trialled by Education and Children's Services. This will put directors at the centre of identifying strategic risks, and introduce more flexible reporting and a target risk rating.

6 Audit work completed on service delivery controls: Adult Services and Health & Wellbeing

Older People Service's audit and assurance arrangements

(Moderate assurance: type 1+2)

6.1 The Older Peoples' service provides 16 residential homes for older people throughout Lancashire. Each home has a registered care manager who is responsible for the regulated services provided by the care home and ensures that all staff comply with the council's policies, procedures and operational guidance, which are designed to comply with the requirements of the Care Quality Commission.

6.2 The service assures itself in a number of ways that its control of medication, support planning and supervision in its homes is adequate and effective. However the number of actions arising from the in-service audit work is generating significant numbers of actions for managers, which are becoming onerous: there may be more efficient ways to address the issues being identified.

Medication

6.3 Managers and staff are required to confirm that they have read and understood the medication policy and procedure document, which is clear about the checks to be performed and how these should be recorded, including manager unannounced inspection visits and senior manager audits.

6.4 Weekly medication audits are carried out in the four homes we visited, although the homes take different approaches, with some checking each medicine cabinet each week and others doing this on a sample basis.

Support planning

6.5 A new support plan policy is currently being implemented across each of the homes. All support plans are subject to review, whether in full or more lightly, and then potentially also further reviewed if they are selected during an unannounced inspection by a manager or during a senior manager audit.

Supervision

6.6 The supervision policy is available on the intranet but is out of date and inconsistent with current practices, and contains little information to support managers in supervising staff appropriately. Records of supervision are not consistently kept.

6.7 The senior operations managers regularly check the frequency of supervision meetings and are therefore aware that they are not currently being conducted for all staff or sufficiently frequently. Both the registered care managers and assistant care managers consider that they cannot complete the number of formal supervisions required without this impacting on their other duties. Routine qualitative checks on the content of supervision meetings are not currently being conducted.

Safeguarding service user finances in the Supported Living Service
(Limited assurance: type 1+2)

6.8 Service users who do not have the capacity to manage their own finances are supported by staff in the Supported Living Service to live in the community in their own home under a tenancy agreement. Service users have their own Individual Financial Profile that sets out their weekly budget and incorporates costs for social activities.

6.9 We identified no specific issues in the records and receipts we examined to suggest that service users' funds have been misappropriated or inappropriately managed, but the lack of compliance with policy requirements in a number of areas and limited managerial checks expose service users to the risk that any misuse or mismanagement of their finances would be difficult to detect and address.

6.10 Policy and guidance documents are in place but have not been updated since they were issued in October 2015 and are not included in staff induction. This may contribute to the inconsistent application of policy in some areas. Individual Financial Profiles were in place for all service users we tested but some were incomplete or based on old information, indicating that they had not been reviewed as they should have been.

6.11 Whilst there is evidence that the team managers regularly review the personal account and housekeeping books, we found examples where the team manager had failed to identify instances of non-compliance with policy, and there is no evidence that managers conduct any further spot checks. In particular there is a high level of non-compliance with the requirement to highlight specific staff costs and for the area domiciliary manager to approve withdrawals of more than £500.

Shared lives recruitment (Moderate assurance: type 1+2)

6.12 The Shared Lives Service recruits, supports and trains carers from across the local community to provide long term, short term, day support and emergency care for adults. Lancashire's service is the largest in the country and has been recognised as outstanding by the Care Quality Commission. Prospective carers undergo a lengthy application, training and assessment process and the recruitment process is effective and efficient, ensuring that newly appointed carers deliver good quality support, safely and consistently.

6.13 However there is a lack of evidence that some key steps have been taken including evidence for background checks, carer contracts, placement agreements, induction visits, and home fire safety checks

6.14 Carers are required to undertake mandatory training in several areas within 12 months of approval but, of ten families recruited between January 2017, and April 2018 there was no record that all training had been completed by seven, and five of these have been allocated long term placements.

Handling VIP enquiries within the Health, Equity and Partnerships service
(Substantial assurance: type 1+2)

6.15 Enquiries from councillors, MP's, MEP's and other prominent sources are designated as VIP enquiries and managed accordingly. Between January and June 2019 2,736 new enquiries were logged, of which 1,968 related to Highways and 250 to the Health, Equity and Partnerships service. The Senior Leadership Team Support team administers the system, monitors responses to enquiries and produces reports for the Senior Leadership Team showing the time taken to respond.

6.16 The VIP communication system is adequately designed to manage and monitor enquiries received by the council, allocating an officer to address each enquiry, recording any action taken and scanning relevant documents. The dates on which enquiries are received, allocated and responded to can be logged to track progress. Reports can be produced to monitor outstanding enquiries and the time taken to respond for review by management.

6.17 At management's request we reviewed the operation of the VIP system specifically within the Health, Equity and Partnerships service where there was a backlog and more than 70% of enquiries between January and June 2019 exceeded the target response times of 10 days. However by July more than 90% of enquiries were being processed on time and we were informed that the service was catching up with the backlog. We identified no further changes that could be made to reduce the resources required within the service to respond to enquiries.

Safe Trader scheme (Moderate assurance: type 1+2)

6.18 The Safe Trader Scheme accredits traders such as electricians, plumbers and builders who commit to providing good customer service and adhere to regulations. It is managed by the Trading Standards service which checks traders before they become accredited and then undertakes rolling checks.

6.19 The terms and conditions of the scheme and the extent of assurance provided by the council are clearly communicated to traders and consumers. Appropriate checks are undertaken on traders before they are accredited both by examining relevant documentation and site visits. We found that controls were operating effectively except in one case where a check was not properly undertaken and a trader was registered before confirming their mandatory external accreditation. An additional control will also be implemented to ensure that all accredited traders are appropriately invoiced.

7 Audit work completed on service delivery controls: Education & Children's Services

Children's direct payments (Limited assurance: type 2)

7.1 Personal budgets can be requested by the parents and carers of children and young people who have been assessed as needing an education, health and care plan, to fund services to support the outcomes for them. This can be administered through direct payments and approximately 400 young people receive direct payments from the council.

7.2 Progress is being made to address some of the issues raised during the last audit, which we reported in March 2018 (when we also gave limited assurance). Mandatory training has been introduced, the Inclusion Service has sound controls in place to produce, approve and review care plans, and there is improved recording of assessments, retention of financial agreements and evidence of manager oversight. However not all of the actions agreed have yet been fully implemented and we identified some further issues in addition.

7.3 The guidance for officers is being updated and improved in conjunction with Adult Services but it has still not been completed and published. The tool to assess service users' needs and budgets is not consistently used, financial agreements are not always completed prior to setting up or adjusting a package of care, and not all service users are formally notified of their care package. Further, adjustments made to budgets are not always correctly implemented resulting in several overpayments.

7.4 It is also clear that there is a lack of adequate guidance regarding the application of direct payments within operational practice in Children's Social Care. Social workers are therefore applying their best judgement but there are inconsistencies in practice across the Education and Children's Services Directorate.

Children's Services' in-service audit framework

(Moderate assurance: type 2)

7.5 The Children's Social Care directorate includes an in-service audit team and a range of audit activity is undertaken by the in-service auditors, senior managers and independent reviewing officers. A quality assurance framework sets out a systematic approach to quality assurance through assessing practice and identifying any improvement needs.

7.6 In June 2018 Ofsted acknowledged that improvements in children's services are supported by an increased focus on quality assurance and learning across the workforce. It recognised that the quality assurance framework has become more effective and reliable and there is a clearer focus on improving outcomes for children and developing 'purposeful practice'.

7.7 Management information is produced and distributed to senior managers, good and poor practice is identified, and remedial action is carried out in different ways, including training by advanced practitioners and weekly briefs produced by the principal social worker. However due to limited resources and the need to support additional external reviews, not all the assurance processes have operated effectively. Four of six audits in the thematic audit plan agreed in October 2018 have been delivered, as well as a fifth unplanned audit, but they were not all delivered within planned timescales and action has not been taken to complete the outstanding audits or follow up implementation of agreed actions. Paperwork is not always fully completed and reflective learning has not always taken place.

7.8 A review of the audit framework by the head of service will address some of these issues.

Schools' procurement processes (Moderate assurance: type 1+2)

7.9 Procurement activity in schools is governed by the council's Scheme for Financing Schools in Lancashire. We visited a sample of 15 schools across the county: nine primary, five secondary and one special school.

7.10 Schools are required to set out procurement policies and procedures in their financial regulations, and many based them on the council's model regulations, but not all schools maintain more detailed process notes, relying on the knowledge of key staff.

7.11 Registers of interest support transparent decision making and are completed annually by governors, but not by all staff with a significant involvement in purchasing.

7.12 Procurement is carried out based on the expected value of the goods or services and in most schools comparable quotes and appropriate approvals are obtained, including from governing bodies. However, half the schools we tested did not consistently obtain three quotes when required to, and did not seek the approval of their governing body when selecting a supplier who had not submitted the lowest quote. One school did not obtain the approval of its governing body for building works of approximately £150,000 in value.

7.13 We have provided feedback to individual schools and produced a best practice guide for publication on the Schools' Portal.

8 Work completed on service support controls

Management and monitoring of system changes

(Substantial assurance: type 1)

8.1 The council has set out rolling three-year plans to develop 20 of its core IT systems, which enables the Core Systems Services and BTLS to act strategically when making technology investment decisions and managing projects. It also facilitates planning to enable better utilisation of resources needed to support projects. System changes are prioritised by Portfolio Review Boards and attended by managers from the services involved, strategic systems specialists from the Core Systems Service, and BTLS.

8.2 The Portfolio Review Boards request changes to core systems and BTLS produce a 'Request for Proposal' document which describes the change and ensures changes, and the costs, are clearly communicated and understood. Integration testing is undertaken by BTLS to ensure any interfaces are working correctly, and user acceptance testing ensures that changes are properly configured. The Core Systems Service satisfies itself about the functionality of the configuration in the test system before it approves the change to be implemented in the live version.

Highways authority funding (Moderate assurance: type 1+2)

8.3 The Department for Transport has allocated capital funding for local authorities that can demonstrate, by completing a self-assessment, that they are delivering value for money in local highways maintenance. Each authority is required to score itself against 22 questions and place itself into one of three bands which determine how much funding they are allocated. It is the section 151 officer's responsibility to ensure they are satisfied that the evidence supports the funds their authority is claiming.

8.4 We examined the nine self-assessment questions addressed by various managers across the council; the other 13 questions are mainly addressed by the highway asset manager. On the basis of our work and his we concluded that it is likely that the council has selected an appropriate funding band. The evidence supporting the self-assessment in the areas we reviewed was not always relevant and up-to-date, and some lack of effective cross referencing to source documents coupled with a lack of explanatory notes means that in some cases it is unclear how the evidence demonstrates compliance with the individual banding requirements. However these issues are being actively addressed by management.

Assurance provided by internal audit assignments in 2019/20

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*.

Audit, Risk and Governance Committee
Meeting to be held on Monday 27 January 2020

Electoral Division affected:
None

External Audit - Audit Progress Report and Sector Update 2019/20
(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 Audit - Audit Progress Report and Sector Update 2019/20 at December 2019 is set out at Appendix A for the committee's consideration.

Recommendation

The committee is asked to consider the External Audit - Audit Progress Report and Sector Update 2019/20 set out at Appendix A.

Background and Advice

This report provides an update including our proposed timescales for the audit of the 2019/20 statement of accounts and the Value for Money (VfM) conclusion. The outcome of the work will be reported to the Audit, Risk and Governance Committee's meeting in July 2020. The report also provides additional information, on sector developments, to members of the committee as those charged with governance for the county council and Pension Fund.

Robin Baker, Engagement Lead, will attend the meeting to present the report at Appendix A and respond to questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Audit Progress Report and Sector Update

Lancashire County Council and Lancashire County Pension Fund
Year ending 31 March 2020

December 2019

Appendix A

Contents

Section	Page
Introduction	3
Progress at December 2019	4
Audit Deliverables	6
Sector Update	7

Introduction

Robin Baker

Engagement Lead

T 0161 214 6399
M 07880 456159
E robin.j.baker@uk.gt.com

Angela Pieri

Engagement Manager

T 0141 223 0887
M 07920 813338
E angela.l.pieri@uk.gt.com

Page 33

This paper provides the Audit, Risk and Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit, Risk and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at December 2019

Financial Statements Audit

We issued an unqualified opinion on your 2018/19 Statement of Accounts on 29 July 2019 for Lancashire County Council and Lancashire County Pension Fund. Our Annual Audit Letter was presented to the Audit, Risk and Governance Committee on 28 October 2019.

We have begun planning the 2019/20 audit and we will issue detailed audit plans for Lancashire County Council and Lancashire County Pension Fund, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will begin our interim audits in January 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

.

Other areas

Certification of claims and returns

We certified the Council's Teachers Pension Return for 2018/19 in accordance with the procedures agreed with the Teachers Pension Agency. This certification work was concluded on 28 October 2019, one month ahead of the 29 November 2019 deadline.

Meetings

We have regular liaison meetings with the Chief Executive, Director of Finance, Finance Officers and Internal Audit regarding emerging developments to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events and publications to support the Council. We thank the Council for hosting one of our Local Government Chief Accountants workshops that officers are attending on 5 February 2020.

Further details of our recent publications that may be of interest to the Council are set out in our Sector Update section of this report.

.

Progress at December 2019 (Cont.)

Audit Fees

During 2017 PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of significant developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer and Director of Finance including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit, Risk and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2019	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit, Risk and Governance Committee setting out our proposed approach in order to give an opinion on the Council's and Pension Fund's 2019/20 financial statements. .	February 2020	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2020	Not yet due
Audit Findings Report The Audit Findings Reports for Lancashire County Council and Lancashire County Pension Fund will be reported to the July 2020 Audit, Risk and Governance Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Page 37

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

FRC Financial Reporting Council

IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

• Clear explanation of the key judgements made in response to the new reporting requirements;

• Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;

• Clear identification of practical expedients used on transition and accounting policy choices; and

• Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.

What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal "Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it's critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future."

Paul goes on to write "Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government's austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

1) The creation of a new arm's length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and

2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it's clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

https://www.themj.co.uk/What-is-the-future-for-audit/214769

Grant Thornton’s Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available our on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

• businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment

• policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas

• Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

1 Prosperity

2 Dynamism and opportunity

3 Inclusion and equality

4 Health, wellbeing and happiness

5 Resilience and sustainability

6 Community trust and belonging

This year’s index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

1 Ensure that decisions are made on the basis of robust local evidence.

2 Focus on the transformational trends as well as the local enablers

3 Align investment decisions to support the creation of sustainable growth

4 Align new funding to support the creation of sustainable growth

5 Provide space for innovation and new approaches

6 Focus on place over organisation

7 Take a longer-term view

The online report is available here:

https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/

Page 40

Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
2) Local government has become increasingly reliant on local taxes for revenues.
3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

https://www.ifs.org.uk/publications/14563

An instinct for growth™

grantthornton.co.uk

Agenda Item 8

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected:
(All Divisions);

Grant Thornton's Request for Information from the Committee Chair
(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 committee is asked to consider the proposed response to Grant Thornton's request for information from the Chair of the committee.

Recommendation

The committee is asked to approve the document at Appendix B as the formal response from the Chair of the committee to Grant Thornton's request for information.

Background and Advice

To comply with International Auditing Standards, each year Grant Thornton as the external auditor is required to refresh their understanding of how the Audit, Risk and Governance Committee gains assurance over management processes and arrangements.

The Chair of the committee has been asked to provide information in respect of Lancashire County Council and its Pension Fund. The information requested relates to fraud risk; compliance with law and regulation; and the appropriateness of adopting the 'going concern' principle in preparing the 2019/20 accounts.

The letter from Grant Thornton requesting the information is attached at Appendix A. A response has been prepared for consideration by the committee and is attached at Appendix B.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk Management

This response will provide information to the external auditor to support their role in determining an opinion on the council's statement of accounts and value for money arrangements for 2019/20.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

Mr Alan Schofield
Audit, Risk and Governance Committee Chair
Lancashire County Council
County Hall
Preston
PR1 0LD

Grant Thornton UK LLP
Royal Liver Building
LIVERPOOL
L3 1PS

T 0151 224 7200
www.grant-thornton.co.uk

3 December 2019

Dear Mr Schofield

Lancashire County Council and Lancashire County Pension Fund Financial Statements for the year end 31 March 2020 - Understanding how the Audit, Risk and Governance Committee gains assurance from management

To comply with International Auditing Standards, each year as part of our planning processes, we need to refresh our understanding of how the Audit, Risk and Governance Committee gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as a member of the Council and as Audit, Risk and Governance Committee Chair with your responses to the questions on the attached schedule.

For information, we are also required to make similar enquiries of management and these issues will be discussed with senior management. Therefore, you may wish to discuss your response with Angie Ridgwell or Neil Kissock. I also recognise that you will want to consult with the Chair of the Pension Fund Committee.

Please could you provide a response to me by **31st January 2020** covering the 2019/20 year to date. Please contact me if you wish to discuss anything in relation to this request. My contact details are:

Angela Pieri	0141 223 0887 / 07920 813338	angela.l.pieri@uk.gt.com

Yours sincerely

Angela Pieri

Senior Manager
For Grant Thornton UK LLP

Response from Audit, Risk and Governance Committee Chair of Lancashire County Council and Lancashire County Pension Fund – 2019/20 audit

Fraud risk assessment

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Has the council / Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?	The council maintains a risk register which includes consideration of fraud risk. Fraud has not been formally identified as a high risk on the council's corporate risk register. The Internal Audit Plan is designed to test the areas of highest risk to the council's objectives and provide assurance that they are adequately and effectively managed.	The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is reviewed and updated on a quarterly basis and any changes are presented to Pension Fund committee and the Local Pensions Board on a six monthly basis.
What are the results of this process?	The risk to the council of a fraud amounting to c£32 million, i.e. material to the statement of accounts, is considered to be low. However, the risk of smaller amounts of fraud or theft is recognised and financial controls are regularly audited.	The risk register identifies a medium level of inherent risk of fraud and a low residual risk through the mitigation outlined as follows.
What processes does the council / Pension Fund have in place to identify and respond to risks of fraud?	The Internal Audit service designs its audit work, in particular within the council's key financial systems, to identify and pursue indications of fraudulent activity. Through the Internal Audit Service, the council also actively participates in the National Fraud Initiative.	The Pension Fund actively participates in the National Fraud Initiative. More generally the council's procedures for investigating allegations of fraud and corruption apply equally to the Fund. Pension Fund assets are held by an independent custodian or by depositary custodians appointed by investment managers. These custodians are responsible for protecting and safeguarding fund assets.

Page 47

Appendix B

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Direct payments to users of adult social care services and to the carers of children in receipt of services are high risk and often subject to fraud. Internal audit work on these areas is being undertaken during 2019/20.	There is no real incentive to manipulate revenue recognition for fraudulent purposes. It is possible that fraudulent investment management fees could be charged, but fees are reviewed on a quarterly basis and are broadly similar in basis across the industry.
Are internal controls, including segregation of duties, in place and operating effectively?	The council's financial controls are regularly audited by the Internal Audit Service. The Audit, Risk and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on the adequacy of internal control. Generally, the council is sufficiently resourced to ensure segregation of duties. There are some small areas where this is not the case, but the risk of loss, fraud or theft is assessed as low in these areas.	The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The Fund has its own governance policy and also complies with the council's Code of Corporate Governance. The Internal Audit Service considers the internal controls relevant to the Pension Fund general ledger annually.
If not, where are the risk areas and what mitigating actions have been taken?	Not applicable.	Not applicable.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The Internal Audit Service has not identified any areas where there is potential for override of controls or inappropriate influence over financial reporting. A centralised finance function allows for scrutiny of business finance information such that financial reports can be independently verified. Employees are not considered to be under undue pressure to achieve financial targets.	The nature of the Fund does not subject employees to undue pressure around financial targets. An independent actuarial valuation is undertaken on a triennial basis. The preliminary results of the valuation as at 31 March 2019 report that the Fund is 100% funded. The Investment Panel ensures that performance is in line with expectations according to the investment strategy.

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
		The panel operates under delegated responsibility from the Pension Fund Committee and reports to the committee on a quarterly basis.
Are there any areas where there is a potential for misreporting?	Most financial information of significance is reviewed by the centralised finance function, and is verified by Senior Finance Managers to ensure that the risk of misreporting is minimised.	Investment performance is monitored on a regular basis. Reconciliation to underlying investment records is undertaken by an independent investment custodian.
How does the council / Pension Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	Since fraud represents a lapse in financial control, the Audit, Risk and Governance Committee is charged with responsibility for overseeing management's arrangements in response to the risk of fraud. It receives, as a minimum, an annual report from the Internal Audit service addressing whistleblowing, special investigations and counter fraud work, including work on the National Fraud Initiative. In an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes.	The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is reviewed and updated on a quarterly basis and any changes are presented to the Pension Fund committee and the Local Pensions Board on a six monthly basis. The results of the work performed under the National Fraud Initiative are reported to the Pension Fund Committee. The Local Pensions Board performs a scrutiny role, ensuring good governance and compliance with legal and regulatory requirements. The board reviews the work of the committee in considering risk monitoring and mitigation. The board is also informed of all breaches of law or regulations, and considers, amongst other things, whether there is a requirement to report a breach to the Pensions Regulator. The Fund is compliant with the county council's Code of Corporate Governance, Local Government Pension Scheme Regulations and Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice.

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
What arrangements are in place to report fraud issues and risks to the Council / Audit, Risk and Governance Committee?	The Audit, Risk and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on breaches of internal control and fraud risks where applicable. The Audit, Risk and Governance Committee is also provided with a report at least annually addressing whistleblowing, special investigations and counter fraud work, including information about every case raised and addressed during the year.	The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is reviewed and updated on a quarterly basis and any changes are presented to Pension Fund committee and the Local Pensions Board on a six monthly basis. All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise. The Pension Fund Committee reports directly to the Full Council where any breaches or risks are reported. The Local Pensions Board also has a remit to report directly to Full Council.
How does the council communicate and encourage ethical behaviour of its staff and contractors?	Staff are periodically reminded through corporate staff notices of the need to adhere to the council's Code of Conduct and to behave ethically. For staff without access to the intranet, managers are asked to raise these issues in team meetings. A reminder about whistleblowing, also referring to the council's commitment to the highest possible standards of openness, probity and accountability, is periodically made through a 'Staff News' items.	Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the council's Code of Conduct for employees. Officers who are members of professional accounting bodies are also covered by professional conduct requirements. The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund. Advisors to the Fund such as actuaries, legal and accounting firms are also covered by their own industry specific ethical standards and professional conduct requirements.

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	All staff are periodically encouraged through staff news items to use the whistleblowing helpline where appropriate and all reports are investigated. However no significant issues have been reported during the year to date.	The pension fund staff have undertaken online fraud awareness training. No issues have been reported by staff in relation to fraud concerns.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Related party disclosures are requested from relevant members and senior management annually, as defined by International Financial Reporting Standards (IFRS) 24. No relationships or transactions that might give rise to risks of fraud have been identified to date.	Related party transactions and relationships are reviewed on an annual basis. No relationships or transactions that might give rise to risks of fraud have been identified to date. Specific training in relation to declarations of interest is given after each set of elections to the county council.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments, or the Pension Fund, since 1 April 2019?	The Internal Audit Service is aware of a number of instances of actual, suspected or alleged fraud and will report them to the committee in July 2020: none are known at this point to be material to the financial statements.	No.

Law and regulation

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
What arrangements does the council / Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	In an organisation of Lancashire County Council's size, a proportionate approach is taken to an assessment of risk and to the assurance required over the controls implemented to manage it.	Compliance with the Scheme of Regulations is ensured by a dedicated internal technical team and the use of a pension's administration system specifically designed for the Local Government Pension Scheme (LGPS).

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved. However, we do have a number of controls in place that include: • A designated Monitoring Officer • A Legal Service that provides advice and support • Authors of all political decision making reports are required to seek and consider finance / legal advice, and obtain formal finance / legal clearance where finance/legal implications have been identified • Access to independent legal advice • Directors' assurance statements • Equality impact assessments	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 Local Pensions Partnership's (LPP) custodian. LPP is a Financial Conduct Authority (FCA) registered company and therefore must follow strict rules over compliance and has a compliance team which is independent from the investment management team. The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities or to any organisation generally. 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.
How does management gain assurance that all relevant laws and regulations have been complied with?	Directors complete annual assurance statements and Corporate Management Team (CMT) review arrangements as part of the development of the Annual Governance Statement and local Code of Corporate Governance. CMT also receive and consider external reports and Internal Audit reports. Other controls in place include: • A designated Monitoring Officer • A Legal Service that provides advice and support	Head of Fund is designated as the officer responsible for the management of the Fund. Authors of all reports to the Pension Fund Committee are required to seek and consider finance/legal advice, and obtain formal finance/legal clearance where finance/legal implications have been identified. Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	• Authors of all political decision making reports are required to seek and consider finance / legal advice, and obtain formal finance / legal clearance where finance/legal implications have been identified • Access to independent legal advice • Equality impact assessments	Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources. Local Pensions Board assists the council in ensuring compliance with LGPS and other regulations. The Fund is a member of the CIPFA pension network and other local networking groups such as NWWPG (North West and Wales Practitioners Group). There is regular attendance of training and conference events to remain fully aware of current and developing laws and regulations.
How is the Council / Pension Committee provided with assurance that all relevant laws and regulations have been complied with?	Directors complete annual assurance statements and Corporate Management Team (CMT) review arrangements as part of the development of the Annual Governance Statement and local Code of Corporate Governance. CMT also receive and consider external reports and Internal Audit reports. Other controls in place include: • A designated Monitoring Officer • A Legal service that provides advice and support • Authors of all political decision making reports are required to seek and consider finance / legal advice, and obtain formal finance / legal clearance where finance/legal implications have been identified • Access to independent legal advice • Equality impact assessments	The Pension Fund Committee and Local Pensions Board receive reports on potential regulatory changes and their implementation. Authors of all reports to the Pension Fund Committee are required to seek and consider finance/legal advice, and obtain formal finance/legal clearance where finance/legal implications have been identified. Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2019?	Several data breaches were reported to the Information Commissioner's Office (ICO). However, it is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved. However, the Audit, Risk and Governance Committee comments on and approves the Annual Governance Statement. It also approves annually the local Code of Corporate Governance that is then approved by Full Council. The Committee also receives and considers external reports and Internal Audit reports as appropriate.	No.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	There is an established litigation team within the council's legal service that uses its professional experience to deal with litigation and claims against the council.	The council's legal procedures apply to Lancashire County Pension Fund.
Is there any actual or potential litigation or claims that would affect the financial statements?	All relevant claims are included in the financial statements and potential claims of significance are noted as required per the financial reporting regulations.	No.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	The Information Commissioner's Office (ICO) contacted the county council regarding the noncompliance to Subject Access Request timescales. The ICO is monitoring the council for six months. Revised working practices have been put in place.	No.

Going Concern

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
How will the council / Audit, Risk and Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the 2019/20 financial statements?	According to the CIPFA code, 'as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting'. The council periodically produces a medium term financial forecast covering a multi-year time horizon. Gaps between expenditure forecasts and funding levels are addressed through the annual budget setting process. The council has the ability to raise additional funding through local taxation. The council's Code of Corporate Governance supports the Director of Finance to bring influence to bear on all material decisions.	According to the CIPFA code, 'as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting'. The funding level of the Fund gives some assurance regarding the going concern basis for the Fund. Cash flow is monitored by the Pension Fund Committee and the Fund's advisors on a quarterly basis with particular emphasis on the bridging of contributions income and benefits payable with investment income. The Pension Fund Committee reports directly to Full Council.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected: (All Divisions);

Grant Thornton's request for information from Management
(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 Committee is asked to consider the proposed response to Grant Thornton's request for information from the Council's management.

Recommendation

The Committee is asked to agree the management response set out at Appendix B.

Background and Advice

To comply with International Auditing Standards, each year Grant Thornton as the external auditor is required to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. They are also required to make enquiries as to management's knowledge of any actual, suspected or alleged fraud and to document management's view on some key areas affecting the financial statements.

The letter, from Grant Thornton, requesting the information is attached at Appendix A. A response has been prepared for consideration by the Committee and is attached at Appendix B.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The response to Grant Thornton will provide information to the external auditor to support their role in determining an opinion on the Council's statement of accounts and value for money arrangements for 2019/20.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton
An instinct for growth™

Angie Ridgwell
Chief Executive Officer and Director of Resources
Lancashire County Council
County Hall
Preston
PR1 0LD

Grant Thornton UK LLP
Royal Liver Building
LIVERPOOL
L3 1PS

T 0151 224 7200

www.grant-thornton.co.uk

3 December 2019

Dear Angie

Lancashire County Council and Lancashire County Pension Fund Financial Statements for the year end 31 March 2020

To comply with International Auditing Standards, we need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with law and regulation. We are also required to make inquiries of both management and the Audit, Risk and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the attached schedule. In completing this task, you may wish to take into account the views of other directors where you think appropriate. The schedule relates to operational issues as well as the financial statements of the Council.

In addition to our request to management, we also need to gain an understanding of how the Audit, Risk and Governance Committee maintains oversight of the above processes. I will provide you with a copy of the letter that I sent to Councillor Alan Schofield, Chair of the Audit, Risk and Governance Committee, for your information.

It would be useful to co-ordinate both the Audit, Risk and Governance Committee and management responses to our letters in time for discussion at the Audit, Risk and Governance Committee meeting scheduled for 27 January 2020. Please could you provide a response to me by **31 January 2020.** covering the financial year 2019/20 to date. Please contact me if you wish to discuss anything in relation to this request. My contact details are:

Angela Pieri	0141 223 08897/ 07920 813338	Angela.L.Pieri@uk.gt.com

Yours sincerely

Angela Pieri

Senior Manager
For Grant Thornton UK LLP

Lancashire County Council and Lancashire County Pension Fund - Questions to Management 2019/20

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	There are no specific events that have had a significant impact on the financial statements for 2019/20.	Continued pooling of investments and the reporting of post-pooling management expenses. Reporting on the implications of the McCloud case on the IAS 19 liability. Until further information is known, the intention is to follow the 2018/19 accounting treatment. The Fund will follow The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance in preparing the annual report and accounts.
Have you considered the appropriateness of the accounting policies adopted by the council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies have been reviewed, and the policies to be adopted for the 2019/20 accounts will be subject to approval by the Audit, Risk and Governance committee in January 2020. There have been no events or transactions that have caused a change to the accounting policies since 2018/19. However, the accounting policies have been streamlined in line with CIPFA guidance.	There have not been any events or transactions that will result in new or changed accounting policies. The Fund follows the CIPFA code of practice and guidance specific to the accounts of Local Government Pension Scheme (LGPS) Funds.
Are you aware of any changes to the council's regulatory environment that may have a significant impact on the authority's financial statements?	No.	No.
What policies and procedures are in place to identify applicable legal and regulatory requirements to ensure the council is complying with those requirements?	There are a number of policies and procedures that are available to all employees via the intranet. These include: - The constitution - Scheme of delegation - Political decision making arrangements	Head of Fund is designated as the officer responsible for the management of the Fund. Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.

Appendix B

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	- Assurance statements This is supplemented by internal audit reviews. Also, all committee reports are required to undergo an internal clearance process whereby relevant input is obtained from finance, legal, procurement, HR and other support services, before decisions are taken.	Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources. Local Pensions Board assists the council in ensuring compliance with LGPS and other regulations. The Fund is a member of the CIPFA pension network and other local networking groups. There is regular attendance of training and conference events to remain fully aware of current and developing laws and regulations.
How would you assess the process for reviewing the effectiveness of internal control and what are the results?	The adequacy and effectiveness of internal control is assessed through an annual programme of internal audit work, and through management's own assessment of their controls' effectiveness. The results of these assessments are likely to be that, overall, moderate assurance can be taken that the council's internal controls are adequately designed and effectively operated.	The adequacy and effectiveness of internal control is assessed through an annual programme of internal audit work. The council's oversight of the Pension Fund is audited by the council's own internal audit service which has given substantial assurance when reporting on oversight of the Pension Fund. Substantial assurance concludes that the framework of control is adequately designed and/ or effectively operated. The service company appointed to administer the fund has appointed its own internal auditor who also follows an annual programme of internal audit work.
How does the council's risk management processes link to financial reporting?	The council's financial position is identified as a risk factor on the council's risk register. The council's senior management and political leadership regularly receive reports on the council's current and longer term financial position. Financial reports are produced routinely on a monthly basis with an annualised forecast produced by budget holders with support from the finance team for more complex service areas such as adult social care.	Any significant identified risk areas are accounted for in accordance with the CIPFA Code and additional CIPFA guidance. A budget is approved by Pension Fund Committee on an annual basis and actual financial performance is monitored against budget on a quarterly basis with commentary to support variances and updated forecasts reported to the Committee on a quarterly basis.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	Budgets are composed on a hierarchical basis, such that the level of reporting from detail to corporate summary can be obtained dependant on need. The financial position is reported to Cabinet on a quarterly basis, which provides a commentary on the main risks and opportunities to date. Particularly focussing on the high value and demand led services such as waste, children and adult's social care. Corporate accountability for budgets is held at Director and Heads of Service levels, allowing for corrective actions to be employed effectively at an appropriate scale. The council continues to look to improve the integration of reporting across finance, performance and human resources such as to further support risk management outcomes.	
How would you assess the council's arrangements for identifying and responding to the risk of fraud?	The senior audit investigator supports the council's participation in the National Fraud Initiative, supports managers where there are reasons to consider that there may be a risk of fraud, and in some cases directly investigates allegations of fraud or impropriety.	The senior audit investigator supports the council's participation in the National Fraud Initiative, which incorporates data relating to the Pension Fund.
What has been the outcome of these arrangements so far this year?	No single issue is likely to have a material impact on the council, or would prompt a reassessment of the council's overall control environment.	The National Fraud Initiative (NFI) exercise is nearing completion with a small number of cases still under investigation. To date the NFI exercise has identified overpayments totalling £55k which relate to 55 cases, mainly in respect of pensioners who are deceased but where pension payments continued. Arrangements have been put in place to recover these overpayments.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Clearly all financial systems are susceptible to fraud. However the transactions that yield the greatest number of potential and actual frauds as well as some of the largest values, are direct payments to service users or their representatives.	The largest financial sums lie in the Fund's investments, but the greatest numbers of individual transactions are with the Fund's members: both areas could be susceptible to fraud.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The council's whistleblowing helpline continues to receive referrals relating both to financial issues and to human resource concerns. All are considered and investigated either by the senior audit investigator or by the human resources service.	No.
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The Internal Audit service provides a progress report to each meeting of the Audit, Risk and Governance Committee that highlights any unmitigated risks arising from the audit work undertaken. The committee has a record of interest in such matters and periodically invites directors to explain their responses to the risk issues raised and provide assurance regarding the action being taken. The risk management process is robust and all services update their risk and opportunity registers quarterly. During 2019/20 these service registers have been assessed by the Deputy Monitoring Officer, and a corporate risk and opportunity register prepared and presented to the Corporate Management Team. This corporate risk and opportunity register is then reported to both the 'Cabinet Committee for Performance Improvement' and 'Audit, Risk and Governance Committee' on a quarterly basis.	The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is reviewed and updated on a quarterly basis and any changes are presented to the Pension Fund committee and the Local Pensions Board on a six monthly basis. All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise. The Pension Fund Committee reports directly to Full Council reporting any breaches or risks. The Local Pensions Board has a remit to report directly to Full Council and also directly to the Pensions Regulator in respect of Code of Practice breaches.
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	There are several mechanisms that include: - Induction - Intranet pages - Staff notices - Cascade briefings - Performance Development Reviews - Bite sized briefings - Specific training - Staff conferences - Blogs - Videos	Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the council's Code of Conduct for employees. Officers who are members of professional accounting bodies are also covered by professional conduct requirements. The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund. Advisors to the Fund such as actuaries, legal and accounting firms are also covered by their own industry specific ethical standards and professional conduct requirements.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	The county council identifies litigation and claims from several sources that include service managers, external bodies serving notice and individuals submitting claims through established claims procedures. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways, child protection and employment issues. The council maintains extensive records relating to both historic and current cases. The council generally self-insures for claims up to £1m, above which insurance is procured. A provision is held on the council's balance sheet to cover the accruing liabilities as valued by an external actuarial review.	The county council's legal procedures apply to LCPF.
Is there any use of financial instruments, including derivatives?	Yes, the financial instruments recognised in the comprehensive income and expenditure statement are detailed in a note to the statement of accounts. These include: - Financial assets and liabilities at amortised cost - Other financial assets measured at fair value	Yes. The investments of the Fund.
What is the current position of those issues included in the 2018/19 accounts as contingencies and provisions at 31 March 2019?	Provisions are set aside to provide for specific expenses for which the exact cost and timing are still uncertain. At 31 March 2018, these comprised: - Insurance provision - Business Rates appeals Insurance provision - Funds are set aside to cover liability claims in respect of employer's liability, public liability or buildings insurance which are below our insurance excess and our self-insured limits. A provision will continue to be made at March 2019 to cover ongoing liabilities. Business rates appeals - This provision accounts for the share of the business rates appeals impact estimated by the 12 Lancashire districts. A provision will continue to be made at March 2019 for the revised impact estimate.	No provisions or contingencies were included in the accounts of the Fund for 2018/19.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Are you aware of any significant transaction outside the normal course of business?	No.	No.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.	No.
Are you aware of any guarantee contracts?	The council provides a pension indemnity to its wholly owned companies: Active Lancashire and Marketing Lancashire.	There are no guarantee contracts.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	At this point there have been no significant instances of fraud, error, or other irregularity during the period either singly or collectively. A report will be prepared for the Audit, Risk and Governance Committee to consider at its meeting on 27 July 2020 that will provide information on each case and the work undertaken in response.	No.
Are you aware of any instances of non-compliance with laws or regulations or is the authority on notice of any such possible instances of non-compliance?	A number of data breaches were reported to the Information Commissioner's Office. However, in an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved. However, each year Directors complete an assurance statement confirming compliance.	No.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	No examinations, investigations or inquiries by any licensing or authorising bodies are known to the Finance, Legal and Internal Audit service or Trading Standards and Scientific Services. In April 2019 the council was requested by HMRC to carry out a review of supplies of staff to identify any supplies which had not been subject to VAT ahead of a Business Risk Review that is due to take place.	No.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	Yes. These are noted in the statement of accounts, and include: - Property, plant and equipment valuations - Property, plant and equipment depreciation - Fair value estimations - Impairment of debtors - Pensions liability	Yes. Disclosures are included in the statement of accounts outlining areas of estimation uncertainty and significant judgements. The valuation of investments, particularly those classed as Level 3 in the fair value hierarchy, is subject to professional judgement and estimation techniques. Estimation of the liability to pay future pensions benefits is also based on professional judgment and complex assumptions.
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	Property, plant and equipment valuations - The council commissions a rolling programme of valuations. Valuations are undertaken by qualified valuers within the council's estates department in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. 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. 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, their fair value is measured	Estimates and judgements are based on best industry practice in respect of the valuation of level 3 investments and investment properties. Where applicable, industry standards are applied. For private equity and infrastructure assets the valuations are assessed using Internal Private Equity and Venture Capital Valuation Guidelines or equivalent. Long term credit investments are valued at the Fund's percentage holding based on audited net asset value provided by external investment managers. Real estate is valued according to Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
	using the valuation techniques following the CIPFA code. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the RICS. Impairment of debtors - Analysis of historic payment data to project lifetime recoverability of debtor balances. Pensions liability - The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	Standards. Valuations of directly held properties are provided by external valuer, the Avison Young Partnership group. The estimation of the liability to pay future pension benefits is dependent on a number of complex assumptions. A firm of consulting actuaries (Mercer) provides the Fund with expert external advice.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.	No.
What is the current position in respect of any of the prior years reported internal control deficiencies?	A considerable programme of improvements to services, systems and process is still under way, although this is also closely related to cost-saving measures. Managers regularly provide information about the status of each action arising as a result of internal audit work and these are generally being progressed.	The internal audit service gave substantial assurance over the oversight of the pension fund and no internal control deficiencies were reported.
Can you provide details of those solicitors utilised by the council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The county council utilises external solicitors and counsel on a range of issues. The litigation team within the council's legal services deals with on-going claims and litigation on issues such as highways, child protection and employment issues. The council maintains extensive records relating to both historic and current cases.	Pinsent Masons – ongoing class action litigation in respect of manufacture overseas dividends. In-house and external solicitors (Pinsent Masons and DAC Beachcroft) used for investment property, other Fund legal matters and for review of other contracts and tender bids.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Although the public sector interpretation of IAS1 means that unless services are being transferred out of the public sector then the financial statements should be prepared on a going concern basis, management is still required to consider whether there are any material uncertainties that cast doubt on the council's ability to continue as a business. a) What is the process for undertaking a rigorous assessment of going concern? b) Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? c) How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved? d) Has the management team carried out an assessment of the going concern basis for preparing the financial statements and what was the outcome of that assessment?	The provisions in the CIPFA Code of Practice on Local Authority Accounting on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not, therefore, be appropriate for their financial statements to be prepared on anything other than a going concern basis. The council has however conducted an assessment of the going concern basis for preparing the accounts. The main factors which underpin the council's assessment of its going concern status include: - The council has set a balanced revenue budget for 2019/20; - The council forecasts its financial position over the medium term, currently to 2023/24, identifying relevant risks and opportunities which have been subjected to scenario stress testing; - The council has a strong record in bridging the gap between forecast expenditure and funding; - The council has a robust financial monitoring framework; - The council is able to raise revenue through local taxation.	The provisions in the CIPFA Code of Practice on Local Authority Accounting on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not, therefore, be appropriate for their financial statements to be prepared on anything other than a going concern basis. The Funding level of the Fund gives some assurance regarding the going concern basis for the Fund. Cash flow is monitored by the Pension Fund committee and the Fund's advisors on a quarterly basis with particular emphasis on the bridging of contributions income and benefits payable with investment income.

Auditor question	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	As a large and complex organisation, the council uses a wide range of internal and external advisors to support the proper discharge of its responsibilities.	Mercer – general actuarial enquiries, triennial valuation, International Accounting Standards (IAS) 19 assumptions and accounting schedules. KPMG – tax issues. Independent advisors to the Fund – investment panel throughout the year.
Have any of the council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements of the council?	At this point neither the Internal Audit Service nor the Procurement Service are aware of any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the council's financial statements.	Neither the internal audit service nor the procurement service are aware of any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the Pension Fund's financial statements.
Have any reports been made under the Bribery Act?	No.	No.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected: (All Divisions);

Accounting Policies Used in the Preparation of the Statement of Accounts 2019/20
(Appendix A refers)

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

Executive Summary

The accounting policies to be used in preparing the council's 2019/20 statement of accounts are set out in Appendix A.

There are no changes to the substance of the accounting policies for 2019/20, however, the policies have been streamlined and simplified in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) publication 'Streamlining the Accounts'.

Recommendation

The Audit, Risk and Governance Committee is asked to approve the accounting policies, as set out in Appendix A.

Background and Advice

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

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

Whilst there has been no change in the substance of the accounting policies, the policies have been streamlined in line with the latest guidance published by the

Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of which is to provide clearer, simpler and more transparent information.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Failure to complete the statement of accounts in line with the Chartered Institute of Public Finance and Accountancy Code of Practice may result in an adverse opinion from the council's external auditors.

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

General principles

Basis of preparation

Note	Page No.	Note	Page No.
General principles		Accounting policies for assets and liabilities	
Basis of preparation		Cash and cash equivalents	
Events after the reporting period		Financial instruments	
Group accounts		Financial assets	
Pooled budgets		• Financial assets measured at amortised cost	
Prior period adjustments, changes in accounting policies, estimates and errors		• Financial assets measured at fair value through other comprehensive income	
		• Financial assets measured at fair value through profit and loss	
Accounting policies for income		• Expected credit loss model	
Recognition of income		Financial liabilities	
Council tax and non-domestic rates income		Property, plant and equipment	
Government grants and other contributions		• Recognition	
		• Measurement	
Accounting policies for costs		• Revaluation gains and losses	
Recognition of expenditure		• Depreciation	
Charges to revenue for non-current assets		• Impairment	
Employee benefits		• Minimum revenue provision	
• Employee benefits payable during employment		• Non-current assets held for sale	
• Termination benefits		• Disposal of assets	
• Post-employment benefits		Heritage assets	
• Local government pension scheme		Investment property	
• Discretionary benefits		Fair value measurement	
Long term contracts		Leases	
Overheads and support services		Reserves	
Private finance initiative (PFI)		Schools	
Provisions, contingent assets and contingent liabilities			
Revenue expenditure funded from capital under statute			
Value added tax (VAT)			

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

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

Events after the reporting period

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

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

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

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

Group accounts

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

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

Pooled budgets

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

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

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

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

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

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

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

Accounting policies for income

Recognition of income

Income is accounted for in the financial year in which the activity it relates to takes place, which may not be the same year in which cash payments are received. This means that revenue from the sale of goods or the provision of services is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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

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

Council tax and non-domestic rates income

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

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

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

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

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

Government grants and other contributions

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

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

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

Where conditions attached to the grants or contributions have not been met, monies received to date are carried in the balance sheet as receipts in advance and credited to the comprehensive income and expenditure statement when the conditions are satisfied.
Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. This income is then reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

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

Accounting policies for costs

Recognition of expenditure

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

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

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

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

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

Charges to revenue for non-current assets

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

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

Employee benefits

Employee benefits payable during employment

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

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

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

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

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

Local government pension scheme

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

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

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

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

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

Service costs:
Current service cost is the increase in liabilities as a result of years of service earned this year and is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.

Past service cost is the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years this is charged to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.

Net interest on the net defined benefit liability:
The expected increase in the present value of liabilities during the year as they move one year closer to being paid, offset by the interest on assets; which is the interest on assets held at the start of the year and cash flows occurring during the period. The result is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Re-measurements:
These comprise the return on plan assets (excluding amounts included in net interest) and actuarial gains and losses. Actuarial gains and losses are the changes in the net pension liability which arise because actuaries have updated their assumptions.

Re-measurements are charged to the pensions reserve as other comprehensive income and expenditure.

Contributions paid to the Lancashire County Pension Fund:
Cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

Discretionary benefits

The county council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Long term contracts

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services, with the works and services received under the contract during the financial year.

Overheads and support services

The costs of overheads and support services are charged to services in accordance with the county council's arrangements for accountability and financial performance

Private finance initiative (PFI)

PFI and similar contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide services passes to the PFI contractor. As the county council is deemed to control the services that are provided under the PFI schemes, and as ownership of the property, plant and equipment will pass to the county council at the end of the contracts for no additional charge, the county council carries the assets used under the contracts on the balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability, for amounts due to the scheme operation to pay for the capital investment.
Non-current assets related to these contracts and recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the county council.

The county council makes agreed payments each year to the operators, increased in line with inflation where stated in the contract and similarly reduced if performance falls below minimum standards in any year.

The charge made up of the cost of services received during the year which is charged to the relevant service line in the comprehensive income and expenditure statement and a charge for the property which is split between:

- The interest charge on the outstanding liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- The contingent rent, debited to the financing and investment income line in the comprehensive income and expenditure statement;

- The payment towards the outstanding liability which is applied to write down the balance sheet liability;
- Lifecycle replacement costs (split between revenue and capital costs). Revenue lifecycle costs are debited to the relevant service in the comprehensive income and expenditure statement. Capital lifecycle costs are posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the county council a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential and, a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement, in the year the county council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent assets

A contingent asset arises where an event has taken place that gives the county council a possible asset, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.
Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent liabilities

Contingent liabilities arise where either:

- a possible obligation has arisen from past events, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.

- a present obligation may arise from past events but it is not recognised because either it is not probable that the outflow of resources will be required or, the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Revenue expenditure funded from capital under statute

Capital expenditure incurred during the year that does not create an asset of the county council is charged to the relevant service in the comprehensive income and expenditure statement but funded from capital sources.

An adjustment is made in the movement in reserves statement from the general fund to the capital adjustment account to reverse out the amounts charged so that there is no impact on the level of council tax.

Value added tax (VAT)

The comprehensive income and expenditure account excludes amounts relating to VAT and will be included as an expense, only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Accounting policies for assets and liabilities

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents are shown net of bank overdrafts and form an integral part of the council's cash management strategy.

Financial instruments

Financial instruments are recognised on the balance sheet when the county council becomes a party to the contractual provisions of a financial instrument.

Except for financial assets carried at fair value, all other financial liabilities and financial assets represented by investments, borrowing, cash, debtors and creditors are carried on the balance sheet at amortised cost.

Financial assets

Financial assets are classified based on the business model for holding the financial assets and their expected cash flow characteristics.

Financial assets are classified into one of three categories:

Financial assets measured at amortised cost

Where the county council's business model is to hold investments to collect contractual cash flows, the financial assets are classified as amortised cost.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are initially measured at fair value and are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the county council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest. Interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

There is no recognition of gains or losses on fair value until reclassification or de-recognition of the asset. Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Financial assets measured at fair value through other comprehensive income (FVOCI)

The county council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the county council is not subject to a high degree of credit risk. These assets are measured and carried at fair value. Interest is recognised in the comprehensive income and expenditure statement on the same basis as for amortised cost financial assets, as described above.

All gains or losses due to changes in the fair value of the assets (both realised and unrealised) are charged to the other comprehensive income and expenditure line in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the financial instruments revaluation reserve.

Financial assets measured at fair value through profit of loss (FVPL)

These assets are measured and carried at fair value.
All gains and losses due to changes in fair value are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement as they arise.

Expected credit loss model

The county council recognises expected credit losses on its financial assets held at amortised cost or FVOCI, (subject to materiality) either on a 12-month or lifetime basis.

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the county council.

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at fair value and carried at amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable, are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The amount presented in the balance sheet is the outstanding principal repayable plus accrued interest. Interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase or settlement. Where premiums and discounts are charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years.

The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

Property, plant and equipment

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and, the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Property, plant and equipment is recognised where the initial cost or value exceeds £10,000.

Measurement

Assets are initially recognised at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement.

Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the balance sheet using the following measurement bases:

Category	Measurement basis
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 are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but as a minimum every three years.

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

Valuations are provided as at 1 April and are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.

Revaluation gains and losses

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains, unless the gain reverses a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Depreciation

Depreciation is an accounting estimate used to charge the cost of an asset to services over its useful economic life.

Depreciation is calculated on the following bases:

Category	**Period over which assets are depreciated**
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

Depreciation is not charged on land, community or heritage assets as they do not have a determinable finite useful life. Assets under construction are not depreciated until they are available for use. Assets held for sale and investment properties are revalued every year and therefore depreciation is not charged on these assets.

Depreciation is calculated on a straight-line basis meaning that the asset's value reduces equally each year over its life.

Depreciation is charged from the month of acquisition until the month of disposal.

Depreciation is generally charged on buildings as a single asset. However, where an asset has major components whose cost is significant in relation to the overall cost of the asset, and the lifetime of the component is significantly shorter than that of the asset, the major component is depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for the same was as revaluation losses.

Minimum revenue provision

The county council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are replaced by the MRP in the earmarked reserves balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement, for the difference between the two.

Non-current assets held for sale

Where it is highly probable that property assets will be disposed of within the next 12 months the asset is reclassified as assets held for sale. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of:

- Their carrying amount before they were classified as held for sale. In this case the carrying amount is adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale.
- Their recoverable amount at the date of the decision not to sell.

Disposal of assets

When an asset is disposed of, the carrying amount of the asset in the balance sheet is written off to the other operating expenditure line in the comprehensive income and expenditure statement, as part of the gain or loss on disposal. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The net loss or gain on disposal is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account (for any sale proceeds greater than £10,000) the capital receipts reserve.

Capital receipts can only be used to fund new capital investment or, be set aside to reduce the council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

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

The valuation of the county council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which is not considered 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 county council's holding.

The county council has a detailed acquisitions and disposal policy, further information on which can be obtained from the county council. Disposals will not be made with the principal aim of generating funds

Investment property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. They are not used for service delivery

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the balance sheet date. Gains and losses on revaluation and disposal are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Rental income is credited to the financing and investment income line in the comprehensive income and expenditure statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account.

Fair value measurement

The county council measures some of its assets such as surplus assets, investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either, in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The county council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value, the county council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Leases

Leases are classed as finance leases, where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Where the county council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal and replaced by a long term debtor in the balance sheet at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

Reserves

The county council sets aside specific amounts as reserves for future policy purposes or, to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement.

When expenditure is incurred which is to be financed from an earmarked reserve, the expenditure is charged to the appropriate service revenue account in that year. An equal amount is transferred from the reserve to the general fund in the movement in reserves statement

Certain reserves are held for technical accounting purposes in respect of non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the county council. These reserves are explained in the relevant notes.

Schools

The balance of control for local authority maintained schools, foundation, voluntary aided and voluntary controlled schools are all deemed to lie with the council, therefore schools' assets, liabilities, reserves and cash flows are recognised in the council's financial statements as if they were transactions of the council.

Schools' non-current assets (school buildings and playing fields) are recognised on the balance sheet where the council directly owns the assets, where the council holds the balance of control of the assets or, where the school or the school governing body own the assets or have had rights to use the assets transferred to them.

Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the council's property, plant and equipment as the council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.
School assets are derecognised in full on the date that a school transfers to academy status.

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency. DSG is allocated to budgets delegated to individual schools and centrally retained council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected: None;

Treasury Management Strategy 2020/21
(Appendices A, B and C refer)

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

Executive Summary

The council is required to produce a treasury management strategy before the beginning of each financial year. The proposed treasury management strategy for 2020/21 is attached as Appendix A, the non-treasury strategy is attached at Appendix B, and the associated minimum revenue provision policy statement is at Appendix C.

Recommendation

The Audit, Risk and Governance Committee is asked to recommend that Full Council approves the treasury and non-treasury management strategies and the minimum revenue provision policy statement for 2020/21.

Background and Advice

Treasury management is the management of the council's investments and cash flows, its banking, money market and capital market transactions. It also includes the effective control and management of the risks associated with these activities, ensuring that the council gets the best performance within acceptable risk parameters.

The treasury management strategy at Appendix A sets out the council's approach to ensuring the security and liquidity of its investments, whilst having regard to investment returns in order to protect the value of the funds. It also outlines the council's strategy for financing capital expenditure, with the aim of securing the required funds at the lowest possible rate.

Although the impact of treasury management decisions are considered over the long term, there is a requirement through regulations for the strategies to be approved annually. The proposed treasury management strategy is broadly similar to that adopted in 2019/20 although the strategy makes reference to the increase in the cost of loans from the Public Works Loan Board by 1% in relation to gilt yields.

Lancashire County Council

These traditionally have been the main source of long term borrowing but the increase potentially makes alternative sources of long term borrowing more attractive; including the potential for the council to issue a bond. This may involve a large short term cash inflow and the limits for both borrowing and investments have been adjusted to accommodate this.

It should be noted that the figures in the strategy will be subject to minor changes as the capital programme is developed and approved.

The Ministry of Housing, Communities and Local Government has issued updated statutory guidance on local government investments. This now covers a wider definition of investments and includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). Investments held for service purposes or for commercial profit are considered in the non-treasury Investment Strategy at Appendix B.

The minimum revenue provision policy statement for 2020/21 is also presented for approval at Appendix C. There are no changes to this policy from the previous year.

Consultations

Arlingclose, the county council's external treasury management advisers, have provided advice in the formulation of the proposals.

Implications:

This item has the following implications, as indicated:

Risk Management

The council, having adopted the "prudential code", is required to prudently manage its investments and borrowing. A failure to do so could expose the council to undue financial risks.

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

Paper	Date	Contact/Tel
Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice	2018	Paul Dobson (01772) 534725
Ministry of Housing, Communities and Local Government statutory guidance on local authority investments	2018	Paul Dobson (01771) 534725

Reason for inclusion in Part II, if appropriate

N/A

Treasury Management Strategy 2020/21

Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management activities. In effect this means the council must adhere to the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code), and the Ministry of Homes, Communities and Local Government guidance on local authority investments.

The CIPFA code requires the treasury management strategy to be produced and approved annually. In addition the Ministry Homes, Communities and Local Government has issued updated statutory guidance on local government investments. This now covers a wider definition of investments and includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). Investments held for service purposes or for commercial profit are considered in the non-treasury investment strategy.

In conjunction with the detailed treasury management practices approved by the Director of Finance, the strategy provides the policy framework for the engagement of the council with financial markets in order to fund its capital investment programme, to maintain the security of its cash balances and protect them from credit, liquidity, inflation and interest rate risk.

The strategy includes provisions for borrowing, treasury investments, financial derivatives and the indicators that will be used for monitoring purposes throughout the year. It is designed to achieve the following objectives:
- To ensure the security of the principal sums invested which represent the council's various reserves and balances.
- To ensure that the council has access to cash resources as and when required.
- To minimise the cost of the borrowing required to finance the council's capital investment programme, and manage interest and inflation rate risks appropriately.
- To maximise investment returns commensurate with the council's policy of minimising risks to the security of capital and its liquidity position.

In setting the treasury management strategy, the following factors have a strong influence:
- the economic position
- the council's current investment and borrowing portfolio
- estimates of future borrowing and investment requirements

Economic position

The UK economy has been affected by concerns over the world economy, in particular the trade war between the USA and China, and the uncertainty arising from the UK's exit from the European Union. Gross Domestic Product growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. The Bank of England sets its monetary policy to achieve the government's target of keeping inflation at 2%. The latest inflation rate as measured by the Consumer Prices Index is 1.5%. In the short term, the Bank of England has to balance the target of low inflation with supporting economic growth and jobs. As a result the base rate has remained at 0.75% throughout 2019 with the last movement being a 0.25% increase in August 2018.

The Bank of England monetary policy committee met on 19 December 2019 with the committee's latest projections for activity and inflation being set out in the November Monetary Policy Report and assumed an orderly transition to a free trade agreement between the United Kingdom and the European Union. UK Gross Domestic Product growth was projected to pick up, supported by the reduction of Brexit-related uncertainties, an easing of fiscal policy and a modest recovery in global growth. With demand growth outstripping the subdued pace of supply growth, excess demand and domestic inflationary pressures were expected to build gradually. Consumer Prices Index inflation was projected to rise slightly above the 2% target towards the end of the forecast period.

<u>Interest rate forecast:</u>

In light of the economic position the authority's treasury management adviser, Arlingclose, is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside as although it is anticipated that the UK will leave the European Union by the end of January there is still a need for greater clarity on any trade agreement and the continuing global economic slowdown.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

Current portfolio

The council's treasury portfolio as at 30 November 2019 was as follows.

	£m
Call accounts	60
Local authority deposits	17
Government, local government and supra-national bonds	171
Corporate bonds	223
Total Investments	471
Short term loans	575
Shared investment scheme	81
Long term loans - local authorities	65
Long term loans - PWLB	431
Total Borrowing	1,152
Net Borrowing	681

In addition the authority held some £231m of non-treasury investments.

Estimates of future borrowing and investment requirements

In the medium term the prudential code requires that the council's borrowing adjusted for transferred debt is for capital purposes only. The underlying need to borrow for capital purposes is measured by the capital financing requirement, while usable reserves and working capital are the underlying resources available for investment. The following table compares the estimated capital financing requirement to the borrowing at 30 November 2019. This gives an indication of the borrowing required and the resources available for investment.

The capital financing requirement forecast assumes a capital programme which includes borrowing of £50m a year in each of years 2020/21 to 2022/23. Clearly, this will be subject to change as the capital programme develops.

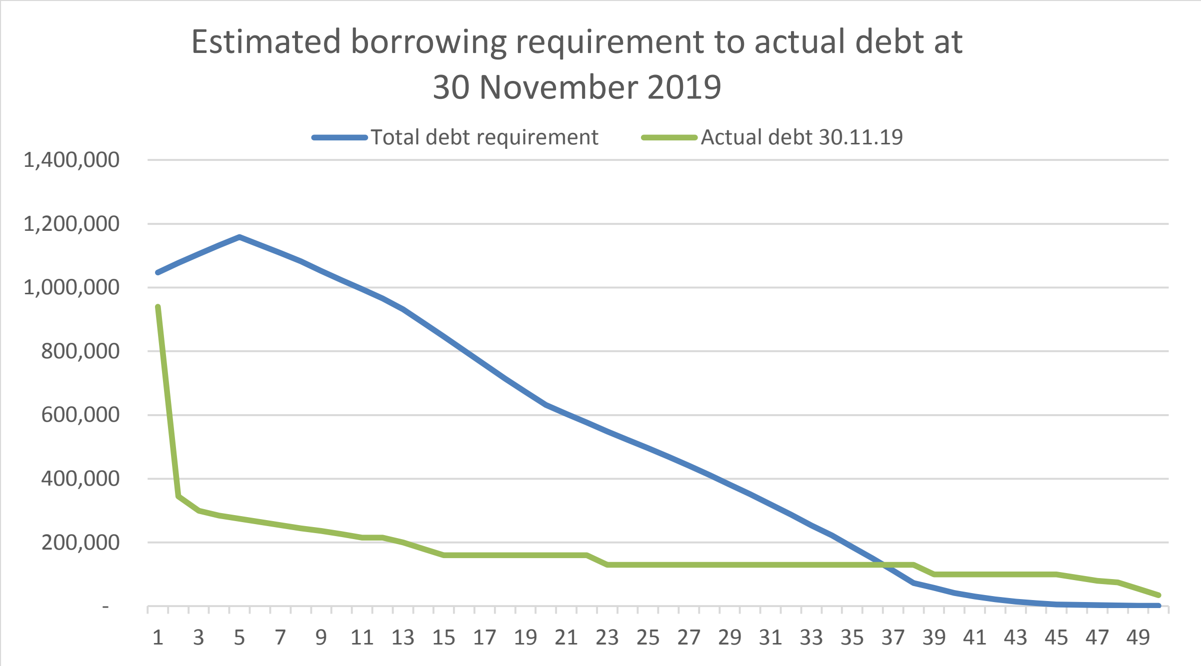
	31/3/2020	31/3/2021	31/3/2022	31/3/2023
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital financing requirement	1,105	1,132	1,159	1,184
Other long term liabilities	-146	-139	-133	-126
Borrowing capital financing requirement	959	993	1,026	1,058
External borrowing	-940	-345	-300	-285
Borrowing requirement for capital	19	648	726	773
Other borrowing requirements*	89	84	79	74
Reserves and working capital	-440	-450	-400	-400
Borrowing/ - Investment need	-332	282	405	447

*shared investment scheme, debt held on behalf other local authorities and premiums

Borrowing Strategy

The borrowing strategy will be determined by the need for the council to borrow and the impact of the economic climate on the prevailing cost and availability of borrowing.

The council borrows for capital purposes with the underlying need to borrow for capital purposes being measured by the capital financing requirement. CIPFA’s Prudential Code for Capital Finance in Local Authorities, recommends that the council's total debt should be lower than its highest forecast capital financing requirement over the next three years. The council has a borrowing requirement over the next three years, however in assessing the need to borrow, consideration is given to the requirement to borrow for the longer term. The graph below compares the estimated total debt requirement and debt maturity position at 30 November 2019 for the next 50 years given the current capital programme and minimum revenue provision policy.



The graph demonstrates that there is a need to borrow over the long term although the amount required reduces over time. There is a large requirement in the early years. This is due to the impact of new capital schemes in the programme and the need to replace existing debt as the council has followed a policy of taking short term loans to take advantage of existing market conditions.

The council's borrowing strategy continues to balance the issues of affordability while ensuring the borrowing needs are met and providing some certainty of cost over the long term.

With short-term interest rates currently lower than long-term rates, it has been more cost effective in the recent past to borrow short-term. Given the economic outlook, significant increases in interest rates are not forecast in the medium term, with this situation likely to continue. However, there is significant economic uncertainty and rates are at historically low levels. Therefore the benefits of short-term borrowing will be monitored regularly. As a result the council may borrow additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

There are a range of options available for borrowing in 2020/21:

- Variable rate borrowing is expected to be cheaper than fixed rate long term borrowing and will be attractive during the financial year, particularly as variable rates are closely linked to Bank Rate.
- Under 10 years loan duration rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities.
- Additionally, borrowing can be achieved through the issuance of a 'commercial paper (an unsecured, short-term debt instrument issued by a corporation) - euro medium term note. This is a flexible debt instrument that facilitates direct issuance into the public or private markets in a range of formats, with fixed or floating payments across a range of maturities from 1-50yrs. The UK Municipal Bonds Agency euro medium term note documentation allows for "Non-Guaranteed" single

council bond issuance under UK Municipal Bonds Agency documentation provided the council has its own long term credit rating. This will represent a cheaper route to market than a stand-alone bond issue and it is proposed that this is a method that is permissible for the council to use should it decide to issue its own bond.

- The UK Municipal Bonds Agency is proposing a new product which does not include a joint and several guarantee. Instead, a council's liability will be proportional to its share of the outstanding borrowing. Consideration as to whether or not this would be an appropriate form of borrowing will be given when the full details are available.

Against this background, the Director of Finance will, in conjunction with the council's advisers, monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances. All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need, namely whether a borrowing requirement to fund the capital programme or previous capital investment exists;
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance;
c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost;
d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.

All long term decisions will be documented reflecting the assessment of these criteria.

Sources of borrowing

Traditionally the Public Works Loan Board has been the main source of long term borrowing. The interest rate charged on Public Works Loan Board loans is linked to the gilt yield. In recent years the council has been able to obtain a Public Works Loan Board loan at 0.8% higher than the gilts yield (this rate is referred to as the margin). However, in October 2019 the margin applied to loan rates was increased by 100 basis points (1%). Therefore the new margin above gilts is now 1.80% and it is therefore anticipated that long term loans can now be achieved cheaper by using other sources.

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK Local Authorities
- Any institution approved for investments including high quality supranational banks such as the European Central Bank
- UK public and private sector pension funds
- Any other financial institution approved by the Prudential Regulation Authority, (this is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms)
- Capital market bond investors either over the counter or through electronic trading platforms

Borrowing instruments

The council may only borrow money by use of the following instruments:

- Bank overdrafts
- Fixed term loans
- Callable loans or revolving credit facilities where the council may repay at any time (with or without notice)
- Callable loans where the lender may repay at any time, but subject to a maximum of £150m in total
- Lender's option borrower's option loans, but subject to a maximum of £100m in total
- Bonds, notes, bills, commercial paper and other marketable instruments
- Sale and repurchase (repo) agreements

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market benchmark interest rate, such as the Sterling Overnight Index Average (often referred to as SONIA) which is administered by the Bank of England. The balance between fixed and variable rates will be subject to the limits on interest rate risk approved in this treasury management strategy.

Debt restructuring

The council regularly monitors both its debt portfolio and market conditions to evaluate potential savings from debt restructuring.

Other borrowing

The council may borrow for short periods of time to cover unexpected cash flow shortages and to take deposits on the shared investment scheme. Also to provide cash flow support for the Preston, South Ribble and Lancashire City Deal project. This is to cover the gap between the cost of construction of infrastructure and the payment of contributions from other organisations including the government and developers. This borrowing is temporary but will be reflected within the prudential limits

Policy on Borrowing in Advance of Need

The council will not borrow more than, or in advance of need, with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is appropriate in the following circumstances:

a) Where there is a defined need to finance future capital investment that will materialise in a defined timescale of two years or less; and
b) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
c) Where in the view of the section 151 officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing beyond the two year horizon.

Having satisfied the criteria above, any proposal to borrow in advance of need would be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, with the value for money of the proposal fully evaluated.
b) The merits and demerits of alternative forms of funding.
c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

All decisions will be documented reflecting the assessment of these circumstances and criteria.

Treasury Management Investments Strategy

The council holds reserves and other cash items on its balance sheet which are invested. In investing these cash balances the council follows guidance issued by CIPFA and the Ministry of Homes, Communities and Local Government.

The Ministry of Homes, Communities and Local Government guidance requires treasury management investments to prioritise security, liquidity and yield in that order of importance. The council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The council has in recent years pursued a policy to hold as investments a sum as close as possible to the cash value of its reserves and balances. This policy will continue in 2020/21 but it will be regularly reviewed to ensure value for money is achieved.

Business model for holding investments

Under the IFRS 9 (International Financial Reporting Standard), the accounting for certain investments depends on the council's "business model" for managing them. In general, the authority holds investments to either collect the contractual cash-flows or a mixture of holding for the contractual cash-flows and sale proceeds. Neither of these would result in changes in market value having to be a charge against council tax at year end. However, if investment assets are held for the purpose of trading any changes in the asset value is charged to the accounts. The business model for the main treasury management investments are as follows:

<u>Local authority investments</u> - these are principally investments for a fixed term which are held to maturity. In addition, the authority holds some long term bonds issued by local authorities which are also held to maturity. In both cases interest is received on agreed dates and are held for the contractual cash-flows therefore they will be valued at amortised cost.

<u>Gilts</u> - the holding of gilts represent a key part of the strategy for holding investments to back up the reserves and balances while maintaining a low credit risk portfolio. They are also a liquid asset and periodic sales will be incurred in reaction to market movements to enhance the overall yield of the holdings but this is not the primary aim

of the holding and therefore gilts will be held at fair value through 'other comprehensive income' which means that market value changes will not be charged against council tax.

Other bonds - the council also holds other high credit quality corporate bonds. These are held primarily for the purposes of liquidity providing a low credit risk holding. These are bought and sold in relation to cash needs and therefore the valuation will be such that the market value changes will not be charged against council tax.

Approved counterparties

The counterparty credit matrix is at the heart of the council's treasury management strategy and has always been conservatively constructed to protect the council against credit risk whilst allowing for efficient and prudent investment activity.

However, the council does not rely solely on credit ratings in assessing counterparties. Other market information is also monitored such as information from the credit default swap market and any press releases in general. In this way ensuring the council transacts with only the highest quality counterparties**.**

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes. These are set out as follows:

For short term lending of up to one year, the short term ratings from the ratings agencies will be used and that a counterparty must have a minimum of the following:

Moody's	P1
S&P	A1
Fitch	F1

Short term ratings were specifically created by the agencies for money market investors as they reflect specifically the liquidity positions of the institutions concerned.

For medium term investments in the form of tradeable bonds or certificates of deposit (1 to 5 years, where immediate liquidation can be demonstrated), a blended average of the ratings will be taken (averaging across all available ratings), with a minimum of:

Long term	AA3/AA-,
Short term	P1/F1+/A1+

For longer term investments (five years and above) in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

Long term	AA2/AA
Short term	P1/A1+/F1+

The detailed calculation methodology of the blended average will be agreed with the council's advisers and set out in the treasury management practices document.
If the counterparty of an existing investment falls outside the policy due to a change in credit rating, full consideration will be made, taking into account all relevant information, as to whether a premature settlement of the investment should be negotiated.

The minimum sovereign rating for investment is AA- with the exception of the UK. The UK's latest rating issued by Moody's is a long term rating of Aa2 which is the third highest grade.

Although the rating still falls within the current strategy it is possible as the Brexit process proceeds or if there is an economic downturn that there will be further downgrades. This could result in investments in UK government gilts, treasury bonds and bodies guaranteed by the UK government falling outside the treasury management strategy. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution it could prevent insolvency by printing money. Therefore it is proposed that the AA- minimum sovereign rating is not applied to the UK.

The table below shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills, Debt Management Office & bodies guaranteed by UK Government	UK Government	unlimited	unlimited	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1 year to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	500	500	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date
Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts with UK and Overseas Banks (domiciled in UK)	P1/A1/F1 Long term A Government support	100	200	Overnight in line with clearing system guarantee (currently 4 years)

Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date
Local authority fixed term deposits	Government	30	450	50 years
Local authority bonds	Government	50	300	60 years

Other than call account and operational bank accounts the council does not currently make unsecured investments with banks. This is as a result of the risk following the implementation of 'bail-in' legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future. However the option to undertake small scale lending, widely spread, may have some value and is therefore included in the policy.

Regarding investments with other local authorities, Arlingclose state that they are comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting the approved strategy. For periods longer than two years they recommend that additional due diligence is undertaken prior to a loan being made. On this basis it is proposed that the nominal value of investments to local authorities are limited as follows:

	Maximum individual investment	Maximum total investment	Maximum period
Up to 2 years	£30m	£450m	2 years
Over 2-10 years	£25m	£300m	10 years
Over 10 years	£25m	£100m	50 years

In addition to fixed term deposits occasionally local authorities issue bonds. The investment policy allows the county council to purchase such bonds as an investment which are generally held to maturity. The holding of the bonds is considered to be outside the limits expressed above but for the purpose of risk management the total of the bonds plus fixed term deposits with any one authority should not exceed £50m.

The council's day to day transactional bank, National Westminster, lies outside the investment credit matrix but emergency overnight deposits may be placed with them from time to time. In practice the balances are considered on a daily basis and kept as near to zero as possible. The balance on any day is typically below £1m. If there was a failure of National Westminster it is anticipated that they would be subject to bank bail-in rather than made insolvent. This increases the chance of the council maintaining operational continuity but any monies in the bank would be at risk of at least a partial loss.

Long term investments

The treasury management code requires where an authority invests, or plans to invest, for periods longer than one year then an upper limit for investments maturing in excess

of one year is set. The authority does have fixed term deposits which are for longer than a year and the bonds usually purchased have a maturity date which is in excess of one year and these could be held to maturity.
However, the investments are held in government and supranational securities, which are highly liquid. In addition the council holds a secondary liquidity investment book of very high quality covered floating rate notes which are typically issued for a three to seven year term. Because these instruments have their rates re-fixed, at current market rates every three months, their price shows a very low sensitivity to changes in market rates, so that although they are classified as long term instruments, in practice they operate as fixed instruments with a maximum of three months to maturity and can be liquidated with one or two days' notice. Therefore the 'long term investments' total contains instruments which operate with a short term horizon and which are central to achieving the council's security and liquidity objectives.

As a result of the nature of the assets held it is considered appropriate to have a high limit which is related to the forecast of reserves and balances held (currently forecast to be £450m at 31 March 2021, which is broadly similar to the estimate at 31 March 2020). However, it is anticipated that during the year cash-flow will be positive requiring a higher level of investments to be held. In particular, if a bond is issued for some £300m there will be a cash inflow before the debt it is replacing matures or the capital expenditure incurred and this cash will be invested. Therefore the proposed limit for 2020/21 is £750m.

In recent times, a wider range of investment instruments within the area of sterling deposits have been developed by financial institutions. All of these afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns. The Director of Finance will, in liaison with the council's external advisers, consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the council. Decisions on whether to utilise such instruments will be taken after an assessment of whether their use achieves the council's treasury management objectives.

Policy on the Use of Financial Derivatives

The council will only use financial derivatives (such as swaps, forwards, futures and options) on a standalone basis, where it can clearly be demonstrated that as part of the prudent management of the council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Many embedded derivatives are already used by local authorities across England and Wales including Lancashire, although unlike the government, commercial sector and other public service areas stand-alone derivatives have not generally been used.

A derivative is a financial instrument with three main features:

- The value changes in response to an underlying variable.
- The transaction requires no initial investment, or an initial net investment smaller than would be required for other types of contract with a similar expected response to market changes.

- The contract is settled at a predetermined future date.

The underlying variable represents an existing external risk for which the hedge is required. Examples are a specified interest rate, a commodity price, a credit rating, a foreign exchange rate or any other variable, however as the council's treasury activity is not directly exposed to all of these risks, for example foreign exchange or commodity prices, the council's use of derivatives would be restricted to the management and hedging of interest and inflation rate risk only.

The embedded and standalone derivatives which can be used by the council to manage interest rate risk are summarised as follows:

Class	Use	Standalone	Embedded
Forwards	To fix an interest or inflation rate for a single period in the future	Forward Rate Agreement, gilt lock, interest rate or gilt futures	Forward Deal
Swaps	To exchange interest or inflation rate exposures (e.g. fixed to floating)	Interest or inflation rate swap (IRS), basis swap.	Variable rate deposit, Floating rate note
Purchased Options	The right but no obligation to fix an interest or inflation rate in exchange for paying a premium	Caps, floors, collars, swaptions, puts, calls	Callable loan Collared deposit

The council will not sell interest rate or inflation rate options, (i.e. give another party the right to fix a rate) since these cannot reduce the council's risk. The only exception is where a sold option is combined with a purchased option of equal or higher premium to create a collar or other structured outcome where maximum is the total premium.

There are two methods of engaging in derivative contracts, exchange traded or settled derivatives and over the counter derivatives. The former are available in public markets and trade over a physical exchange with a clearing house acting as an intermediary and include futures and options. Over the counter contracts are privately negotiated and traded between two counterparties and can include swaps and forwards.

In a derivative contract both parties are often required to provide collateral (i.e. pools of valuable and liquid assets set aside specifically to back liabilities arising from the contract) to reduce credit risk. The method of assessing counterparty quality and suitability of collateral within the structure of the contracts is shown as follows:

Product	Counterparty Quality	Security	Method
Exchange traded or cleared product	Credit rating of exchange	Credit rating of clearing agent	Margin netting
Bilateral Forward rate agreements and swaps assuming netting	Credit rating of counterparty	Full 2-way collateral arrangements	Types of collateral agreed and any haircuts

OTC Options	Credit rating of counterparty	Agreed full 2-way collateral	Types of collateral and haircuts
Intra Local Authority swaps	Assumed Credit rating	2-way collateral (cash)	No haircut

The credit quality of the collateral acceptable to the county council will be determined by the credit rating of the counterparty or exchange, along with credit default swap prices which react much quicker than credit rating agencies and can be used as early indicators of credit or liquidity problems.

The following table defines the appropriate limits for collateral quality:

Counterparty type	**Documentation**	**Collateral types**	**CDS levels**	**Rating**
Exchange	MIFCA	Cash margins	<75bp	AA
Bank	International Swaps and Derivatives Association/Credit Support Annex	Cash and Government bonds	<100bp	A3
Insurer and Pension Fund	International Swaps and Derivatives Association/ Credit Support Annex	Cash and Government bonds	<100 (Insurers)	A3 (Insurers)
Local Authority	Contract	Cash and Government bonds	England/Wales None	England and Wales None

The council will only use derivative contracts to hedge existing risks. This is reflected in the limits below. The 100% upper limit means that the council has the option to hedge all of, but not more than, its interest rate risk if felt appropriate.

Exposure Metric	**Min Hedge**	**Max Hedge**	**Granularity**	**Tool**
Interest rate	0%	100%	0-3 months 3-6 months, 6-12m months, 1 to 2 years, 2-5 years and 5 year blocks	Forward rate agreements, Futures, Options, Swaps Swaption
Inflation rate	0%	100%	1 to 2 years, 2-5 years and 5+ years blocks	Swap, Swaption, Option

In addition hedge accounting will be used to periodically test the effectiveness of the hedge. It is expected the hedge will work with between 80% and 125% effectiveness in accordance with accounting standards. If the effectiveness is measured as falling outside these parameters, the structure of the hedge will be changed in response.

The calculation method of interest rate risk to be hedged and hedge effectiveness will be set out in the treasury management practices document.

At all times the council will comply with CIPFA advice and guidance on the use of financial derivatives and have regard to CIPFA publications on risk management. However the council may need to seek its own legal advice.

It is anticipated that there may be occasions when it is appropriate to undertake transactions which seek to reduce the council's specific exposure to interest rate risk. A standard market technique involves selling gilts to be paid for at an agreed date in the future rather than the normal next working day. It is proposed that the advance date is restricted to one month and the limit on the transaction(s) outstanding is £250m in total.

Impact on the council's revenue budget

With base rates at exceptionally low levels, investment returns are likely to continue to be far lower than has previously been the case. However, in the knowledge that a portion of cash invested will not be required in the short term and to protect against continued low investment rates, investments may be made for longer time periods, depending on cash flow considerations and the prevailing market conditions.

The performance target on investments is a return above the average rate for seven day notice money.

The following table outlines the budget for the financing charges element of the council's revenue budget as reflected in the medium term financial strategy. However, the budgets will be reviewed in light of changes in the capital programme.

	Revenue Budget 2019/20 £m	Revenue Budget 2020/21 £m	Revenue Budget 2021/22 £m	Revenue Budget 2022/23 £m
Minimum Revenue Provision	15	16	16	17
Interest paid	25	25	25	25
Interest and other income earned	-14	-12	-12	-12
Total	26	29	29	30

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. Provision has also been made for changing some of the borrowing to a long term fixed rate rather than the existing short term rates in 2020/21. The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to Cabinet.

Treasury Management Indicators

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice (2017) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year prudential indicators which provide a framework for the prudent management of its treasury management including limits with regard to certain types of activity such as borrowing. The indicators below are a consequence of the activities set out within the treasury management strategy.

Authorised and operational Limits for debt

The 'authorised limit' is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements. Taking into account the capital plans and estimates of cash flow and its risks, the authorised limits for external debt are as follows:

	2019/20 Revised	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Borrowing	1,600	1,600	1,650	1,700
Other long term liabilities	150	650	650	650
TOTAL	1,750	2,250	2,300	2,350

From 1 April 2020 accounting standards are changing in relation to recording leases. In effect more leases will be included on the council's balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the other long term liabilities limits will be subject to change.

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational limits for external debt are:

	2019/20 Revised	2020/21	2022/22	2022/23
	£m	£m	£m	£m
Borrowing	1,118	1,190	1,200	1,200
Other long term liabilities	147	400	400	400
TOTAL	1,265	1,590	1,600	1,600

The actual external debt at 31 March 2019 was £1,035m.

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

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast capital financing requirement over the next three years. The county council's borrowing is in excess of the capital financing requirement however, in making this comparison certain borrowing is included in the total borrowing but does not count against the capital financing requirement. These include the premiums paid and the transferred debt.

	As at 31 March			
	2020	2021	2022	2023
	£m	£m	£m	£m
Borrowing capital financing requirement	959	993	1,026	1,058
Estimated total borrowing	1,048	1,077	1,105	1,132
Borrowing in excess of capital financing requirement	89	84	79	74
Represented by:				
Premiums	45	41	38	35
Borrowing relating to other authorities	44	43	41	39

The indicators and limits relating to specific treasury management activities are set out as follows.

Interest rate exposure

In order to control interest rate risk the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50m

Maturity structure of debt

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

	Upper Limit
Under 12 months	75%
12 months and within 2 years	75%
2 years and within 5 years	75%
5 years and within 10 years	75%
10 years and above	75%

Investments over 1 year

Limit on the level of long term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end (currently forecast to be £450m). The level of investments will be managed to be in line with the estimated reserves and balances and cash flow at 31 March 2021 (deemed an operational limit which will be reviewed during the year).

However, it is anticipated that there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes. Therefore it is proposed that the limit for maturities in excess of one year is £750m for each of the years.

	Upper limit
Total invested over 1 year	£750m
Operational or forecast limit at 31 March 2021	£450m

Minimum average credit rating

To control credit risk the council requires a very high credit rating from its treasury counterparties.

	Benchmark
Average counterparty credit rating	A

Non-Treasury Investment Strategy 2020/21

This covers investments held to:

- support local public services by lending to or buying shares in other organisations, and
- earn investment income

In general, the council will continue its current policies regarding loans and the acquisition of shares. In addition the council will continue to review its services and if the opportunity exists to develop services that will provide opportunities for additional income generation (e.g. providing services to other authorities) these will be considered in the first instance by the appropriate service manager.

In considering any potential activity under the non-treasury investment strategy the council will take into consideration the statement from Rob Whiteman, Chartered Institute of Public Finance and Accountancy Chief Executive, and Richard Paver, Chair of the Chartered Institute of Public Finance and Accountancy Treasury and Capital Management Panel, on 'Borrowing in Advance of Need and Investments in Commercial Properties'. These re-iterate that a local authority should avoid exposing public funds to unnecessary or unquantified risk.

They state that "Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

As part of the statement there is a reminder that the informal commentary on the statutory guidance cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

Service Investments: Loans

The council provides loans as part of its service delivery and not primarily to generate income. The authority has made loans to Lancashire County Development Ltd which is an owned company that promotes economic development within the county; Local Pensions Partnership which provides pension investment and administration services; an arrangement with Blackpool Borough Council with respect to the waste service and Parish Councils. The council also has an employee loan scheme to promote alternatives to travelling by car.

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and therefore it is proposed that the provision of these loans continues in 2020/21.

The table below provides details of the loans outstanding at 31 March 19 and proposed limits for 2020/21.

Category of borrower	Outstanding at 31 March 19 £m	Proposed Limit 2020/21 £m
Subsidiaries	23.3	30.0
Other councils	30.4	35.0
Employees	0.1	1.0
Schools	0.2	5.0
Total	**54.0**	**71.0**

Service investments: shares

The county council holds shares in Local Pensions Partnership and the Municipal Bond Agency for specific service delivery objectives**.**

Commercial activities

The Ministry for Housing, Communities and Local Government defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met is in relation to smallholdings and Lancashire County Development Ltd. In 2019/20 the income generated from smallholdings was less than £0.1m while Lancashire County Development Ltd made a contribution to costs of some c£2.5m.

Bonds including gilts - most of the bonds held are for treasury management purposes and not trading purposes as outlined in the treasury management strategy. However, there are occasions when cash flow and market projections make it possible to buy and sell bonds purely on a trading basis.

Bonds purchased for trading reasons will potentially be valued at market value in the accounts. Therefore, any change in market value at year end will be charged against council tax therefore adding volatility to the council's financial position. It is proposed that the Director of Investments can invest in bonds for commercial purposes where cash-flow permits but investments outside the current treasury management credit matrix will only be incurred after agreement with the Director of Finance.

Other investment proposals may arise during the year. The proposals could involve changes to current services or changing the use of existing assets. These will be examined by officers and approval sought from the appropriate council members.

<u>Minimum Revenue Provision Policy Statement 2020/21</u>

This annual statement required to be approved by the county council arises from statutory guidance initially issued by the then Department of Communities and Local Government in 2008. This has been updated with the latest guidance issued by the Ministry for Homes, Communities and Local Government in 2018.

Local authorities are required each year to make a charge to the revenue account in respect of provision to repay capital expenditure financed by borrowing or credit arrangements (mainly finance leases or Private Finance Initiative contracts). The charge to revenue is one that the authority considers to be prudent and is referred to as the Minimum Revenue Provision (MRP).

Guidance issued by the Ministry for Homes, Communities and Local Government continues to identify four options which can be used for the purpose of calculating the Minimum Revenue Provision. However the legal requirement is to set a prudent charge and therefore authorities are free to move away from the guidance if they feel it is appropriate.

The four options explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

<u>Regulatory method</u>

Before the Prudential Code system of capital finance was introduced in 2004 the MRP was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of the capital financing requirement, which is derived from the balance sheet and broadly represents the outstanding debt used to finance the fixed assets. However, to avoid changes in the charge to revenue in 2004/05 an adjustment figure was calculated which would then remain constant overtime. For technical accounting reasons this methodology would have led to an increase in the charge to revenue, and would therefore have had an impact upon the county council's budget, so this method has not been used and is not recommended for future use.

<u>Capital financing requirement method</u>

This option allows for the MRP to be calculated as 4% of the capital financing requirement. This is derived from the balance sheet and represents the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the county council since the introduction of the MRP in 2004.

Asset life method

Guidelines for this method allow for the charge to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways namely:

1. A calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset.
2. An annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

The latest guidance states that the asset lives to be used should not usually exceed 50 years. This maximum can be exceeded if the authority has received an opinion from an appropriately qualified valuer or the asset is leased or acquired under a Private Finance Initiative which is for a duration in excess of 50 years.

Depreciation method

This requires a charge to be made of depreciation in line with normal accounting purposes. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

Finance leases and Private Finance Initiative

Assets held under a Private Finance Initiative contract form part of the balance sheet. This has increased the capital financing requirement and on a 4% basis the potential charge to revenue. To prevent the increase, the guidance permits a prudent charge to equate to the amount charged to revenue under the contract to repay the liability.

Application at Lancashire County Council

The relevant regulations require that the council make "prudent provision" for the repayment of debt, and departure from the options outlined is permissible if an alternative option is considered more appropriate.

Supported borrowing

From 2008/09 to 2014/15 the capital financing requirement option has been applied to all supported borrowing incurred before 1 April 2007. This charge was based on 4% of the outstanding capital financing. However, the charge was based on a 4% reducing balance which never effectively repays the debt. It was also considered that the 4% charge over-estimates the level of support within the Revenue Support Grant. From 2015/16 the charge has still been made with reference to the capital financing requirement but it is based upon a 50 year life rather than a reducing balance. In 2017/18 it was considered that there had been an overpayment of MRP in earlier years and therefore the MRP for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2020/21 and therefore the MRP charge for the supported debt will be £1.

Unsupported borrowing

The MRP for capital expenditure financed from unsupported borrowing has been calculated using the asset life method on an annuity basis. It is proposed that this continues for calculating the MRP for 2020/21. This includes expenditure incurred in 2008/09 to 2014/15 when the MRP was initially calculated using asset life method (equal charge approach).

Private Finance Initiative payments will be made in line with the amounts due to repay the liability under the contract

MRP will not be made in relation to the following specific circumstances:

For assets constructed as part of the Preston, South Ribble and Lancashire City Deal where the borrowing will be repaid from other capital financing sources within the life of the City Deal. This is temporary borrowing that will be repaid from sources such as Community Infrastructure Levy and funding from the Homes and Communities Agency when the development facilitated by the construction of county council assets has taken place. Thus an alternative prudent plan for repayment is in place. However, this position will be reviewed each year in light of progress with the City Deal.

For new assets no MRP will be charged until the financial year after which the project is deemed to be operational.

Overpayments

The guidance does allow for charges in excess of the minimum to be made. It is not proposed that any overpayments will be made in 2020/21.

Summary of recommendations

In respect of the methodology for applying the MRP in respect of the repayment of debt, it is recommend that the Full Council:

- Approves the capital financing requirement method and the asset life method for expenditure.
- Charges to revenue a sum equal to the repayment of any credit liability.
- Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal subject to annual review.
- Approve the policy of not commencing charges to the revenue account until the capital project is operational.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 27 January 2020

Electoral Division affected: (All Divisions);

Corporate Risk and Opportunity Register Quarter 3 2019/20
(Appendix A refers)

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

Executive Summary

This report provides an updated (quarter 3) Corporate Risk and Opportunity Register for the committee to consider and comment upon. The report also provides an update on a pilot that is being undertaken within Education and Children's Services to improve management information in relation to risk.

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 3 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. For this quarter a new risk has been added in relation to the county council's relationship with the Lancashire and South Cumbria Integrated Care System. Details of the new risk are set out at CR13 in the register. An updated Corporate Risk and Opportunity Register is attached at Appendix A.

A summary of the key updates to the register is 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:

- reference to developing the Organisational Development strategy

Lancashire County Council

- Our story and aiming to be council of the year 2021
- Staff survey results

It also covers further embedding a focus on service delivery though a second phase of the service challenge process. This has been updated to indicate that completed templates will feed into the budget setting process.

CR 2 - Protect and safeguard children
Work has begun to implement the new Family Safeguarding model to ensure a clear focus on demand management. Hertfordshire County Council is working with us to review the Multi Agency Safeguarding Hub in the context of the new model.

CR 3 - Complying with statutory requirements and duties relating to children looked after, children in need and children leaving care
The Getting to Good plan has been refreshed and an Ofsted visit focussing on "permanence", took place on 4 and 5 November 2019. The outcome of the visit will be known after the general election.

CR4 - Increase in demand, including rise in number of contacts and referrals and an increase in children looked after numbers.
Work has begun to implement the new Family Safeguarding model to ensure a clear focus on demand management. Hertfordshire County Council is working with us to review the Multi Agency Safeguarding Hub in the context of the new model. Work has begun with partners to implement the multi-agency Early Help strategy.

CR5 – Recruit and retain experienced staff across the organisation
Using the Apprenticeship Levy to retain and develop staff (grow our own) with a focus on difficult to recruit areas.

CR6 - Managing our data well and producing effective management information
Corporate Management Team approved the development of a business intelligence analytics solution proof of concept. The Digital Delivery plan is in place.

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.

CR8 - Delivering major projects/schemes on time and within budget
A lot of work has been undertaken on the asset management strategy that will underpin both the capital strategy and the development of a risk register for the capital programme.

CR9 - Delivering a statutory service for children and young people with special educational needs and/or disabilities
Continued positive progress in the delivery of the Improvement Plan but with some slippage. A transitions strategy and sufficiency strategy have been drafted.

CR10 - Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)
No change.

CR 11 Future provision of ICT services
An ICT transition partner has been appointed along with an Interim Chief Digital Officer. Governance arrangements are now in place and the Digital strategy has been agreed.

CR12 - Intermediate care for older people in a residential setting
The Carnall Farrer Review of Intermediate Care has concluded. This work suggests opportunities for significant improvement and cost savings across the NHS – local government system.

CR13 - Risk that system leadership is unable to address the financial health and care challenges of our population to improve outcomes for children and adults
This is a new risk on the register that focuses on how the county council works with partners to ensure effective health outcomes for children and adults in Lancashire.

Corporate Opportunities (CO)

CO1 - Delivering growth and prosperity for the whole of Lancashire
Main European Regional Development Fund Project Boost, has secured a Grant Funding Agreement and is applying for funding to June 2023.

CO2 - Apprenticeship Levy and apprentice % in public sector
Includes an update on transactional spend.

CO3 – Fair Funding and Business Rate Retention
An update on the business rate retention pilot in Lancashire. Pilot ends March 2020. One year settlement for 20/21 (50% rate retention).

CO4 – Working collaboratively with key health partners
Update on the initial work being undertaken to develop a Lancashire County Council offer to the health economy.

Review of the Risk Management Process

At a previous Corporate Management Team meeting, it was agreed that the way risk information was currently presented did not lend itself to decision making and suggested that a review be undertaken. At the same meeting it was also commented on that a directorate level register would be useful as the current service level registers are difficult to digest.

In response to the above, a revised approach has been developed that includes reformatting the existing register and introducing a risk profile summary. The risk profile summary would:

- Clearly show target dates by which the risk rating would become acceptable

- Allow progress monitoring on a quarterly basis (using a red, amber green rating). This will highlight and provide the information on which management decisions can be made
- Provide clearer accountability for actions

The revised approach is currently being piloted in Education and Children's Services.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

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

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

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

Corporate Risk & Opportunity Register Q3 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 Lancashire County Council managers, linked to national occupational standards and apprenticeships • 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. • 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 • Cabinet agreed to appoint a partner to work with the council on organisational development. Initial scoping session with directors and Heads of Service has taken place. • Narrative on 'our story' has been published with an aspiration to be council of the year 2021 • All staff now enrolled on MSc and MBA via Apprenticeship Levy • Staff survey completed and analysed. Results to be presented to Corporate Management Team and Executive Director's senior management teams. Each Director and Head of Service to develop action plans to address issues raised. • Key performance indicators to monitor progress against the corporate strategy have been developed by Overview and Scrutiny members			

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		• Develop process for further challenge. This will include: o Further challenge for some phase 1 services based on updated benchmarking data. o 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. • Completed templates to feed into budget setting process. May need to be reassessed in context of budget settlement.			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: o Workforce Development Board o Purposeful Practice Board o Multi-Agency Safeguarding Hub (MASH) and Demand Management Board o Permanence and Children In Our Care Board o Data Quality and Performance Board o Children's Partnership Board • There are effective partnership arrangements at a strategic and operational level. • External reviews of front-line practice are 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. • A system of regular case audits is well embedded and informs training and drives activity to improve the quality of practice.	16	• In line with revised "Working Together" new multi-agency safeguarding arrangements have now been established on a pan Lancashire basis, to ensure there is a shared responsibility for safeguarding and promoting the welfare of children. • The Getting to Good Plan has now been refreshed to ensure continued improvement. • Multi-agency work on thresholds and completing the MASH / Front Door review is ongoing. Hertfordshire are supporting Lancashire in the review of the MASH and the outcome of the review will allow Lancashire to ascertain the working requirements required to adopt the Family Safeguarding Model across the county. • Work has begun to implement the Family Safeguarding model to ensure a clear focus on demand management and achieving permanency for children outside of local authority care.	12 Major/ possible	Director of Children's Social Care	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 Department for Education 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: o Workforce Development Board o Purposeful Practice Board o MASH and Demand Management Board o Permanence and Children In Our Care Board o Data Quality and Performance Board o Children's Partnership Board • There are effective partnership arrangements at a strategic and operational level. • External reviews of front-line practice are provided by Ofsted, DfE, LGA and North West ADCS to provide external, independent evaluation of the quality of practice. • A system of regular case audits is well embedded and informs training and drives activity to improve the quality of practice.	16	• The Getting to Good Plan has been refreshed, to ensure continued improvement. Progress is monitored via the multi-agency Getting to Good Board • Avoid placing children and young people receiving care in unregistered settings • A focus visit by Osted, focussing on "Permanence", will take place on 4 and 5 November 2019. The outcome of the visit will be known after the general election.	12 Major/ possible	Director of Children's Social Care	The focus is increasingly on the cultural shift from compliance with statutory requirements to improving quality and strength based practice.
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 Permanence and Children in Our Care Board have key roles in ensuring oversight of activity to reduce demand.	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. • 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. • Multi-agency work on thresholds and completing the MASH / Front Door review is ongoing. Hertfordshire are supporting Lancashire in the review of the MASH on the 31 October. The outcome of the review will allow Lancashire to ascertain the working requirements required to adopt the Family Safeguarding Model across the County. • Work has begun to implement the Family Safeguarding model to ensure a clear focus on demand management and achieving permanency for children outside of local authority care. • Work has begun with partners to implement the multi-agency Early Help Strategy, building on the draft strategy developed and ratified with the Children and Families Partnership in May 2019.	16 Major/ Likely	Director of Children's Social Care	The number of children and young people coming in to care has begun to stabilise

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:
				  ○ Improved speed of recruitment
				  ○ Streamlined processes
				  ○ Improved flexibility
				  ○ Established a new career site
				  ○ Introduced a new on-boarding function
					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
									
									Using Apprenticeship levy to retain and develop staff (grow our own) with a focus on difficult to recruit areas

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	• 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:	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. • 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. • Corporate Management Team and Executive Directors have been alerted that additional resource will be needed to analyse consultation responses with a clear time table for the work. • On 30 October Corporate Management Team approved the development of a business intelligence analytics solution proof of concept. We are aiming for this to be in place by 31 March 2020. The proof of concept will provide a suite of dashboards relating to adult domiciliary care provision and will replace the community assessment and throughput tracker. This will then be a model for the further development of business intelligence analytics. A data quality dashboard is included which will support work to improve data quality.	12 Major/ possible	CMT	Level

			• 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. • Service planning and management will be severely compromised. • Potential for incorrect payment of providers, staff etc	○ 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.		• 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. • Digital delivery plan in place			
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	• 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	16	• 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. • The Core Business Systems Team are continually reviewing system requests against council priorities and strategies. • The establishment of a Quarterly Portfolio Review Board at Head of Service level will manage issues and escalations. • Critical incidents escalated within Strategy and Performance and BTLS are effective. • As part of service challenge a review of support for the Core Systems is underway.	12 Major/ possible	Director of Strategy & Performa nce	Risk being managed downwards

			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. • 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.	assessments. Discussed with various management teams on an ongoing basis. Weekly provision of information to operational managers for Liquid Logic Children's Social Care System (LCS). • New operating process and procedures developed and implemented to overcome recurring issues/problems - continuous improvement cycle implemented.					
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. • The Head of Internal Audit recently reported to Audit, Risk and Governance Committee that a lot of work has been undertaken on the asset management strategy that will underpin both the capital strategy and the development of a risk register for the capital programme. Having gained a more comprehensive understanding of the risks involved in the capital programme and the mitigating controls in place, senior finance managers will now finalise the risk register within the next three months	12 Major/ possible	Exec Director Growth, Environment & Transport	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 • 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.	• Following the SEND Local Area Inspection a Written Statement of Action (WSA) has been submitted identify improvements to the service offered by Lancashire County Council and the Clinical Commissioning Groups. The following areas were identified as requiring action: ○ The lack of strategic leadership and vision across the partnership ○ Leaders' inaccurate understanding of the local area ○ Weak joint commissioning arrangements that are not well developed or evaluated ○ The failure to engage effectively with parents and carers ○ The confusing, complicated and arbitrary systems and processes of identification ○ The endemic weaknesses in the quality of EHC plans ○ The absence of effective diagnostic pathways for 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	25	The SEND Partnership Board monitors the progress of the 12 areas for action identified within the Written Statement of Action. Each of the actions is addressed under 4 sub-groups: • Meeting Need • Equal Partners • Accessible Services • Achieving Success Within these sub groups are specific task and finish groups to support improvement. To accelerate improvement in 5 areas where the pace of improvement has stalled, accelerated plans have been developed. These areas are; • Transition • Neurodevelopmental pathways • Local Offer • Educational outcomes • Quality of Education, Health and Care Plans An operational group chaired by the Director of Education has been established that monitors the pace of this work with each of the lead officers for each area attending. An external audit of plans has evidenced improvement in the quality of plans and the support for transition but this remains an area of concern. A transitions strategy has been drafted that will support a broader focus of transition across children, health and adult services. This group is co -chaired by the Director of Adult Services and Director of Education. Key performance indicators have been agreed to support this work and the Preparation for Adulthood Steering Group will intensify the focus and accountability for delivering against these Key Performance Indicators. The governance arrangements for the key strands of work has been streamlined and articulated on a plan on a page so that there is improved clarity and focus to accelerate improvement. A draft sufficiency strategy to address increased demand for placements is scheduled for Cabinet in January 2020. The strategy will support a strategic plan to better meet need by developing more capacity to support children and young people in our Lancashire Schools reducing dependency on high cost out of county provision and reflecting the ambitions of the SEND reforms to place children with SEND in mainstream schools where appropriate.	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.

				• 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					
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 Troubled Families Unit (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. • Districts supported to identify families where potential claims can be made. • Workforce development complete for the Common Assessment Framework (CAF), Lead Professional (LP) and Risk Sensible working. • Revised 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 • 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.	• 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	• ICT transition partner appointed • Interim Chief Digital Officer appointed • Governance arrangements now in place • Digital strategy produced and agreed	12 Major/ Possible	Director of Financial Services	Risk is reducing
CR12	Intermediate care for older people in a residential setting	People/ Organisational	• Operational issues leading to service failures • Delayed transfer from hospital • Reputational challenge for the council if care homes operated by the council are judged by CQC as 'Requires Improvement' – currently two of the Care homes – Castleford, Clitheroe and Dolphinlee in Lancaster are rated 'Requires Improvement' by CQC	• 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. • Working with NHS colleagues to agree joint action plans • The review completed in May 2019 and steps are underway with NHS partners to develop a joint Programme plan • County Council care homes will formally be part of Radar and Quality Improvement Planning (QIP) safeguarding systems	16	• 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 • 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 the County Council 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. Early discussions suggest an exit from this model of delivery may be agreed in Pennine (during 2020/21) and Fylde Coast (2020/21 and beyond), but other areas have yet to reach conclusions • Middle manager appointed to oversee this area of residential rehabilitation within Older People services, to provide assurance and audit of process • A new Performance Board is being established to oversee arrangements for delivering on Older People Business Plan – this will meet every 6 to 8weeks	12 Major/ Possible	Executive Director for Adult Services and Health & Wellbeing	Timescales to be agreed via Advancing Integration Group for full implementation of Intermediate Care report

CR13	Risk that system leadership is unable to address the financial health and care challenges of our population to improve outcomes for children and adults.	People/ Organisational	• Inconsistent service offer and poor health outcomes including premature mortality, poor mental health and wellbeing and unplanned hospitalisation • Inability to secure joint funding to support vulnerable children and adults • Ineffective or unclear governance arrangements • Unclear responsibilities for services, their funding and the handover points • Inability to appropriately integrate service delivery • Unable to manage demand for services across the health care system that results in unsustainable financial position and inability to deliver savings	• Health & Wellbeing Board (HWBB) oversight of key priorities including intermediate care and SEND • Individual Patient Activity (IPA) Board established for adults/children's services to develop effective arrangements for joint funding • SEND Partnership Board providing system governance for the SEND Improvement Plan • Internal Health Integration Board established to ensure a clear county council approach to integration • Representation at key Integrated Care System (ICS) meetings has been agreed including cabinet member at executive board level and chief executive at system leadership executive level • Review of Health and Wellbeing Board Arrangements	16	• Strengthening the HWBB to improve oversight and challenge • Delivering against the project plans and activity agreed through children and adults IPA boards • Continued engagement with the health system to ensure we understand the expected impact of the proposed move to a single Clinical Commissioning Group • Complete review of Health and Wellbeing Boards • Ensure effective linkages between different levels of representation on ICS groups • Ensuring the county council is clear about priorities for integration through the internal Health Integration Board	12 Major/ Possible		

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 Lancashire Enterprise Partnership's (LEP) 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.	• The County Council continues to work with local authorities and wider economic partners, including the LEP to secure funding for economic growth initiatives and to generate locally base projects and solutions which can improve the competitiveness, productivity and inclusive growth trajectory of the Lancashire economy. New funding opportunities have arisen through City and Town Deals and High Street renewal funds across Lancashire. Lancashire County Council will look to support and maximise this investment and ensure projects are well aligned with the strategic aspirations already in place for the area.	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.	16 Major/ likely	CMT	The LEP Review, published in July 2019 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.
	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 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. Uncertainty over potential securing of a Devolution Deal or allocation of national resources and freedoms/flexibilities to the Lancashire level.	• European Structural and Investment Fund (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.		• Economic Development's main European Regional Development Fund (ERDF) project Boost, has secured a Grant Funding Agreement and is applying for funding to June 2023. 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 June 2023.			Whilst the opportunity to secure European Union (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.

	Establishment of robust pan-Lancashire collaboration arrangements.			• 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 percentage 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 Lancashire County Council 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 recruitment and retention needs of services for their future workforce planning. The first year published report on the percentage in Lancashire County Council against headcount, shows 0.66%	12	• Maximise the benefits of the Apprenticeship Levy within Lancashire County Council 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 Lancashire County Council 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. Reporting for 19/20 will show a raise to 1.4%	15 Outstanding/ possible	Director 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	• Pilot ends March 2020. • One year settlement for 20/21 (50% rate retention)	12 Major/ possible	Director 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 (ICS) 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 • We are contributing to the discussions, led by the Director of Public Health and Wellbeing relating to Neighbourhood Models. We are informing Executive Directors about the potential for working with the ICS and Integrated Care Partnerships (ICP). We are working with Health Partners to develop options and test models around neighbourhood working and joint commissioning of services where this makes sense. We have an agreed business case to pilot the neighbourhood model in Fleetwood which will include Public Health, children and families early help and some adult services, this is now being evaluated. We are responding in an opportunistic way when there are opportunities to address key challenges through local partnerships. • Health Integration Board established to provide a strategic focus on our engagement with health partners	15 Outstan ding/ 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			