Statement of accounts 2020/21

Subject to audit

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Front cover: Bowland Fells
Photo: Charlie Hedley

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Written statements to the accounts

River Hodder

Photo: Charlie Hedley

Foreword by the Chief Executive and Director of Resources

I am pleased to introduce the statement of accounts for the 2020/21 financial year.

The financial statements set out both the single entity accounts for Lancashire County Council and the consolidated group position, incorporating its subsidiary Lancashire County Developments Limited. The accounts for the Lancashire County Pension Fund are also included, for which Lancashire County Council is the administering authority.

Anniversary of the pandemic

It has been over a year since the first national lockdown and the COVID-19 pandemic has had a huge impact on us all. Despite the very difficult and challenging times we have been through together we have seen the very best of people. Throughout it all we have worked hard to find the positives, to make life better for our residents, businesses and colleagues.

In Lancashire, we marked the year since the start of the pandemic by joining the Marie Curie national day of reflection, taking part in the minutes' silence and sharing information of what we as a county have achieved over the last year as well as thinking of those we have lost.

Service provision

Our efforts have been directed towards keeping our residents healthy and safe, whilst supporting our most vital services and safeguarding the resilience of all our colleagues.

- We have helped more than 500 schools to remain open through the lockdown period to support the children of key workers and our most vulnerable families. Families who receive free school meals were supported with a meals service.
- We launched a campaign to recruit social care staff for Lancashire to meet the extra demand that the coronavirus crisis was creating.
- We have supported district councils in setting up their community hubs which are now in place in all 12 of our districts.
- Internally we have moved from being an organisation which is primarily location-based to one that is primarily remotely based.
- Many staff members were redeployed to new duties to support the response.
- We have also directly supported the outbreak management efforts through the provision of personal protective equipment to care providers and schools, worked with care homes to help them manage their risks, delivered a Lancashire-wide track and trace programme and rolled out COVID-19 testing regimes to enable safer working for our workforce and that of our care providers.

Also, the last year has been tough for most of us and not least our young people with disruptions to their education and lack of social contact. The work of our Youth Service colleagues throughout this time has been invaluable. They have helped young people deal with issues such as loneliness, mental health and domestic abuse - incidents which have risen during the pandemic.

I know that the team are very proud of the work they do, and rightly so. I'm sure the young people they support would whole heartedly agree.

Further details regarding the council's response to the COVID-19 pandemic can be found in the Annual Governance Statement.

Outlook for the future

During the year, the council was relied upon to contribute to the local emergency response directed by central government together with successfully delivering the council's existing vital services. As the chair of the Lancashire Resilience Forum, I have worked with partner agencies, including Police, Fire and Rescue, other local authorities and the NHS, to marshal our collective resources to meet these challenges. We aim to learn from how well we have worked together during these times to support our effective joint working going forward. Indeed, working together to build strong place based partnerships that build on the learning from the pandemic will be important to our success going forward.

With national restrictions starting to ease, we have a key role to play in the coming months as the vaccination programme progresses and we support Lancashire's residents and businesses to recover. Supporting our schools and young people to catch up on education and find pathways into careers will be a critical part of this.

Through the stewardship of our staff and council members, the council's financial position at the year-end is strong. I am incredibly proud of the work of our staff and the resilience of residents, volunteers and communities and with effective planning it gives me a great deal of confidence that we can meet the financial challenges in the future.

A Ridgwell

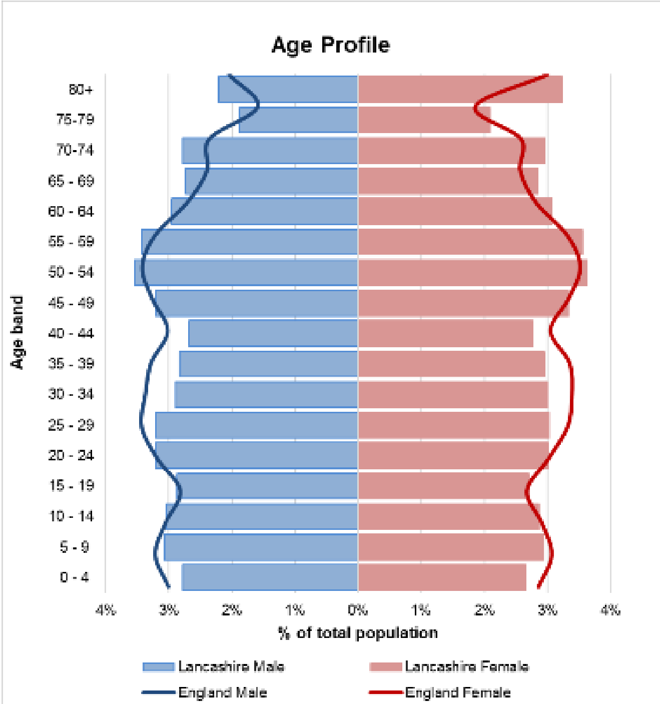
Angie Ridgwell
Chief Executive and Director of Resources (Section 151 officer)

The county of Lancashire

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

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

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

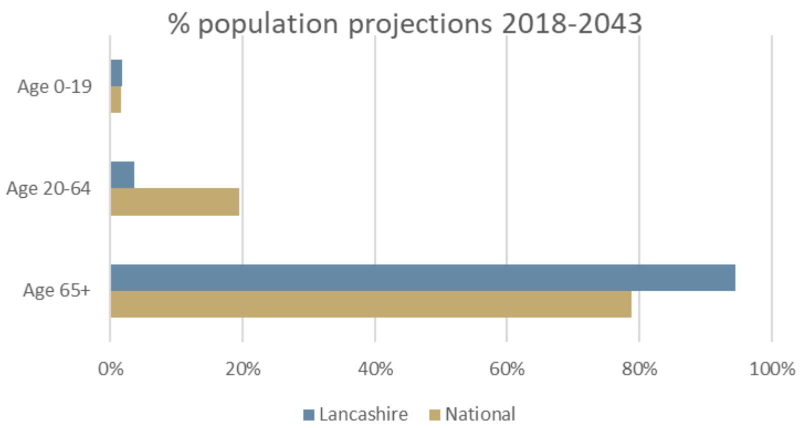


ONS mid-2019 population estimates

Demographic profile of Lancashire

The Office of National Statistics (ONS) mid-year population estimate for Lancashire in 2019 showed that there were 1,219,799 people living in the county. The population is projected to increase to 1.3 million by 2043, with significant increases forecast in the age over 65 population.

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



2018-based subnational principal population projections for local authorities

About Lancashire County Council

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

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

Our vision

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

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

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

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

Lancashire will be the place to live

Lancashire is a county of diverse communities.

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

It will be a county where:

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

Lancashire will be the place to work

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

It will be a county where:

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

Lancashire will be the place to prosper

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

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

It will be a county where:

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

Lancashire will be the place to visit

Lancashire is a beautiful county with a wealth of culture.

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

It will be a county where:

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

Lancashire will be the place where everyone acts responsibly

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

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

It will be a county where:

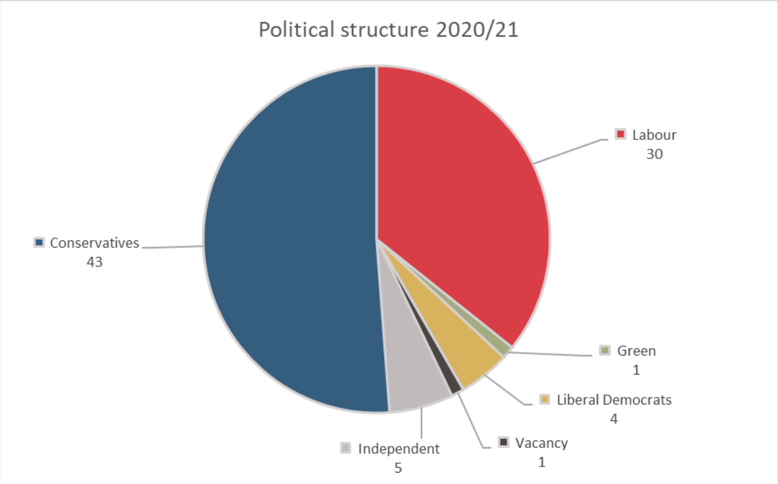
- We will equip our most vulnerable people with the support and skills they need to do more for themselves
- We commission, procure and provide services that provide maximum benefit to Lancashire residents
- We recruit and retain a workforce that meets service needs
- We prevent waste and use money wisely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

Our governance structure

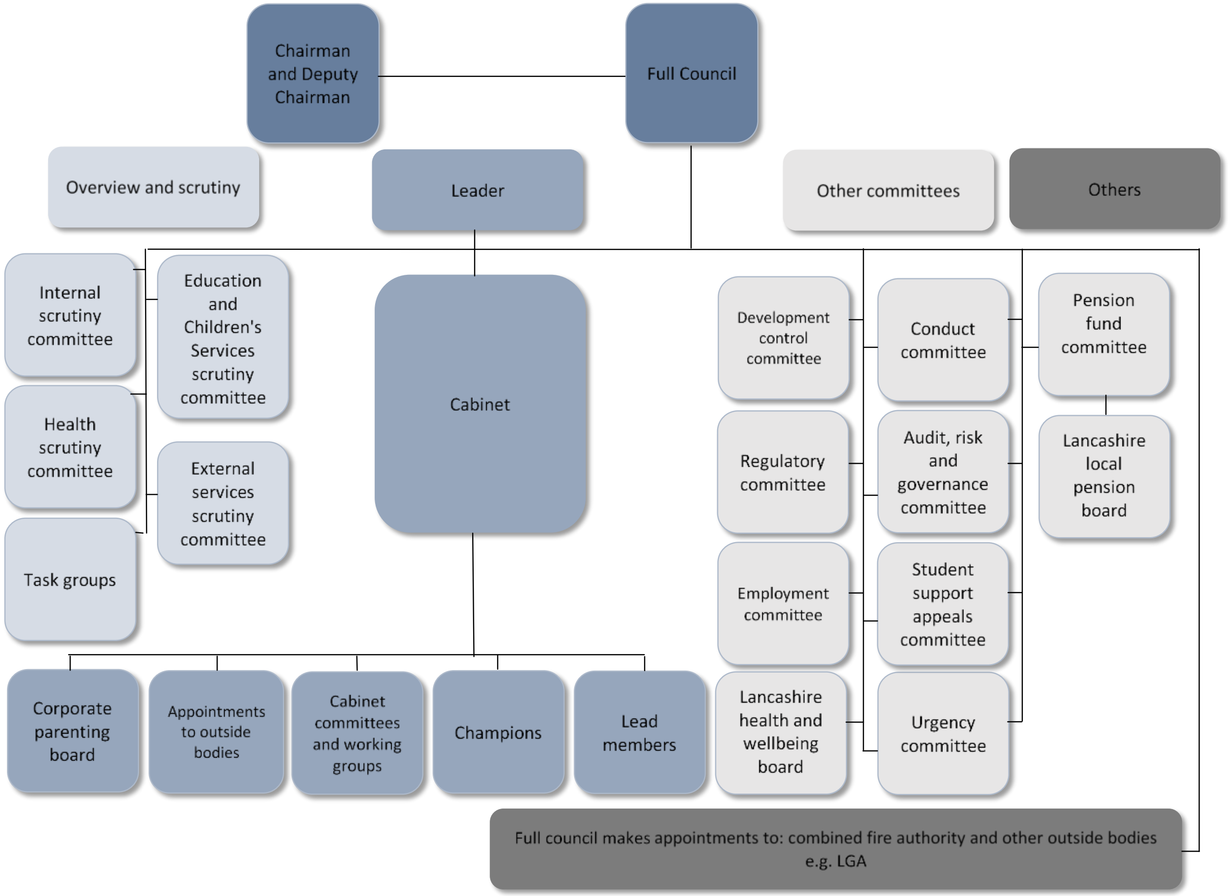
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities in the council's decision-making processes.

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

The chart below shows the political structure of the council as at 31 March 2021.



The political management structure of the council is shown below.

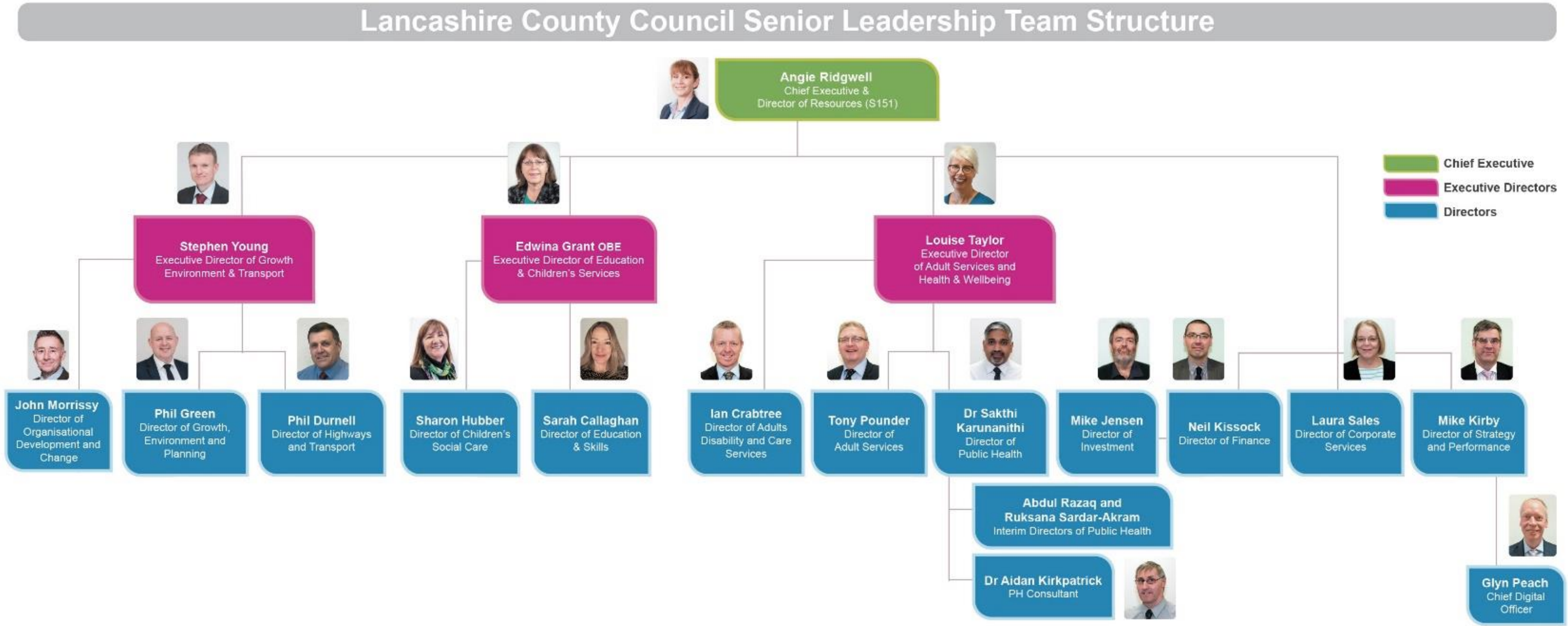


Further details of the council's governance arrangements are provided in the Annual Governance Statement.

Our staff

The council is managed by the Chief Executive and Director of Resources together with three executive directors. They are accountable to the county councillors who determine policy and agree spending priorities. The council is supported by administrative, professional, technical and operational employees whose role is to advise the council on all aspects of its functions and to put into effect decisions, which are taken in order to provide services to the public. The council has responsibilities spanning public health, social care, the economy and the environment and employs over 12,900 people in full time and part time contracts with around a further 29,500 people employed in schools.

The council's management structure is shown below.

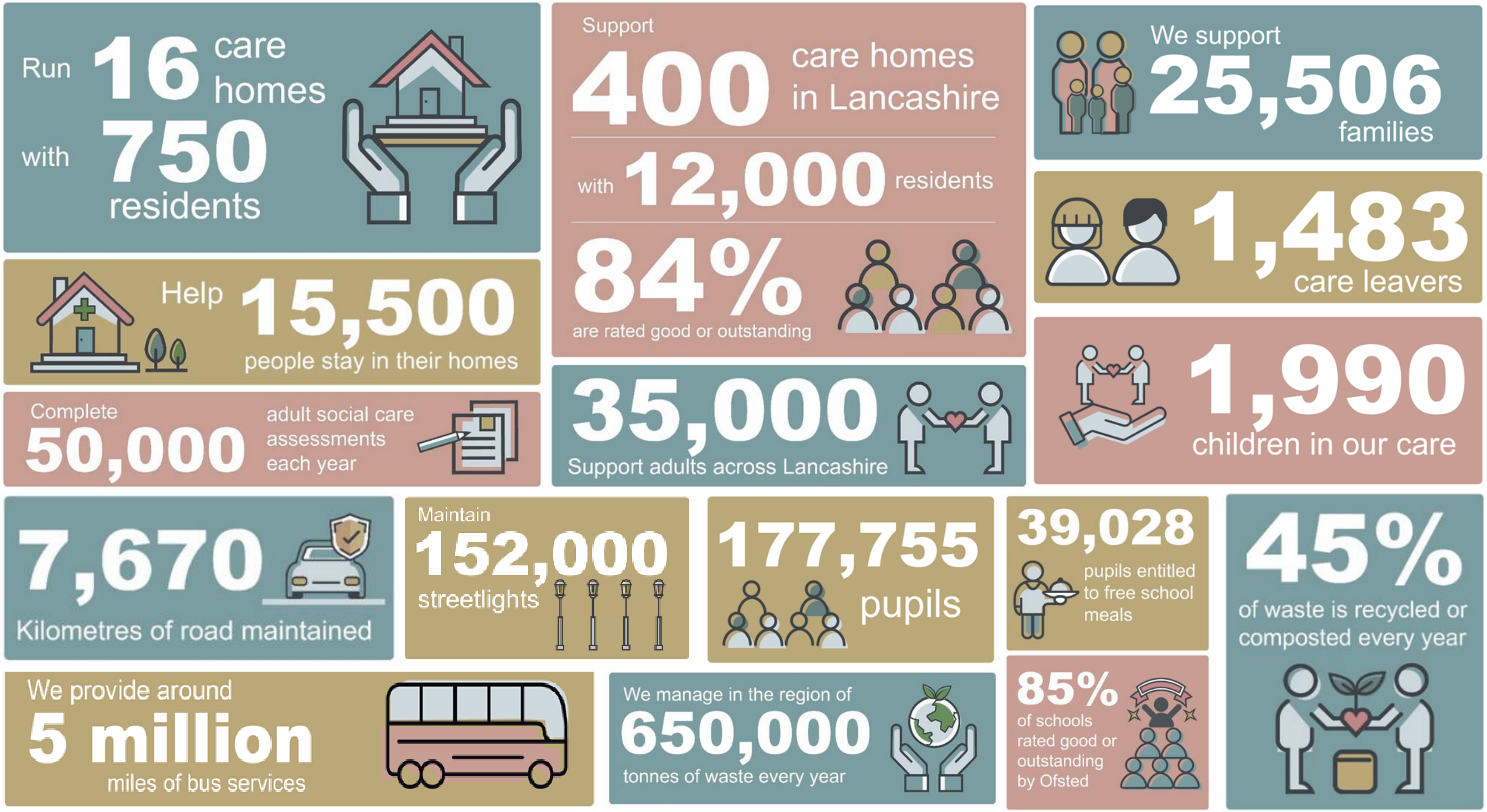


Our risk management

In delivering our services, we are faced with a range of risks, which can threaten the quality and availability of the services we provide. The corporate risk and opportunity register is reported quarterly to the Cabinet Committee on Performance Improvement and the Audit, Risk and Governance Committee. During the pandemic the quarterly risk register was suspended and replaced by a twice weekly situation report that fed into both the Corporate Emergency Response Team and the Corporate Management Team. Some of the most significant of these risks are highlighted below:

Risk description	**Possible consequences**	**Mitigating actions**
Provide effective outbreak management	Increased mortality	Support the delivery of the national Test and Trace systems. Internal Vaccination Subgroup co-ordinated the organisational preparedness for the national COVID-19 vaccination programme, as delivered in Lancashire, linking into external partners as required.
Maintain critical functions	Inability to deliver statutory services	Weekly reports to the Corporate Emergency Response Team informed decision making in terms of resource allocation. Stress testing and scenario planning setting out how we would operate with reduced staffing levels.
Protect the vulnerable	Increased pressure on emergency services	Children's homes contingency plan to support establishments to use staff from other areas of the county council. Roll out of infection control grants and Personal Protective Equipment (PPE) training to adult social care settings, and the provision of PPE to care homes and schools through the operation of a PPE store.
Financial impact of COVID-19 on the council	Increased use of reserves	Monitoring the financial impact of COVID-19 and submission of monthly information to central government on spending. Director of Finance chairs the Lancashire Resilience Forum (LRF) Finance Task and Finish Group (comprising the finance directors from all 15 councils, Police and Fire). Part of this role is to co-ordinate the overall COVID-19 financial position for Lancashire as a whole.

Our performance at a glance



Adult services

Our aims as outlined in our corporate strategy include:

- Our most vulnerable people will receive the support they need
- People take responsibility for their own health and wellbeing, along with making healthy choices
- We provide more services which support people to live in their own home
- Care services will be good or outstanding

Our priority is to support people to live as independently and healthily as possible, with the right level of care for the right amount of time for themselves and their carers, by investing in prevention, early intervention and the use of technology. We are working to ensure people in Lancashire are safe, secure and connected to their local community, maximising their potential, remaining healthy and feeling well.

Indicator	**2019/20**	**2020/21**
Rate of supported permanent admissions to residential and nursing care homes per 100,000 population aged 65 or over (good is low)	672.7*	448.6
Percentage of older people (65 and over) who were still at home 91 days after discharge from hospital into reablement/rehabilitation services (good is high)	84.4%	81.6%
Percentage of new service users who completed short term support to maximise independence (good is high)	95.1%	97.6%
Proportion of adults and older people receiving long term services who are supported in the community (good is high)	69.8%	72.3%
Proportion of adults with learning disabilities who live in their own home (good is high)	82.1%	79.3%
Percentage of adults with learning disabilities in employment (good is high)	2.0%	2.1%

* 2019/20 updated for final published figure

Care Quality Commission ratings for Lancashire residential care homes and community based adult social care services as at March 2021

Proportion rated as Good or Outstanding	**2019/20**	**2020/21**
Residential care homes (good is high)	84.7%	83.9%
In-house residential care homes (good is high)	83.3%	87.5%
Community based adult social care services (good is high)	94.8%	95.6%
In-house community based services (good is high)	100.0%	100.0%

Education and children's services

Our aims include:

- All schools are rated good or better
- To have more young people are in education, employment or training after leaving school
- People leave education better prepared for work and life with better qualifications and skills
- Educational outcomes for vulnerable children improve
- Our most vulnerable people will receive the support they need
- Maximise the learning opportunities available for all ages and abilities

Indicator		
Percentage of pupils offered one of top three preferences primary / secondary (good is high)	97.9%/95.3% (2019)	97.1%/95.3% (2020)
Key Stage 4 – Average attainment 8 score (good is high)	46.7 (2018/19)	49.7# (2019/20)
Key Stage 2 - Percentage of pupils reaching the expected standard in reading, writing and mathematics	64% (2018/19)	**
Early Years Foundation Stage - Percentage of children achieving a good level of development	69.2% (2018/19)	**
Looked After Children Key Stage 4 – Average attainment 8 score (good is high)	16.6 (2018/19)	20.5 (2019/20)
Percentage of education settings rated Good/Outstanding (good is high)	90.0% (Mar 2020)	90.1% (Mar 2021)
16-17 year old Not in Education, Employment or Training (NEET) (good is low)	6.9%	5.8%
Referrals to children's social care per 10,000 population (measure of demand)	406.2*	321.0
Percentage of Children and Family assessments in time (<45 days) (good is high)	88.5%	92.4%
Stability of placements: Percentage of 'children looked after' with 3 or more placements (good is low)	7.6% (Mar 2020)	6.4% (Mar 2021)
Number of children on Child Protection Plans (measure of need)	836 (Mar 2020)	571 (Mar 2021)

Due to the COVID-19 pandemic, the summer exam series was cancelled in 2020. Pupils scheduled to sit GCSE and A/AS level exams in 2020 were awarded either a centre assessment grade or their calculated grade using a model developed by Ofqual - whichever was the higher of the two.
* Figure updated for 2019/20 as final figure published after Statement of Accounts is submitted.
**Publications for 2019/20 were cancelled by the DfE due to the COVID-19 pandemic.

Growth, environment, transport and community services

Our aims include:

- Our roads and pavements will be safe to use, and maintained to a good standard
- We will continue to dispose household and commercial waste in a way that meets the latest environmental standards, and we will work with businesses to reduce the amount of packaging they use so that our recycling rates are high
- There will be more investment in Lancashire to support business growth

Indicator	2019/20	2020/21
Streetlights - non-traffic management faults fixed within 5 working days	#	91%
Streetlights - traffic management faults fixed within 20 working days	#	89%
Safety carriageway defects repaired within 4 hours (emergency) + 1 and 2 working days (urgent) (good is high)	92.24%	87.5%
Safety carriageway defects repaired within 5 working days (non-urgent) + (10/+20 working days) (non-urgent) (good is high)	93%	88.5%
Percentage of waste re-used, recycled and composted (good is high) *	45.7%	45.0%
Number of small businesses supported by Boost (good is high)	431	316
Number of small businesses established by Boost (good is high)	102	70
Superfast broadband coverage (good is high)	97.8%	97.8%

* 2020/21 is a provisional figure (final published statistics for 2020/21 will be available in November 2021) 2019/20 updated for final published figure.

\# The definition of the street lighting performance indicator was changed with effect from 1 April 2020, as a result there is no comparator data for 2019/20.

Public health and wellbeing

During 2020/21, the following three aims have become the main priorities with the focus of work being to provide local leadership and advice to communities, businesses and schools for an effective emergency response to the COVID-19 pandemic in Lancashire. The public health efforts have also supported the delivery of the national programme to manage outbreaks and help reduce mortality.

- Ongoing engagement with communities to support compliance with the rules and where necessary enforcement.
- Testing – finding the cases and supporting people to stay at home, utilising the district hubs.
- Vaccine programme support.

In the final quarter of 2020/21, Dr Sakthi Karunanithi, Director of Public Health outlined the current situation with regards the COVID-19 pandemic and paid tribute to all the staff working across Health and Wellbeing agencies, with the following position commentary.

- The overall infections rates were reducing significantly, which was due to a combination of vaccinations and people following the guidelines that are in place across Lancashire.
- Reviewing heatmaps for the three Upper Tier Local Authorities, Lancashire, Blackpool and Blackburn with Darwen, variation were showing between the districts and that is a risk that is highlighted. The epidemic has moved to the 30-34 age group across Lancashire and is more pronounced in some districts, ie Preston, South Ribble and East Lancashire.
- The number of people in hospitals and deaths were reducing, as well as the severity of the illness and outbreaks in the care sector.
- The pandemic has resulted in increasing demands for food support and support to the homeless, highlighting the need for temporary housing.
- Lateral Flow/SMART testing, which repeats testing of individuals at least twice a week, was being rolled out particularly in workplace and community testing centres.
- Work is ongoing to dispel myths around the vaccine and communities are being encouraged to take up the offer of the vaccine. Vaccination inequality is not a new public health issue, it remains an issue in relation to COVID.
- Whilst the majority of care homes had been offered the vaccine, there were issues with people who have learning difficulties, autism and other groups living in supported accommodation getting timely access to the vaccine - the prioritisation of vulnerable groups continues to be advocated.
- The agenda going forward is one of how the current trajectory is maintained overall, by continuing to focus on getting the basics right (hands, face, space), continuing to encourage people to come forward for testing and follow advice on tracing, removing barriers for self-isolation where appropriate.
- The Contain Framework plan is currently being refreshed, and the purpose of that is to be ready to respond to any variants of concern and to continue to identify outbreaks early and manage them in time, which is a partnership endeavour between District Councils, County Councils, NHS as well as the business and community sectors in terms of continuing the messaging. The role of the partnerships is to encourage everyone to receive the vaccinations and to improve the vaccine hesitancy across the County, with different messages and mediums.

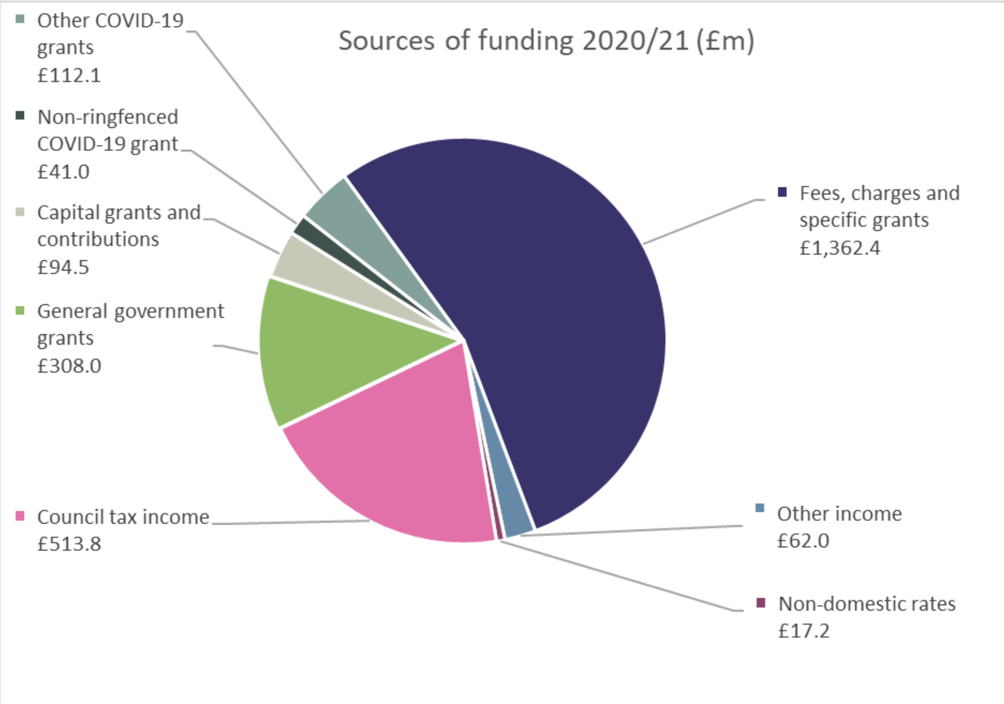
Our financial performance

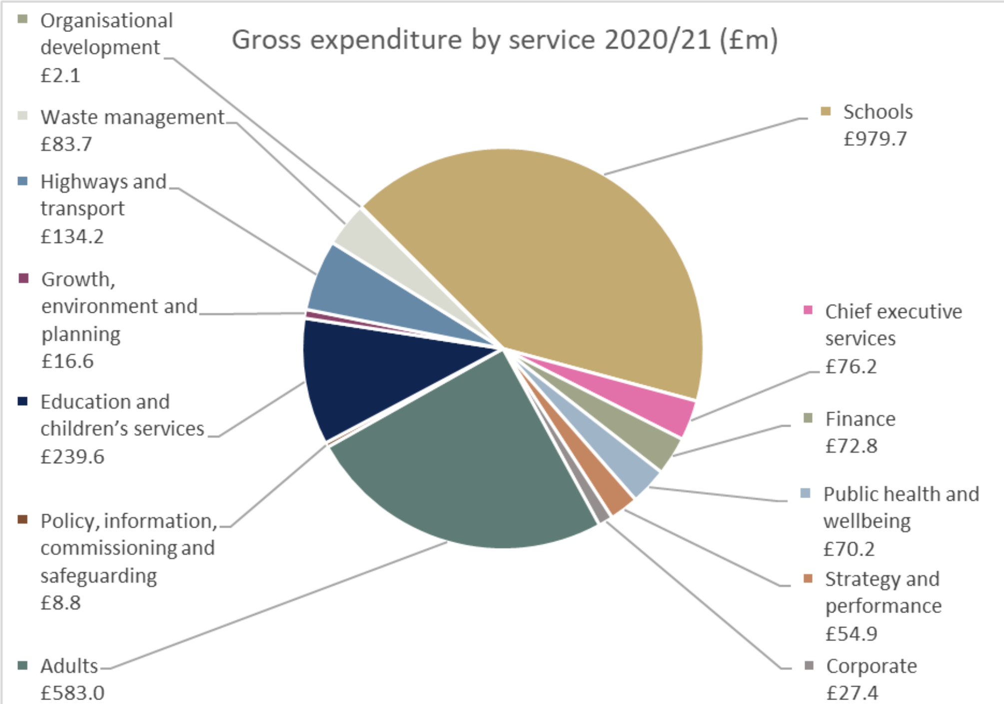
Revenue summary

The council receives funding from three main sources:

- Government grants
- Council tax
- Business rates

The council also generates income from fees and charges for services it provides. The charts illustrate the funding received and how it was spent on services.





Revenue outturn

In February 2020, the council approved a net revenue budget of £844.851 million. The revenue budget shows the annual cost of delivering against the council's duties and responsibilities to the community, many of which are given to the council under statute.

The following table shows what Lancashire County Council planned to spend against the actual spend for the year. The difference between the two is shown in the (under)/overspend column. The negative figures are those where spend is less than planned and the positive figures are where spend is more than planned.

Service	Approved budget	Outturn	(Under)/ overspend
	£m	£m	£m
Adults	364.609	348.739	(15.870)
Policy, information, commissioning and safeguarding	7.609	7.744	0.135
Public health and wellbeing	(5.255)	(5.081)	0.174
Education and children's services	200.377	201.679	1.302
Growth, environment and planning	4.868	7.284	2.416
Highways and transport	65.595	76.052	10.457
Organisational development	2.232	1.953	(0.279)
Waste management	65.957	63.917	(2.040)
Finance	44.591	44.118	(0.473)
Corporate services	18.805	19.980	1.175
Strategy and performance	32.903	35.659	2.756
Chief executive services	42.560	23.575	(18.985)
Sub total	**844.851**	**825.619**	**(19.232)**
Schools	0	(50.669)	(50.669)
Total	**844.851**	**774.950**	**(69.901)**

The significant differences from the budget are largely as a result of reduced expenditure or income due to the COVID-19 pandemic, where services have either not been able to operate or the demand for services have varied.

However, this net underspend is further increased by good investment return performance in treasury management activity. This has generally resulted from improvements in the value of the council's investment assets, leading to opportunities for those gains to be realised.

Extended periods of restricted access to schools during the pandemic have resulted in reduced spending in school's services. The surplus funding of £50.669 million will be carried forward in the ring-fenced dedicated school's reserve, for use by schools in future years.

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

Capital investment programme

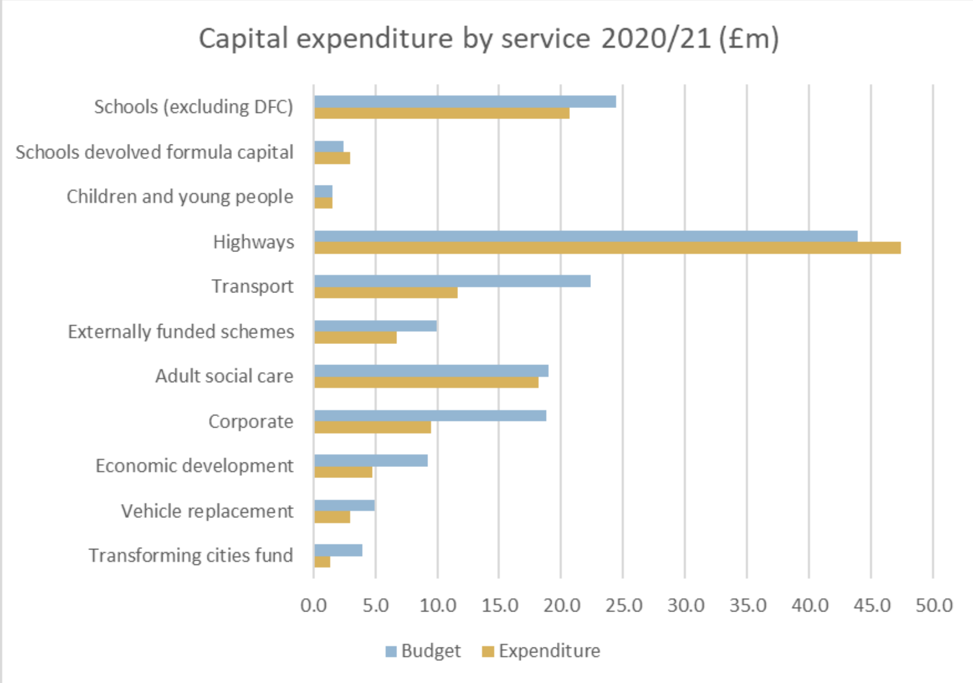
In February 2020, the council approved an initial capital budget of £133.542 million for 2020/21. The final capital programme for the year following review and subsequent investment decisions totalled £160.420 million, and included:

- Enhancements and improvements to schools and buildings the council delivers services from including residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in the council's ICT infrastructure to support corporate priorities;
- Investment in improvements to transport networks;
- Delivery of the awarded transforming cities programme;
- Support for schemes to deliver economic growth in the county.

The total spend on capital works in 2020/21 was £127.81 million which represents 79.7% of the budgeted programme.

The delivery programme increased through additional funding that was received in-year to help the council deliver projects to aid infection control efforts or the recovery from the COVID-19 pandemic.

These additional projects took priority over some schemes listed in the June 2020 delivery programme, causing large slippage variances through the year, though this was significantly reduced by the year end. Works that were not fully delivered during the year have now been re-profiled to be completed in future years.

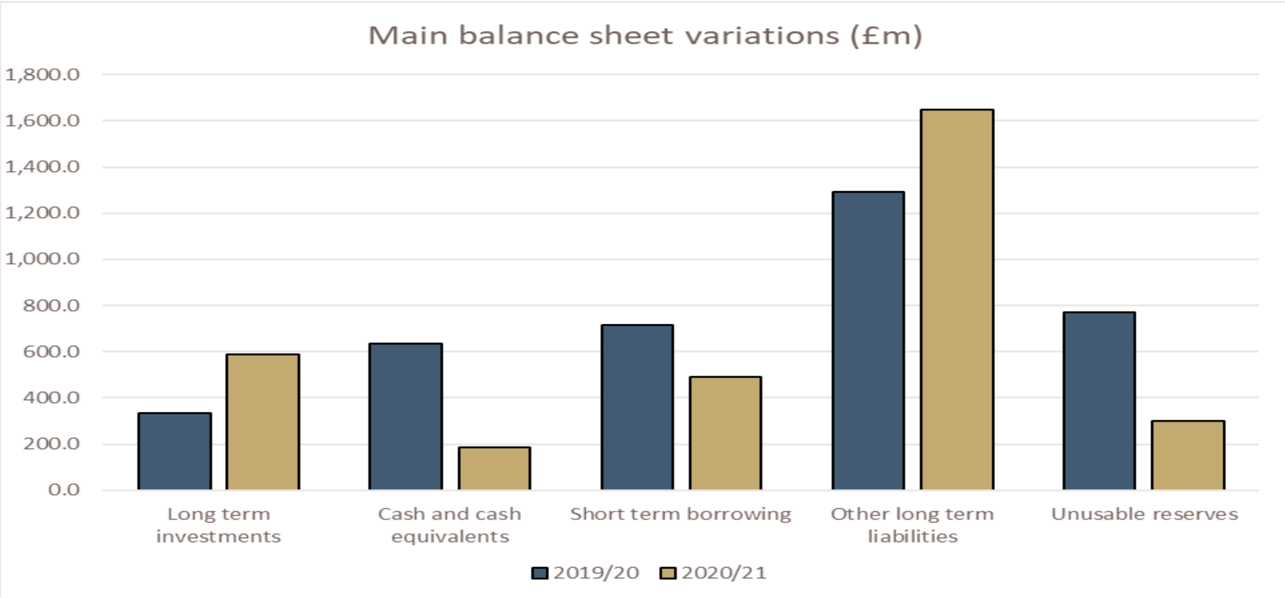


	Revised budget £m	Expenditure £m	Variation £m
Schools (excluding DFC)	24.456	20.675	(3.781)
Schools devolved formula capital	2.426	2.998	0.572
Children and young people	1.549	1.586	0.037
Highways	43.863	47.342	3.479
Transport	22.343	11.653	(10.690)
Externally funded schemes	9.995	6.739	(3.256)
Adult social care	18.972	18.146	(0.826)
Corporate	18.753	9.512	(9.241)
Economic development	9.203	4.779	(4.424)
Vehicle replacement	4.924	3.002	(1.922)
Transforming cities fund	3.936	1.378	(2.558)
Total expenditure	**160.420**	**127.810**	**(32.610)**

Assets and liabilities

The balance sheet summarises the council's financial position at the year-end and reports the assets, liabilities and reserves of the council which show what the council owns and how much it owes. The net assets of the council have decreased by £294.6 million from £1,238.2 million at 31 March 2020 to £943.6 million at 31 March 2021, with the main balance sheet variations shown in the following chart:

Summary financial position	**31 March 2020**	**31 March 2021**	**Movement**
	£m	**£m**	**£m**
What we own (assets)	4,583.5	4,436.1	(147.4)
What we owe (liabilities)	(3,345.3)	(3,492.5)	(147.2)
Net financial position (assets less liabilities)	**1,238.2**	**943.6**	**(294.6)**
The net financial position is held in reserves as follows:			
General reserves available to the council (usable)	(467.6)	(643.4)	(175.8)
Other reserves held for statutory or specific purposes (unusable)	(770.6)	(300.2)	470.4
Total reserves	**(1,238.2)**	**(943.6)**	**294.6**



Borrowing and investments

In the previous year the bond issuance together with additional borrowing from PWLB taken in response to potential liquidity issues arising from COVID-19 meant that at 31 March 2020 the available cash was much higher than at 31 March 2021. This higher cash position from the previous year-end is now reflected in the increase in long term investments at March 2021.

Other long term liabilities

The movement in long term liabilities results from an increase in the pension liability valuation which is also reflected in the unusable reserves.

Pension fund liability

The council has a net future pension liability of £1,516 million (£1,152 million as at 31 March 2020) on an International Accounting Standard (IAS) 19 basis.

Actuarial valuations are carried out every three years. The last actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 by an independent firm of actuaries. The pension figures are revised annually based on updated assumptions.

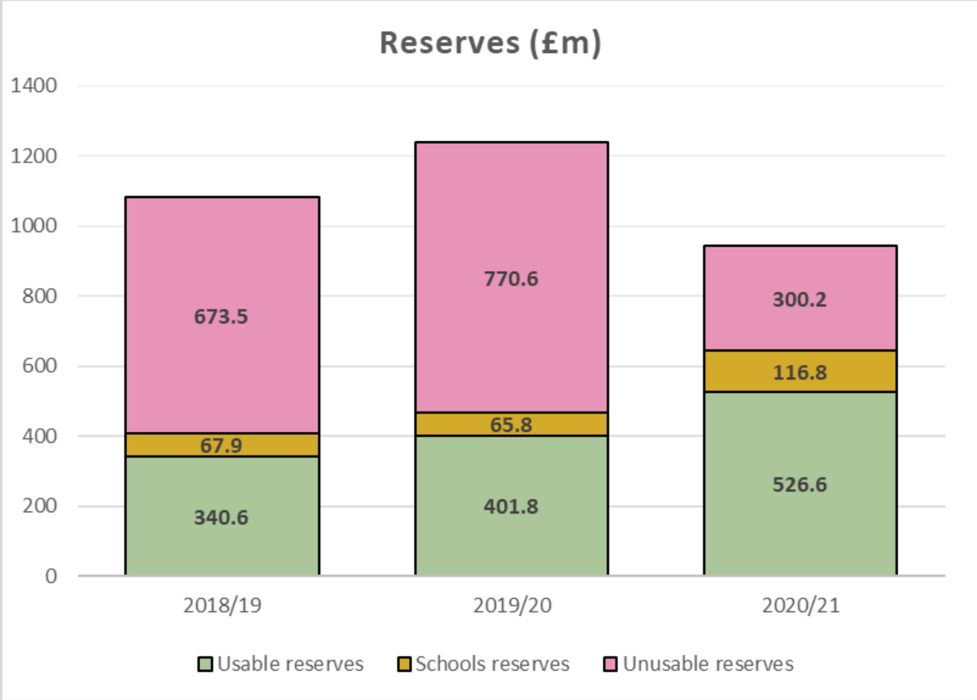
Whilst the pension liability figure is substantial, it should be noted that it does not need to be met immediately. The amount is an assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment performance.

Further details of the pension liability and assets are set out in the technical annex section of these financial statements.

Reserves

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

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



Usable reserves

Usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. The revenue reserves for 2020/21 are higher than previous years, mainly due to reduced expenditure as a result of restricted activities resulting from the response to the pandemic, in addition to good investment return performance in treasury management activity.

Unusable reserves

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

The following accounts normally represent the most significant movements in unusable reserves and are explained further in Note 31:

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

The decrease in unusable reserves is largely due to changes in the pension liability.

Financial sustainability

The council has to plan for the long term to ensure that it can continue to deliver its services in future years and be able to deal with any unexpected events. As a result, it is important that our financial standing (or sustainability) is robust.

Lancashire County Council has a fully developed medium term financial strategy covering a period of three years, which includes looking at risks and future demands on services.

The biggest medium-term financial risks identified are:

- Population growth and age profile – this is likely to lead to increased service demand.
- Schools balances – we have funding pressures due to government education grants being less than expenditure.
- Safeguarding the financial position of the council – the council looks at ways to improve efficiency through delivering services in different ways. These plans should remain on track.

Raising debt to finance council investment

The council has a borrowing requirement arising from current and past years' capital programmes. This is met by a mixture of long and short term borrowing, the balance of which can vary year on year depending upon maturities and market conditions. Decisions made on borrowing will also affect cash available for investments. Councils can borrow to invest in property or other infrastructure that supports the delivery of services, but they must ensure that they can pay this amount back.

The council sets out its approach to borrowing and investment in its annual treasury management strategy, and this is monitored throughout the year by the Audit, Risk and Governance Committee, with advice from external specialists as appropriate.

Financial interests in other organisations

The group accounts show the full extent of the county council's economic activities by reflecting the county council's involvement with its group companies. Inclusion in the Lancashire County Council group is dependent upon the extent of the county council's interest and control over the entity. Where an entity is considered to be below materiality levels, it is not included in the group accounts.

Type	Number
Subsidiaries	6
Associates	2
Joint ventures	2

In 2020/21, the group accounts include the county council's interest in Lancashire County Developments Limited, which is an economic development agency for the county. Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited;
- and Lancashire County Developments (Investments) Limited.

The financial position of the council is as follows with the inclusion of Lancashire County Developments Limited:

Summary financial position	31 March 2020	31 March 2021	Movement
	£m	£m	£m
What we own (assets)	4,626.8	4,504.8	(122.0)
What we owe (liabilities)	(3,341.8)	(3,499.3)	(157.5)
Net financial position (assets less liabilities)	**1,285.0**	**1,005.5**	**(279.5)**
The net financial position is held in reserves as follows:			
General reserves available to the council (usable)	(467.6)	(643.4)	(175.8)
Other reserves held for statutory or specific purposes (unusable)	(770.6)	(300.2)	470.4
Subsidiary reserves (usable)	(27.6)	(27.6)	0
Subsidiary reserves (unusable)	(19.2)	(34.3)	(15.1)
Total reserves	**(1,285.0)**	**(1,005.5)**	**279.5**

Prior period restatements

The council has restructured its services during 2020/21. The 2019/20 comparative figures have been restated to reflect the new structure.

The adjustments are shown in detail in Note 4 – Prior period restatements.

Explanation of the accounting statements

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

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

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

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

Comprehensive income and expenditure statement

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

The comprehensive income and expenditure statement has two sections:

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

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

Movement in reserves statement

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

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

The statutory adjustments largely relate to arrangements for funding capital expenditure or the timing with which some items, for example pension costs, are charged to council tax. Further details of the adjustments are shown in Note 14 – adjustments between accounting basis and funding basis under regulations.

Expenditure and funding analysis

The expenditure and funding analysis reconciles the outturn position reported to management with the movement in reserves statement and the comprehensive income and expenditure statement, detailing the adjustments described above.

Balance sheet

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

Cash flow statement

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

Notes to the financial statements

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

Group accounts

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

Pension fund accounts

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

Annual governance statement

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

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

The council's responsibilities

The council is required to:

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

The Section 151 Officer's responsibilities

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

In preparing this statement of accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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

Certification of accounts

I certify that the statement of accounts gives a true and fair view of the financial position of the council and its income and expenditure for the year ended 31 March 2021.

Angie Ridgwell
Chief Executive and Director of Resources
26 July 2021

Approval of accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 26 July 2021.

A Schofield
Chair of Audit, Risk and Governance Committee
26 July 2021

Financial statements

Bell sykes meadow, Slaidburn
Photo: Graham Cooper

Comprehensive income and expenditure statement

2019/20 restated				2020/21		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
509.5	(135.2)	374.3	Adults	583.0	(216.9)	366.1
8.3	(0.4)	7.9	Policy, information, commissioning and safeguarding ◦	8.8	(0.3)	8.5
70.1	(70.0)	0.1	Public health and wellbeing ◦	70.2	(108.7)	(38.5)
225.2	(23.4)	201.8	Education and children's services	239.6	(23.1)	216.5
17.2	(9.8)	7.4	Growth, environment and planning	16.6	(9.9)	6.7
125.3	(34.3)	91.0	Highways and transport ◦	134.2	(32.2)	102.0
2.0	0	2.0	Organisational development ◦	2.1	0	2.1
70.3	(14.1)	56.2	Waste management ◦	83.7	(14.4)	69.3
70.5	(28.2)	42.3	Finance	72.8	(29.9)	42.9
25.9	(6.4)	19.5	Corporate	27.4	(6.1)	21.3
54.7	(26.3)	28.4	Strategy and performance ◦	54.9	(32.9)	22.0
60.4	(2.4)	58.0	Chief executive services ◦	76.2	(12.2)	64.0
1,009.2	(957.7)	51.5	Schools	979.7	(979.5)	0.2
2,248.6	**(1,308.2)**	**940.4**	**Cost of services**	**2,349.2**	**(1,466.1)**	**883.1**
72.2	(6.4)	65.8	Other operating income and expenditure (Note 6)	33.4	(8.3)	25.1
69.7	(43.4)	26.3	Financing and investment income and expenditure (Note 7)	64.4	(62.0)	2.4
0	(946.2)	(946.2)	Taxation and non-specific grant income and expenditure (Note 8)	0	(974.6)	(974.6)
2,390.5	**(2,304.2)**	**86.3**	**(Surplus)/deficit on provision of services**	**2,447.0**	**(2,511.0)**	**(64.0)**
		(60.7)	(Surplus)/deficit on revaluation of non-current assets (Note 31)			(48.9)
		(203.6)	Re-measurement of the net defined benefit pension liability/(asset) (Note 31)			371.0
		21.8	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			36.5
		(242.5)	**Other comprehensive (income) and expenditure**			**358.6**
		(156.2)	**Total comprehensive (income) and expenditure**			**294.6**

◦ The council has restructured its services during 2020/21. The 2019/20 comparative figures have been restated to reflect the new structure. The adjustments are shown in detail in Note 4 – Prior period restatements.

2020/21

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 31)	Unusable reserves (Note 31)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**
Movement in reserves during 2020/21						
Total comprehensive income and expenditure (Note 5)	(64.0)	0	0	(64.0)	358.6	294.6
Adjustment between accounting basis and funding basis under regulations (Note 14)	(95.1)	(8.3)	(8.4)	(111.8)	111.8	0
(Increase)/decrease in year	**(159.1)**	**(8.3)**	**(8.4)**	**(175.8)**	**470.4**	**294.6**
Balance at 31 March 2021	**(492.9)**	**(8.4)**	**(142.1)**	**(643.4)**	**(300.2)**	**(943.6)**

2019/20

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves (Note 31)	Unusable reserves (Note 31)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**
Movement in reserves during 2019/20						
Total comprehensive income and expenditure (Note 5)	86.3	0	0	86.3	(242.5)	(156.2)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(111.5)	0.9	(34.8)	(145.4)	145.4	0
(Increase)/decrease in year	**(25.2)**	**0.9**	**(34.8)**	**(59.1)**	**(97.1)**	**(156.2)**
Balance at 31 March 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**

31 March 2020 £m		Note	31 March 2021 £m
3,071.2	Property, plant and equipment	18	3,122.3
28.7	Heritage assets	20	28.7
10.9	Intangible assets		12.5
334.5	Long term investments	26	586.6
42.9	Long term debtors	21	41.2
3,488.2	**Long term assets**		**3,791.3**
266.3	Short term investments	26	266.3
3.4	Inventories		3.2
164.5	Short term debtors	22	154.0
23.4	Payments in advance		34.4
634.0	Cash and cash equivalents	23	184.5
3.7	Assets held for sale		2.4
1,095.3	**Current assets**		**644.8**
(714.7)	Short term borrowing	26	(489.0)
(229.3)	Short term creditors	24	(215.6)
(19.4)	Receipts in advance	24	(30.9)
(12.9)	Short term provisions	25	(13.3)
(205.6)	Other current liabilities	27	(169.0)
(1,181.9)	**Current liabilities**		**(917.8)**
(24.8)	Long term provisions	25	(26.8)
(844.8)	Long term borrowing	26	(897.3)
(1.3)	Long term creditors	26	(1.3)
(1,292.5)	Other long term liabilities	28	(1,649.3)
(2,163.4)	**Long term liabilities**		**(2,574.7)**
1,238.2	**Net assets**		**943.6**
(467.6)	Usable reserves	31	(643.4)
(770.6)	Unusable reserves	31	(300.2)
(1,238.2)	**Total reserves**		**(943.6)**

2019/20		Note	2020/21
£m			**£m**
(86.3)	Net surplus/(deficit) on the provision of services		64.0
241.0	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	74.6
(174.3)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	(140.6)
(19.6)	**Net cash flows from operating activities**		**(2.0)**
72.7	Investing activities	33	(296.1)
512.4	Financing activities	34	(151.4)
565.5	**Net increase/(decrease) in cash or cash equivalents**		**(449.5)**
68.5	Cash and cash equivalents at the beginning of the reporting period		634.0
634.0	**Cash and cash equivalents at the end of the reporting period**	23	**184.5**

Explanatory notes to the financial statements

Beacon Fell
Photo: visitlancashire.com

Note 1 - Accounting standards issued, but not yet adopted

The council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2021/22 Code will introduce the following amendments:

Amendments to International Financial Reporting Standard (IFRS) 3 - *Business combinations: definition of a business*

The amendments clarify the definition of a business, with the aim of helping entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.

Interest rate benchmark reform - *Amendments to IFRS 9, International Accounting Standard (IAS)* 39 and IFRS 7 - *Interest rate benchmark reform*

Interest rate benchmark reform – *Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.*

The International Accounting Standards Board published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) in response to the ongoing reform of interest rate benchmarks.

These amendments are not anticipated to impact on the council's accounts.

IFRS 16 *Leases*

IFRS 16 *Leases* will lead to a substantial change in accounting practice for lessees, the current distinction between finance and operating leases will be removed. Instead, lessees are required to recognise assets and liabilities for all leases i.e. the lessee will recognise a right-of-use asset representing its right to use the leased asset; and a lease liability representing the lessee's obligation to make lease payments for the asset.

Lessees will have a single accounting model for all leases with two exemptions:

- Low-value assets
- Short term leases (lease term of 12 months or less)

The implementation of IFRS 16 *Leases* has been deferred until 1 April 2022. The council is currently reviewing its leases to assess the impact of the change.

Note 2 - Critical judgements in applying accounting policies

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

Funding

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

Private finance initiative (PFI)

The council is deemed to control the services provided under the private finance initiative (PFI) agreements and also to control the residual value of the properties at the end of the agreements. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings have been recognised as property, plant and equipment on the council's balance sheet. The buildings have been valued at £155.7 million as at 31 March 2021 (31 March 2020: £168.5 million).

School assets

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

The property, plant and equipment balance includes properties valued at £864.5 million, which are not owned by the council. These are principally voluntary aided, voluntary controlled and foundation schools for which the trustees have legal ownership rights. It is the council's policy to include these school assets on the balance sheet as the council benefits from using these properties in terms of delivery of service and meets the costs of service provision. These assets are retained on the balance sheet of the council to fairly reflect the value of assets used in providing the service.

Interests in companies and other entities

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

The council's relationships with other entities can be found within the related parties note. (Note 36).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. Other owned companies have been excluded from the group accounts on the basis that they are not considered material.

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

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

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

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

The items in the council's balance sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment valuations	The council's internal valuers provide valuations as at 1 April based on a 3-year rolling programme of valuations. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation.	Valuations are compiled by an expert using recognised measurement techniques and based on professional guidance. The underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date. A variation of 10% in the value of the council's land and buildings would be approximately £209 million. A reduction in the estimated valuations would result in a reduction to the revaluation reserve and / or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and / or increases to the revaluation reserve and / or gains charged to the comprehensive income and expenditure statement.

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

Item	Uncertainties	Consequence if actual results differ from assumptions
Pensions liability	The net liability to pay pensions is calculated every three years with annual updates in the intervening years. A firm of consulting actuaries (Mercer) is engaged to provide the council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. There has been substantial volatility in equity markets in relation to the COVID-19 pandemic, resulting in a reduction in asset values for accounting purposes, however, 31 March 2020 was generally a low	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, • A 0.5% increase in the discount rate assumption would reduce the value of the net pension liability by approximately £444 million; • A 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £23 million; • An increase of one year in assumed life expectancy would increase the net pension liability by approximately £159 million.

	point for equity markets, and any recovery over the year is reflected in the accounting figures as at 31 March 2021. Over the same period, the market volatility extended to corporate bonds, but ultimately the yields on AA-rated corporate bonds as at 31 March 2021 are slightly lower than the start of the accounting year. As the discount rate for accounting purposes is based on corporate bond yields, this means this volatility will ultimately have an impact on accounting liabilities. A slight reduction in the discount rate assumption from last year and an increase in the CPI inflation assumption has led to an increase in pension liabilities.	

Note 4 – Prior period restatements

Adjustments to the comprehensive income and expenditure statement

In 2020/21 the council has restructured its services. The 2019/20 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

	Net expenditure audited 2019/20	Adjustment	Net expenditure restated 2019/20
	£m	£m	£m
Adults	374.3	0	374.3
Policy, information, commissioning and safeguarding	8.1	(0.2)	7.9
Public health and wellbeing	0	0.1	0.1
Education and children's services	201.8	0	201.8
Growth, environment and planning	7.4	0	7.4
Highways and transport	147.2	(56.2)	91.0
Organisational development	0	2.0	2.0
Waste management	0	56.2	56.2
Finance	42.3	0	42.3
Corporate	19.5	0	19.5
Strategy and performance	30.2	(1.8)	28.4
Chief executive services	58.1	(0.1)	58.0
Schools	51.5	0	51.5
Cost of services	**940.4**	**0**	**940.4**

	Gross expenditure audited 2019/20	Adjustment	Gross expenditure restated 2019/20
	£m	£m	£m
Adults	509.5	0	509.5
Policy, information, commissioning and safeguarding	8.5	(0.2)	8.3
Public health and wellbeing	69.9	0.2	70.1
Education and children's services	225.2	0	225.2
Growth, environment and planning	17.2	0	17.2
Highways and transport	195.7	(70.4)	125.3
Organisational development	0	2.0	2.0
Waste management	0	70.3	70.3
Finance	70.5	0	70.5
Corporate	25.9	0	25.9
Strategy and performance	56.5	(1.8)	54.7
Chief executive services	60.5	(0.1)	60.4
Schools	1,009.2	0	1,009.2
Cost of services	**2,248.6**	**0**	**2,248.6**

	Gross income audited 2019/20	Adjustment	Gross income restated 2019/20
	£m	£m	£m
Adults	(135.2)	0	(135.2)
Policy, information, commissioning and safeguarding	(0.4)	0	(0.4)
Public health and wellbeing	(69.9)	(0.1)	(70.0)
Education and children's services	(23.4)	0	(23.4)
Growth, environment and planning	(9.8)	0	(9.8)
Highways and transport	(48.5)	14.2	(34.3)
Waste management	0	(14.1)	(14.1)
Finance	(28.2)	0	(28.2)
Corporate	(6.4)	0	(6.4)
Strategy and performance	(26.3)	0	(26.3)
Chief executive services	(2.4)	0	(2.4)
Schools	(957.7)	0	(957.7)
Cost of services	**(1,308.2)**	**0**	**(1,308.2)**

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

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

Note 5 - Expenditure and funding analysis

The expenditure and funding analysis reconciles the cost of providing services in line with proper accounting practices included in the comprehensive income and expenditure statement with the statutorily defined amounts chargeable to council tax payers as shown in the movement in reserves statement. Proper accounting practices measure the resources that have been generated and consumed in the year, including the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the council's expenditure needs to be met from council tax each year.

Expenditure and funding analysis - 2020/21

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Adults	348.7	6.0	354.7	11.4	366.1
Policy, information, commissioning and safeguarding	7.7	(0.1)	7.6	0.9	8.5
Public health and wellbeing	(5.1)	(34.4)	(39.5)	1.0	(38.5)
Education and children's services	201.7	3.5	205.2	11.3	216.5
Growth, environment and planning	7.3	(3.9)	3.4	3.3	6.7
Highways and transport	76.1	(4.6)	71.5	30.5	102.0
Organisational development	2.0	(0.1)	1.9	0.2	2.1
Waste management	63.9	2.3	66.2	3.1	69.3
Finance	44.1	(3.3)	40.8	2.1	42.9
Corporate	20.0	(0.4)	19.6	1.7	21.3
Strategy and performance	35.7	(24.4)	11.3	10.7	22.0
Chief executive services	23.6	20.4	44.0	20.0	64.0
Schools	(50.7)	0	(50.7)	50.9	0.2
Net cost of services	**775.0**	**(39.0)**	**736.0**	**147.1**	**883.1**
Other income and expenditure	(844.9)	(50.2)	(895.1)	(52.0)	(947.1)
(Surplus)/deficit	**(69.9)**	**(89.2)**	**(159.1)**	**95.1**	**(64.0)**
Opening general fund balance at 1 April			**(333.8)**		
(Surplus)/deficit			(159.1)		
Closing general fund balance at 31 March			**(492.9)**		

Expenditure and funding analysis - 2019/20 restated

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Adults	365.6	0.6	366.2	8.1	374.3
Policy, information, commissioning and safeguarding ◦	7.0	0.2	7.2	0.7	7.9
Public health and wellbeing ◦	(1.0)	(0.1)	(1.1)	1.2	0.1
Education and children's services	191.2	0.9	192.1	9.7	201.8
Growth, environment and planning	4.1	(2.5)	1.6	5.8	7.4
Highways and transport ◦	64.0	(1.0)	63.0	28.0	91.0
Organisational development ◦	1.8	0	1.8	0.2	2.0
Waste management ◦	63.7	(0.1)	63.6	(7.4)	56.2
Finance	38.4	1.9	40.3	2.0	42.3
Corporate	18.6	(0.6)	18.0	1.5	19.5
Strategy and performance ◦	32.0	(18.2)	13.8	14.6	28.4
Chief executive services ◦	15.1	7.4	22.5	35.5	58.0
Schools	2.4	0	2.4	49.1	51.5
Net cost of services	**802.9**	**(11.5)**	**791.4**	**149.0**	**940.4**
Other income and expenditure	(802.3)	(14.3)	(816.6)	(37.5)	(854.1)
(Surplus)/deficit	**0.6**	**(25.8)**	**(25.2)**	**111.5**	**86.3**
Opening general fund balance at 1 April			**(308.6)**		
(Surplus)/deficit			(25.2)		
Closing general fund balance at 31 March			**(333.8)**		

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

◦ The 2019/20 figures have been restated following the changes detailed in Note 4 – Prior period adjustments.

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

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

2019/20 restated				2020/21		
Adjustments relating to other income and expenditure	Adjustments relating to transfers to and from reserves	Total adjustments		Adjustments relating to other income and expenditure	Adjustments relating to transfers to and from reserves	Total adjustments
£m	£m	£m		£m	£m	£m
0	0.6	0.6	Adults	0.7	5.3	6.0
0	0.2	0.2	Policy, information, commissioning and safeguarding ◦	0	(0.1)	(0.1)
(0.1)	0	(0.1)	Public health and wellbeing ◦	0.1	(34.5)	(34.4)
2.2	(1.3)	0.9	Education and children's services	1.9	1.6	3.5
(0.4)	(2.1)	(2.5)	Growth, environment and planning	(0.9)	(3.0)	(3.9)
(0.8)	(0.2)	(1.0)	Highways and transport ◦	(0.4)	(4.2)	(4.6)
0	0	0	Organisational development ◦	0	(0.1)	(0.1)
0	(0.1)	(0.1)	Waste management ◦	0	2.3	2.3
0.1	1.8	1.9	Finance	0	(3.3)	(3.3)
0	(0.6)	(0.6)	Corporate	0	(0.4)	(0.4)
(14.4)	(3.8)	(18.2)	Strategy and performance ◦	(14.9)	(9.5)	(24.4)
16.9	(9.5)	7.4	Chief executive services ◦	34.9	(14.5)	20.4
3.5	**(15.0)**	**(11.5)**	**Net cost of services**	**21.4**	**(60.4)**	**(39.0)**
(3.5)	(10.8)	(14.3)	Other income and expenditure	(21.4)	(28.8)	(50.2)
0	**(25.8)**	**(25.8)**	**(Surplus)/deficit**	**0**	**(89.2)**	**(89.2)**

◦ The 2019/20 figures have been restated following the changes detailed in Note 4 – Prior period restatements.

Notes to the expenditure and funding analysis

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

Adjustments for capital purposes

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

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

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

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

Net change for the pensions adjustments

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

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

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

Other statutory adjustments

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

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

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

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

Adjustments between the funding and accounting basis - 2020/21

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	**£m**	**£m**	**£m**
Adults	2.0	8.8	0.6	11.4
Policy, information, commissioning and safeguarding	0.1	0.8	0	0.9
Public health and wellbeing	0	0.9	0.1	1.0
Education and children's services	8.3	2.2	0.8	11.3
Growth, environment and planning	2.4	0.8	0.1	3.3
Highways and transport	24.8	5.4	0.3	30.5
Organisational development	0	0.2	0	0.2
Waste management	2.6	0.4	0.1	3.1
Finance	0.1	1.2	0.8	2.1
Corporate	0	1.5	0.2	1.7
Strategy and performance	6.8	3.9	0	10.7
Chief executive services	16.6	3.3	0.1	20.0
Schools	33.1	21.5	(3.7)	50.9
Net cost of services	**96.8**	**50.9**	**(0.6)**	**147.1**
Other income and expenditure from the expenditure and funding analysis	(98.5)	23.3	23.2	(52.0)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(1.7)**	**74.2**	**22.6**	**95.1**

Adjustments between the funding and accounting basis - 2019/20 - restated

	Adjustments for capital purposes	Net change for the pensions adjustments	Other statutory differences	Total statutory adjustments
	£m	**£m**	**£m**	**£m**
Adults	0.8	7.5	(0.2)	8.1
Policy, information, commissioning and safeguarding ◦	0	0.7	0	0.7
Public health and wellbeing ◦	0.4	0.8	0	1.2
Education and children's services	9.1	1.0	(0.4)	9.7
Growth, environment and planning	5.1	0.7	0	5.8
Highways and transport ◦	23.4	4.7	(0.1)	28.0
Organisational development ◦	(0.1)	0.2	0.1	0.2
Waste management ◦	(7.8)	0.4	0	(7.4)
Finance	0.8	0.8	0.4	2.0
Corporate	0	1.2	0.3	1.5
Strategy and performance ◦	10.7	3.4	0.5	14.6
Chief executive services ◦	14.9	20.5	0.1	35.5
Schools	19.7	25.0	4.4	49.1
Net cost of services	**77.0**	**66.9**	**5.1**	**149.0**
Other income and expenditure from the expenditure and funding analysis	(63.1)	28.7	(3.1)	(37.5)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**13.9**	**95.6**	**2.0**	**111.5**

◦ The 2019/20 figures have been restated following the changes detailed in Note 4 – Prior period adjustments.

Expenditure and income analysed by nature

The council's expenditure and income are analysed as follows:

2019/20		2020/21
£m		**£m**
850.4	Employee expenses (excluding voluntary aided schools)	845.1
251.0	Employee expenses for voluntary aided schools	249.5
1,092.5	Other service expenses	1,179.0
54.6	Depreciation, amortisation and impairment	75.6
41.0	Interest payments	41.1
1.1	Precepts and levies	1.6
28.7	Net pension interest costs	23.3
71.2	Gain or loss on disposal of non-current assets	31.8
2,390.5	**Total expenditure**	**2,447.0**
(268.4)	Fees, charges and other service income	(265.9)
(43.4)	Interest and investment income	(62.0)
(498.1)	Income from council tax precept	(513.8)
(56.3)	Income from business rates precept	(17.2)
(1,438.0)	Government grants and contributions	(1,652.1)
(2,304.2)	**Total income**	**(2,511.0)**
86.3	**(Surplus)/deficit on the provision of services**	**(64.0)**

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Note 6 - Other operating income and expenditure

2019/20		2020/21
£m		**£m**
1.1	Levies for flood defences and inshore fisheries and conservation authorities	1.6
0.3	Other operating income/expenditure	0
4.2	(Gain) or loss on disposal of non-current assets	0.4
60.2	Loss on transfer of schools to academy status	23.1
65.8	**Total**	**25.1**

Note 7 - Financing and investment income and expenditure

2019/20		2020/21
£m		**£m**
26.6	Interest payable and other similar charges	27.2
14.2	Interest payable on PFI unitary payments	14.8
0.2	Impairment of financial instruments	(0.9)
28.7	Net interest of the net defined benefit liability	23.3
(43.4)	Interest receivable and similar income	(62.0)
26.3	**Total**	**2.4**

Note 8 - Taxation and non-specific grant income

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

2019/20 £m		2020/21 £m
(276.0)	Non-ringfenced Government grants	(349.1)
(115.8)	Capital grants and contributions	(94.5)
(391.8)	**Total non-specific grant income**	**(443.6)**
(498.1)	Council tax income	(513.8)
(56.3)	Non-domestic rates income	(17.2)
(946.2)	**Total**	**(974.6)**

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

Non-ringfenced government grants

2019/20 £m		2020/21 £m
0	Revenue support grant	(33.5)
(164.6)	Top-up grant (business rates retention scheme)	(158.2)
(14.4)	S31 grant	(30.5)
(2.1)	Education services grant	(2.1)
(40.0)	Improved better care	(45.5)
(14.9)	Adult social care	(33.4)
(3.6)	New homes bonus	(3.5)
(35.3)	COVID-19 grant	(41.0)
(1.1)	Other	(1.4)
(276.0)	**Total**	**(349.1)**

Capital grants and contributions

2019/20		2020/21
£m		£m
(43.7)	Department for transport	(50.5)
(32.2)	Department of education	(20.8)
(14.7)	Ministry of housing, communities and local government	(16.7)
(3.1)	Other government grants	(2.0)
(20.4)	Other grants	(0.9)
(0.5)	Other contributions	0
(1.2)	Donated assets	(3.6)
(115.8)	**Total**	**(94.5)**

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

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

2019/20 restated		2020/21
£m		£m
(804.1)	Dedicated schools grant	(833.2)
(44.4)	Pupil premium grant	(44.2)
(79.5)	Other Government grants *	(74.3)
(21.9)	PFI grant	(21.9)
(66.6)	Public health grant	(69.6)
(0.2)	Other grants	(0.1)
(14.3)	Teachers' pension employer contribution grant *	(24.1)
(15.2)	Other contributions	(29.0)
0	COVID-19 grants	(112.1)
(1,046.2)	**Total**	**(1,208.5)**

* The 2019/20 teachers' pension employer contribution grant has been shown separately from other government grants.

Note 10 - Dedicated schools grant

	Central expenditure	Individual schools' budget	Total
	£m	**£m**	**£m**
Final DSG for 2020/21 before academy recoupment			(1,004.3)
Academy figure recouped for 2020/21			171.1
Total DSG after academy recoupment for 2020/21			(833.2)
Brought forward from 2019/20			(11.1)
Carry forward to 2021/22 agreed in advance			0
Agreed initial budgeted distribution for 2020/21	**(133.1)**	**(711.2)**	**(844.3)**
In-year adjustments	0	(0.7)	(0.7)
Final budget distribution for 2020/21	**(133.1)**	**(711.9)**	**(845.0)**
Actual central expenditure relating to DSG	117.0		117.0
Actual ISB deployed to schools		711.9	711.9
Carry forward to 2021/22	**(16.1)**	**0**	**(16.1)**

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

The table details how the DSG receivable for 2020/21 has been utilised.

Note 11 - Officers' remuneration

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

2020/21

Post holder	**Salary, fees and allowances**	**Benefits in kind**	**Pension contributions**	**Total**
	£	**£**	**£**	**£**
Chief Executive and Director of Resources (S151) - A Ridgwell	222,126	0	0	222,126
Executive Director of Adult Services and Health & Wellbeing	146,194	0	23,952	170,146
Executive Director for Education and Children's Services - E Grant	172,990	0	0	172,990
Executive Director of Growth, Environment and Transport	146,194	0	23,952	170,146
Director of Corporate Services	101,569	8,103	17,267	126,939
Director of Finance	103,645	7,979	17,620	129,244
Director of Strategy and Performance	125,408	12,017	21,319	158,744
Director Public Health	130,708	0	18,034	148,742
Head of Communications	68,695	0	11,678	80,373

2019/20

Post holder	Note	Salary, fees and allowances	Benefits in kind	Pension contributions	Total
		£	£	£	£
Chief Executive and Director of Resources (S151) - A Ridgwell		216,323	0	0	216,323
Executive Director of Adult Services and Health & Wellbeing		142,452	0	20,706	163,158
Executive Director for Education and Children's Services - E Grant		168,501	0	0	168,501
Executive Director of Growth, Environment and Transport		136,950	0	19,879	156,829
Director of Corporate Services		96,825	7,779	14,621	119,225
Director of Finance		100,871	6,537	15,231	122,639
Director of Strategy and Performance		118,514	11,629	17,896	148,039
Director of Public Health		127,352	0	17,551	144,903
Head of Communications	1	16,300	0	2,461	18,761
Interim Head of Communications	2	8,416	0	1,271	9,687
Head of Service Communications	3	43,416	0	6,556	49,972

Notes

1 The Head of Communications post was appointed to with effect from 2 January 2020.

2 The Head of Communications post was held on an interim basis from 16 November 2019 and until 1 January 2020.

3 The Head of Service - Communications postholder left the council on 15 November 2019,

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

	2020/21				2019/20			
Remuneration Banding £	LCC non-schools staff [1]	Schools [2]	Total	Redundancies	LCC non-schools staff [1]	Schools [2]	Total	Redundancies
50,000 to 54,999	167	441	608	2	138	358	496	5
55,000 to 59,999	29	277	306	2	39	265	304	3
60,000 to 64,999	45	189	234	2	30	183	213	1
65,000 to 69,999	28	141	169	1	28	108	136	1
70,000 to 74,999	37	66	103	0	34	64	98	2
75,000 to 79,999	5	31	36	0	2	22	24	1
80,000 to 84,999	2	21	23	0	0	16	16	0
85,000 to 89,999	1	10	11	0	2	11	13	2
90,000 to 94,999	0	14	14	0	0	11	11	0
95,000 to 99,999	1	7	8	0	2	6	8	0
100,000 to 104,999	2	5	7	0	0	6	6	0
105,000 to 109,999	4	2	6	0	0	1	1	0
110,000 to 114,999	0	2	2	0	1	1	2	0
115,000 to 119,999	1	0	1	0	0	1	1	0
120,000 to 124,999	0	1	1	0	0	0	0	0
125,000 to 129,999	0	1	1	1	0	0	0	0
130,000 to 134,999	0	0	0	0	1	0	1	0
135,000 to 139,999	1	0	1	0	0	0	0	0
150,000 to 154,999	0	0	0	0	1	0	1	0
155,000 to 159,999	1	0	1	0	0	0	0	0
Total	**324**	**1,208**	**1,532**	**8**	**278**	**1,053**	**1,331**	**15**

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

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

Exit packages

	No. compulsory redundancies		No. other agreed departures		Total number		Total cost £000 *	
Banding (£)	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**
0 to 20,000	35	52	195	249	230	301	1,351	1,910
20,001 to 40,000	2	6	7	8	9	14	243	333
40,001 to 60,000	0	2	1	2	1	4	41	202
60,001 to 100,000	1	2	1	4	2	6	142	456
100,001 to 150,000	0	0	0	3	0	3	0	381
150,001 to 200,000	0	2	0	0	0	2	0	348
Total	**38**	**64**	**204**	**266**	**242**	**330**	**1,777**	**3,630**

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

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

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

- Redundancy payments
  These are received by the employee and are calculated in line with the relevant policies agreed by the council.

During 2020/21, the council terminated the contracts of a number of employees, incurring liabilities of £1.8 million (2019/20: £3.6 million). Of the £1.8 million, £0.3 million is enhanced pension benefits and £1.5 million is payable to the employees. The table shows the number of exit packages and total cost to the council per band.

Note 12 - Members' allowances

2019/20 £000		2020/21 £000
1,272.0	Allowances payable to Members	1,283.1
48.0	Expenses payable to Members	11.9
1,320.0	**Total**	**1,295.0**

Note 13 - Fees payable to auditors

The council incurred the following fees relating to external audit.

2019/20 £000		2020/21 £000
87.0	Fees incurred with regard to external audit services provided by Grant Thornton	87.0
4.0	Fees incurred for certification work undertaken by Grant Thornton	7.8
9.0	Fees payable in respect of other services provided by Grant Thornton	5.0
0	Fees payable in respect of additional prior year work	33.9
(10.0)	Reimbursement from Public Sector Audit Appointment	0
90.0	**Total**	**133.7**

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

This note details the adjustments made to the comprehensive income and expenditure recognised by the council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. Further information is provided in Note 31, which details the movements in reserves.

Adjustments between accounting basis and funding basis under regulations - 2020/21

	Usable reserves				Unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(74.2)	0	0	(74.2)	74.2
Financial instruments (transferred to the financial instruments adjustments account)	3.6	0	0	3.6	(3.6)
Council tax and NDR (transferred to or from the collection fund)	(26.8)	0	0	(26.8)	26.8
Holiday pay (transferred to the accumulated absences adjustment account)	0.6	0	0	0.6	(0.6)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account)	(82.9)	0	43.1	(39.8)	39.8
Total adjustments to revenue resources	**(179.7)**	**0**	**43.1**	**(136.6)**	**136.6**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	8.3	(8.3)	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	24.8	0	0	24.8	(24.8)
Total adjustments between revenue and capital resources	**33.1**	**(8.3)**	**0**	**24.8**	**(24.8)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	51.5	0	(51.5)	0	0
Total adjustments to capital resources	**51.5**	**0**	**(51.5)**	**0**	**0**
Total adjustments	**(95.1)**	**(8.3)**	**(8.4)**	**(111.8)**	**111.8**

Adjustments between accounting basis and funding basis under regulations - 2019/20

	Usable reserves				Unusable reserves
	General fund balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(95.6)	0	0	(95.6)	95.6
Financial instruments (transferred to the financial instruments adjustments account)	3.7	0	0	3.7	(3.7)
Council tax and NDR (transferred to or from the collection fund)	(0.7)	0	0	(0.7)	0.7
Holiday pay (transferred to the accumulated absences adjustment account)	(5.0)	0	0	(5.0)	5.0
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account)	(106.5)	0	39.0	(67.5)	67.5
Total adjustments to revenue resources	**(204.1)**	**0**	**39.0**	**(165.1)**	**165.1**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	(1.0)	0.9	0	(0.1)	0.1
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	19.8	0	0	19.8	(19.8)
Total adjustments between revenue and capital resources	**18.8**	**0.9**	**0**	**19.7**	**(19.7)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	73.8	0	(73.8)	0	0
Total adjustments to capital resources	**73.8**	**0**	**(73.8)**	**0**	**0**
Total adjustments	**(111.5)**	**0.9**	**(34.8)**	**(145.4)**	**145.4**

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
General fund	(23.4)	0	0	(23.4)	0	0	(23.4)
Reserves held to deliver corporate priorities							
Strategic investment reserve	(2.1)	0.3	(4.0)	(5.8)	6.4	(5.4)	(4.8)
Reserves held to deliver organisational change							
Downsizing reserve	(7.5)	1.8	0	(5.7)	0	0	(5.7)
Risk management reserve	(2.9)	0.9	0	(2.0)	0	(4.4)	(6.4)
Transitional reserve	(164.2)	18.0	(5.0)	(151.2)	2.3	(52.8)	(201.7)
School reserves							
Individual school reserves	(42.8)	10.9	(15.5)	(47.4)	2.6	(45.4)	(90.2)
Other school reserves	(19.9)	7.5	(0.5)	(12.9)	5.3	(13.2)	(20.8)
Centrally managed schools maintenance reserve	(5.2)	5.2	(5.5)	(5.5)	5.5	(5.8)	(5.8)
Reserves held to meet service priorities							
Treasury management reserve	(10.0)	0	(1.6)	(11.6)	0.8	(18.4)	(29.2)
Business rates volatility	0	0	0	0	0	(5.0)	(5.0)
Directorate reserves	(29.7)	10.3	(47.6)	(67.0)	85.2	(116.4)	(98.2)
Election reserve	(0.9)	0	(0.4)	(1.3)	0	(0.4)	(1.7)
Total earmarked revenue and capital reserves	**(308.6)**	**54.9**	**(80.1)**	**(333.8)**	**108.1**	**(267.2)**	**(492.9)**

Reserves held to deliver corporate priorities

Strategic investment reserve

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

Reserves held to deliver organisational change

Downsizing reserve

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

Risk management reserve

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

Transitional reserve

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

Schools' reserves

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

Reserves held to meet service priorities

These earmarked reserves consist of amounts carried forward for specifically agreed projects within departments. Some of these reserves are not only the funds of the county council and could relate to partners.

Note 16 - Capital expenditure and capital financing

2019/20		2020/21
£m		£m
1,070.2	**Opening capital financing requirement**	**1,091.7**
	Capital investment	
99.4	Property, plant and equipment	104.9
0.6	Intangible assets	5.2
22.5	Revenue expenditure funded from capital under statute	21.3
122.5	**Total capital investment**	**131.4**
	Sources of finance	
(80.9)	Government grants and other contributions	(86.2)
	Sums set aside from revenue:	
(0.3)	Direct revenue contributions	(2.7)
(4.9)	Write down of PFI liability	(7.1)
(14.9)	Minimum revenue provision (MRP) for debt repayment	(17.7)
1,091.7	**Closing capital financing requirement**	**1,109.4**
	Explanation of movement in year	
26.4	Increase in underlying need to borrow (unsupported by Government financial assistance)	24.8
(4.9)	Write down of PFI liability	(7.1)
21.5	**Total movement**	**17.7**

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

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

Note 17 - Capital contractual commitments

At 31 March 2021, the council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2021/22 or future years. (2019/20: £nil)

Note 18 - Property, plant and equipment

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

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure	Assets under construction	Surplus assets	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Carried at historical cost	**90.9**	**80.2**	**1,235.9**	**9.6**	**0**	**1,416.6**
Valued at current value as at:						
31 March 2021	785.2	0	0	0	24.7	809.9
31 March 2020	624.5	0	0	0	0	624.5
31 March 2019	648.4	0	0	0	0	648.4
Total cost or valuation	**2,149.0**	**80.2**	**1,235.9**	**9.6**	**24.7**	**3,499.4**

Property, plant and equipment - movements in 2020/21

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2020	**2,128.5**	**79.0**	**1,170.6**	**2.5**	**26.8**	**3,407.4**	**173.3**
Additions *	27.3	4.9	65.3	7.1	0.3	**104.9**	0.3
De-recognition – disposals	(28.2)	(3.7)	0	0	(2.8)	**(34.7)**	(18.9)
Revaluation increases/(decreases) recognised in the revaluation reserve	26.2	0	0	0	0.1	**26.3**	4.1
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(4.7)	0	0	0	0.2	**(4.5)**	2.0
Assets reclassified	(0.1)	0	0	0	0.1	0	0
At 31 March 2021	**2,149.0**	**80.2**	**1,235.9**	**9.6**	**24.7**	**3,499.4**	**160.8**
Depreciation and impairment							
At 1 April 2020	**(106.3)**	**(50.7)**	**(179.0)**	**0**	**(0.2)**	**(336.2)**	**(4.8)**
Depreciation charge	(42.9)	(6.0)	(21.8)	0	(0.1)	**(70.8)**	(4.1)
Depreciation written out to revaluation reserve	22.6	0	0	0	0	**22.6**	1.9
Depreciation written out to the surplus/deficit on provision of services	3.1	0	0	0	0	**3.1**	1.5
De-recognition	0.6	3.6	0	0	0	**4.2**	0.4
At 31 March 2021	**(122.9)**	**(53.1)**	**(200.8)**	**0**	**(0.3)**	**(377.1)**	**(5.1)**
At 1 April 2020	**2,022.2**	**28.3**	**991.6**	**2.5**	**26.6**	**3,071.2**	**168.5**
At 31 March 2021	**2,026.1**	**27.1**	**1,035.1**	**9.6**	**24.4**	**3,122.3**	**155.7**

* The additions figure includes donated assets of £3.6 million.

Property, plant and equipment - movements in 2019/20

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2019	**2,126.3**	**73.8**	**1,106.7**	**7.8**	**23.7**	**3,338.3**	**158.0**
Additions	29.9	5.2	61.4	2.5	0.4	**99.4**	0.3
De-recognition – disposals	(67.1)	0	0	0	(1.4)	**(68.5)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	38.3	0	0	0	(0.3)	**38.0**	5.7
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	1.1	0	0	0	0.5	**1.6**	9.3
Assets reclassified *	0	0	2.5	(7.8)	3.9	**(1.4)**	0
At 31 March 2020	**2,128.5**	**79.0**	**1,170.6**	**2.5**	**26.8**	**3,407.4**	**173.3**
Depreciation and impairment							
At 1 April 2019	**(104.4)**	**(44.6)**	**(159.7)**	**0**	**(0.1)**	**(308.8)**	**(5.3)**
Depreciation charge	(30.3)	(6.1)	(19.3)	0	(0.1)	**(55.8)**	0.5
Depreciation written out to revaluation reserve	22.7	0	0	0	0	**22.7**	0.6
Depreciation written out to the surplus/deficit on provision of services	3.9	0	0	0	0	**3.9**	(0.6)
De-recognition	1.8	0	0	0	0	**1.8**	0
At 31 March 2020	**(106.3)**	**(50.7)**	**(179.0)**	**0**	**(0.2)**	**(336.2)**	**(4.8)**
At 1 April 2019	**2,021.9**	**29.2**	**947.0**	**7.8**	**23.6**	**3,029.5**	**152.7**
At 31 March 2020	**2,022.2**	**28.3**	**991.6**	**2.5**	**26.6**	**3,071.2**	**168.5**

* The £1.4 million balance on assets reclassified relates to assets held for sale.

Note 19 - School assets

Schools included on the council's balance sheet

31 March 2020			31 March 2021	
Number of schools	Value of land and buildings		Number of schools	Value of land and buildings
	£m			£m
250	796.2	Community schools	247	780.5
11	120.0	Foundation schools	11	123.0
261	617.3	Voluntary aided schools	260	621.5
50	119.9	Voluntary controlled schools	50	120.0
572*	**1,653.4**	**Total**	**568**	**1,645.0**
14	168.5	Schools subject to PFI contracts	13	155.7

* The number of schools as at 31 March 2020 has been amended to reflect an academy transfer which took place in 2019/20 but was not reflected in the number of schools.

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

The number of schools has reduced as four schools chose to take up academy status in 2020/21.

The council has 13 schools subject to PFI contracts, the buildings for which are shown on the council's balance sheet together with the related liability.

Note 20 - Heritage assets

	Paintings and furniture	Other museum artefacts	Manuscripts and books	Total
	£m	£m	£m	£m
Cost or valuation				
At 31 March 2021	**3.0**	**11.1**	**14.6**	**28.7**
At 31 March 2020	**3.0**	**11.1**	**14.6**	**28.7**

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

Paintings, furniture and other artefacts

The museum service contains around 140,000 items, which cover a variety of artefacts relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects.

Manuscripts and books

Lancashire also holds a libraries special collection that consists of publications held for their historical and cultural importance.

Collections and their records can be accessed in a number of ways from virtual access to physical examination of items on display in exhibitions. For any items held in store, a mutually convenient appointment is needed to view them.

Note 21 - Long term debtors

31 March 2020		31 March 2021
£m		£m
13.7	Transferred Debt [1]	13.1
29.2	Finance Lease Debtor [2]	28.1
42.9	**Total**	**41.2**

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

2 Finance lease debtor is a long term debtor due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 30).

Note 22 - Short term debtors

31 March 2020		31 March 2021
£m		£m
21.8	Council tax	21.7
1.7	Non-domestic rates	1.4
27.7	Other receivables	32.3
131.7	Trade receivables	116.3
(18.4)	Less impairment allowance	(17.7)
164.5	**Total**	**154.0**

Note 23 - Cash and cash equivalents

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

31 March 2020		31 March 2021
£m		**£m**
0.3	Cash held by the council	0.3
(61.1)	Bank current accounts	(39.9)
694.8	Short term deposits under 3 months	224.1
634.0	**Total**	**184.5**

Note 24 - Short term creditors and receipts in advance

31 March 2020		31 March 2021
£m		**£m**
(151.0)	Trade payables	(115.1)
(21.3)	Council tax	(29.7)
(0.1)	Non-domestic rates	(13.8)
(56.9)	Other payables	(57.0)
(229.3)	**Total**	**(215.6)**

31 March 2020		31 March 2021
£m		**£m**
(7.6)	Receipts in advance	(7.5)
(11.8)	Government grants receipts in advance (revenue)	(0.1)
0	Government grants receipts in advance (capital)	(23.3)
(19.4)	**Total**	**(30.9)**

Note 25 – Provisions

Funds are set aside to provide for specific expenses for which the exact cost and timing are still uncertain.

	Balance at 1 April 2020	Additional provision made in 2020/21	Spending met from the provision in 2020/21	Unused amounts reversed in 2020/21	Balance at 31 March 2021
	£m	£m	£m	£m	£m
Insurance provision	(20.9)	(16.9)	14.9	0	(22.9)
MMI provision	(2.8)	0	0	0	(2.8)
Other long term provisions	(1.1)	0	0	0	(1.1)
Total long term provisions	**(24.8)**	**(16.9)**	**14.9**	**0**	**(26.8)**
Business rates appeals	(9.3)	(9.8)	0	9.3	(9.8)
Early retirement	(0.1)	0	0.1	0	0
Other short term provisions	(3.5)	(0.7)	0.7	0	(3.5)
Total short term provisions	**(12.9)**	**(10.5)**	**0.8**	**9.3**	**(13.3)**
Total provisions	**(37.7)**	**(27.4)**	**15.7**	**9.3**	**(40.1)**

Insurance provision

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

Municipal Mutual Insurance (MMI)

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

Business rates appeals

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

Early retirement provision

This provision is for future voluntary redundancy costs.

Other provisions

All other provisions are individually insignificant.

Note 26 - Financial instruments

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

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

The disclosures include:

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

Financial assets

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

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

- Cash in hand;
- Bank current account;
- Loans to other local authorities;
- Loans to companies;
- Lease receivables, and
- Trade receivables for goods and services provided.

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

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

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

31 March 2020			Category	31 March 2021		
Long term	Short term	Total		Long term	Short term	Total
£m	£m	£m		£m	£m	£m
33.9	97.1	**131.0**	Amortised cost	32.5	57.1	**89.6**
300.6	0	**300.6**	Financial assets at fair value through other comprehensive income	554.1	0	**554.1**
0	169.2	**169.2**	Financial assets at fair value through profit and loss	0	209.2	**209.2**
334.5	**266.3**	**600.8**	**Total investments**	**586.6**	**266.3**	**852.9**
0	634.0	**634.0**	Cash and cash equivalents	0	184.5	**184.5**
29.2	113.3	**142.5**	Debtors #	28.1	98.6	**126.7**
363.7	**1,013.6**	**1,377.3**	**Total financial assets**	**614.7**	**549.4**	**1,164.1**
# The debtors figure stated is lower than the debtors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial asset – payments in advance and non-exchange transactions						
13.7	*51.2*	*64.9*	*Debtors which do not meet the definition of a financial instrument*	*13.1*	*55.4*	*68.5*
42.9	*164.5*	*207.4*	*Balance sheet total*	*41.2*	*154.0*	*195.2*

Financial liabilities

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

- Short term loans from other local authorities;
- Long term loans from the Public Works Loan Board and other local authorities;
- Private finance initiative contracts;
- Trade payables for goods and services received.

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

31 March 2020			Category	31 March 2021		
Long term	**Short term**	**Total**		**Long term**	**Short term**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
(844.8)	(714.7)	**(1,559.5)**	Financial liabilities at amortised cost	(897.3)	(489.0)	**(1,386.3)**
0	(198.5)	**(198.5)**	Financial liabilities at fair value through profit and loss	0	(162.5)	**(162.5)**
(1.3)	(181.1)	**(182.4)**	Creditors #	(1.3)	(144.6)	**(145.9)**
(139.5)	(7.1)	**(146.6)**	Other financial liabilities (PFI) at amortised cost	(133.0)	(6.5)	**(139.5)**
(985.6)	**(1,101.4)**	**(2,087.0)**	**Total financial liabilities**	**(1,031.6)**	**(802.6)**	**(1,834.2)**
# The creditors figure stated is lower than the creditors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial liability – receipts in advance and non-exchange transactions						
0	*(48.2)*	*(48.2)*	*Creditors which do not meet the definition of a financial instrument*	*0*	*(71.0)*	*(71.0)*
(1.3)	*(229.3)*	*(230.6)*	*Balance sheet total*	*(1.3)*	*(215.6)*	*(216.9)*

Note 27 – Other current liabilities

31 March 2020		31 March 2021
£m		£m
(7.1)	PFI Liability	(6.5)
(198.5)	Short positions in investments	(162.5)
(205.6)	**Total**	**(169.0)**

Note 28 – Other long term liabilities

31 March 2020		31 March 2021
£m		£m
(1,152.9)	Pension liability	(1,516.2)
(139.5)	PFI liability	(133.0)
(0.1)	Other long term liabilities	(0.1)
(1,292.5)	**Total**	**(1,649.3)**

Note 29 - Private finance initiative (PFI)

The council has the following PFI contracts:

Fleetwood High School

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

Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in four separate phases under contract with Catalyst Education (Lancashire) Limited. Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

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

For each contract, the council makes an agreed payment each year, which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year but is otherwise fixed. An estimate of 1.57% is made for future inflation within the model.

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

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

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

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

Fleetwood High School

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2021/22	0.5	0.5	0.9	1.9
Payment within 2 to 5 years	1.8	3.2	3.0	8.0
Payment within 6 to 10 years	0.6	1.6	0.8	3.0
Total	**2.9**	**5.3**	**4.7**	**12.9**

Building schools for the future (BSF)

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2021/22	11.5	6.0	12.8	30.3
Payment within 2 to 5 years	50.4	28.0	45.4	123.8
Payment within 6 to 10 years	69.8	49.2	41.2	160.2
Payment within 11 to 15 years	43.4	51.0	17.6	112.0
Total	**175.1**	**134.2**	**117.0**	**426.3**

Outstanding PFI liability

31 March 2020		31 March 2021
£m		£m
(151.5)	**Balance outstanding at start of year**	**(146.6)**
4.9	Payments during the year	7.1
(146.6)	**Balance outstanding at year end**	**(139.5)**

The tables show payments due to be made under the PFI contracts. The payments can be reduced if the contractor fails to meet availability or performance standards.

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

Note 30 - Leases

Council as lessor – finance leases

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

31 March 2020		31 March 2021
£m		£m
1.1	Current	1.1
29.2	Non-current	28.1
13.6	Unearned finance income	12.4
43.9	**Gross investment in the finance lease**	**41.6**

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

31 March 2020			31 March 2021	
Gross investment	Minimum lease payments		Gross investment	Minimum lease payments
£m	£m		£m	£m
2.2	1.1	Not later than one year	2.2	1.1
9.0	4.7	Later than one year and not later than 5 years	9.0	4.9
32.7	24.5	Later than 5 years	30.4	23.2
43.9	**30.3**	**Total**	**41.6**	**29.2**

The council has a gross investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee, and finance income earned by the council whilst the debtor remains outstanding.

Note 31 - Reserves

Usable reserves

31 March 2020		31 March 2021
£m		**£m**
(23.4)	General fund	(23.4)
(244.6)	Earmarked reserves	(352.7)
(65.8)	School reserves	(116.8)
(333.8)	**Total earmarked reserves**	**(492.9)**
(133.7)	Capital grants unapplied reserve	(142.1)
(0.1)	Capital receipts reserve	(8.4)
(467.6)	**Total usable reserves**	**(643.4)**

Unusable reserves

31 March 2020		31 March 2021
£m		**£m**
48.3	Financial instruments adjustment account	44.7
27.7	Financial instruments revaluation reserve	64.2
(1,004.9)	Revaluation reserve	(1,024.9)
(1,017.8)	Capital adjustment account	(1,031.6)
1,152.9	Pensions reserve	1,598.1
(6.5)	Collection fund adjustment account	20.2
29.7	Accumulated absences adjustment account	29.1
(770.6)	**Total**	**(300.2)**

Financial instruments adjustment account

2019/20		2020/21
£m		£m
52.0	**Balance at 1 April**	**48.3**
(3.7)	Proportion of premiums incurred in previous financial years to be charged against general fund balance	(3.6)
48.3	**Balance at 31 March**	**44.7**

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

Financial instruments revaluation reserve

2019/20		2020/21
£m		£m
5.9	**Balance at 1 April**	**27.7**
21.8	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	36.5
27.7	**Balance at 31 March**	**64.2**

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

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

Revaluation reserve

2019/20 £m		2020/21 £m
(989.9)	**Balance at 1 April**	**(1,004.9)**
(145.2)	Upward revaluation of assets	(65.8)
84.5	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	16.9
(60.7)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(48.9)**
18.1	Difference between fair value depreciation and historical cost depreciation	21.4
27.6	Accumulated gains on assets sold or scrapped	7.5
45.7	**Amount written off to the capital adjustment account**	**28.9**
(1,004.9)	**Balance at 31 March**	**(1,024.9)**

The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation or;
- Disposed of and the gains are realised.

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

Capital adjustment account

2019/20		2020/21
£m		£m
(1,019.7)	**Balance at 1 April**	**(1,017.8)**
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
55.8	Charges for depreciation and impairment of non-current assets	70.8
(5.2)	Revaluation losses/(gains) on property, plant and equipment including assets held for sale	1.4
4.4	Amortisation of intangible assets	3.5
22.5	Revenue expenditure funded from capital under statute	21.3
71.1	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	31.8
(4.9)	Write down of PFI liability	(7.1)
(45.7)	Adjusting amount written out of the revaluation reserve	(28.9)
(921.7)	**Net written out amount of the cost of non-current assets consumed in the year**	**(925.0)**
	Capital financing applied in the year	
(46.1)	Capital grants and contributions credited to the comprehensive income and expenditure statement	(77.8)
(34.8)	Application of capital grants to capital financing from the capital grants unapplied account	(8.4)
(14.9)	Statutory provision for the financing of capital investment charged against the general fund	(17.7)
(0.3)	Capital expenditure charged against the general fund	(2.7)
(96.1)		**(106.6)**
(1,017.8)	**Balance at 31 March**	**(1,031.6)**

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

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

Pensions reserve

2019/20		2020/21
£m		**£m**
1,260.9	**Balance at 1 April**	**1,152.9**
(203.6)	Re-measurement of the net defined benefit liability/(asset)	371.0
191.1	Reversal of items relating to retirement benefits debited or credited to the surplus on the provision of services in the comprehensive income and expenditure statement	160.9
(95.5)	Employer's pension contributions and direct payments to pensioners payable in the year	(86.7)
1,152.9	**Balance at 31 March**	**1,598.1**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible.

The debit balance on the pensions reserve, therefore, shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Accumulated absences adjustment account

2019/20		2020/21
£m		**£m**
24.7	**Balance at 1 April**	**29.7**
(24.7)	Settlement or cancellation of accrual made at the end of the preceding year	(29.7)
29.7	Amounts accrued at the end of the current year	29.1
5.0	**Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**(0.6)**
29.7	**Balance at 31 March**	**29.1**

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

Note 32 - Cash flows from operating activities

The net surplus or deficit on the provision of services in the comprehensive income and expenditure statement has been subject to the following adjustments in order to arrive at the net cash flows from operating activities:

The cash flows for operating activities include the following items:

2019/20		2020/21
£m		£m
(43.3)	Interest received	(61.5)
40.3	Interest paid	44.1

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

2019/20		2020/21
£m		£m
55.8	Depreciation	70.8
(5.2)	Impairment and downward/(upward) valuations	1.4
4.4	Amortisation of intangible assets	3.5
(3.1)	Increase/(decrease) in impairment for bad debts	(2.3)
10.9	Increase/(decrease) in creditors	13.5
(33.8)	(Increase)/decrease in debtors	(19.4)
(0.6)	(Increase)/decrease in inventories	0.2
134.9	Movement in pension liability	(7.6)
71.1	Carrying amount of non-current assets sold	31.8
6.6	Other non-cash items charged to the surplus or deficit on the provision of services	(17.3)
241.0	**Total**	**74.6**

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

2019/20 £m		2020/21 £m
(51.8)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(37.8)
(6.7)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8.3)
(115.8)	Capital grants credited to the surplus on the provision of services	(94.5)
(174.3)	**Total**	**(140.6)**

Note 33 - Cash flows from investing activities

2019/20 £m		2020/21 £m
(98.8)	Purchase of property, plant and equipment, investment property and intangible assets	(106.7)
(4,561.5)	Purchase of short term and long term investments	(6,948.3)
3.7	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8.3
4,444.0	Proceeds from the sale of short term and long term investments	6,654.2
285.3	Other capital grants and receipts from investing activities	96.4
72.7	**Net cash flows from investing activities**	**(296.1)**

Note 34 - Cash flows from financing activities

2019/20		2020/21
£m		£m
2,014.5	Cash receipts from short term and long term borrowing	1,078.8
0.8	Appropriate to/from Collection Fund Adjustment Account	26.9
(1,498.0)	Repayment of short term and long term borrowing	(1,250.0)
(4.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(7.1)
512.4	**Net cash flows from financing activities**	**(151.4)**

Note 35 - Reconciliation of liabilities arising from financing activities

	1 April 2020	Financing cash flows		Non-cash changes	31 March 2021
		Acquisitions	Repayments		
	£m	£m	£m	£m	£m
Long term borrowing	844.8	275.0	(72.5)	(150.0)	897.3
Short term borrowing *	714.7	803.8	(1,177.5)	148.0	489.0
PFI liabilities *	146.6	0	(7.1)	0	139.5
Total	**1,706.1**	**1,078.8**	**(1,257.1)**	**(2.0)**	**1,525.8**

	1 April 2019	Financing cash flows		Non-cash changes	31 March 2020
		Acquisitions	Repayments		
	£m	£m	£m	£m	£m
Long term borrowing	471.2	859.7	(486.3)	0.2	844.8
Short term borrowing *	571.3	1,154.8	(1,011.7)	0.3	714.7
PFI liabilities *	151.5	0	(4.9)	0	146.6
Total	**1,194.0**	**2,014.5**	**(1,502.9)**	**0.5**	**1,706.1**

* The short term element of PFI liabilities is shown within PFI liabilities rather than short term borrowing.

Note 36 - Related party transactions

The council is required to disclose material transactions with related parties - bodies and individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Central government

Central government has effective control over the general operations of the council, as it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax). Grant income from government departments is shown in Note 9.

Other public bodies (subject to common control by central government)

The council's material transactions with other public bodies relate primarily to precepts received from other local councils, the summary of which is shown in Note 8 - Taxation and Non Specific Grants.

The council is the host to pooled budget arrangements with several Clinical Commissioning Groups, for the Better Care Fund and for Learning Disabilities. Transactions and balances for both funds are detailed in Note 35.

Chief officers

Officers are appointed by the council to boards or committees of various organisations to act on behalf of the council in their official capacities. All officers are required to declare any relevant interests and those of their family members.

For 2020/21, there are no transactions for services to organisations in which chief officers have declared interests.

Members

Members of the council have direct control over the council's financial and operating policies. Members are also appointed by the council to boards or committees of various organisations to act on behalf of the council in their official capacities. The total of Members' allowances paid is shown in Note 12. Details of Members' interests are recorded in a formal Register of Interest, which is open to public inspection.

Lancashire County Pension Fund

The Lancashire County Pension Fund is administered by Lancashire County Council.

The council incurred costs of £0.7 million in relation to the administration of the fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The council was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of the members of the pension fund and contributed £68.6 million to the fund in 2020/21.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Lancashire County Council.

The council's Chief Executive and Director of Resources is responsible for the preparation and sign off of the Lancashire County Pension Fund accounts. For this service, the pension fund is recharged an element (2%) of the Chief Executive and Director of Resources' salary.

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. The interests are detailed in the table below:

Company	Interest	Relationship
Lancashire County Developments Limited	100%	Subsidiary
Lancashire Renewables Limited	100%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Lancashire Enterprise Partnership Limited	50%	Joint venture (Dormant company)
Active Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire UDF Limited	100%	Subsidiary (Dormant company)
Lancashire UDF - SPV2 Limited	100%	Subsidiary

Inclusion in the Lancashire County Council Group is dependent upon the extent of the council’s interest and control over the entity. Where the value of the interest is considered immaterial, the company is not consolidated in the group accounts.

The transactions of Lancashire County Developments Limited are included within the council's group accounts.

Details of transactions with the other companies are shown in the following tables.

Lancashire Renewables Limited

Lancashire Renewables Limited is a subsidiary of Lancashire County Council and manages the two strategic waste management facilities at Leyland and Thornton.

2019/20		2020/21
£m		£m
27.7	Payments made during the year to Lancashire Renewables Limited	28.6
(0.7)	Income received during the year from Lancashire Renewables Limited	(3.6)
0.6	Amounts owed at the year end from Lancashire Renewables Limited	1.0
(0.9)	Amounts owed at the year end to Lancashire Renewables Limited	(1.0)

Marketing Lancashire Limited

Marketing Lancashire is a destination management organisation for Lancashire. Its aims include growing the visitor economy and developing the destination as a place to visit, work and invest in.

2019/20		2020/21
£m		£m
0.5	Payments made during the year to Marketing Lancashire Limited	0.7

Active Lancashire Limited

Active Lancashire Limited is a county sport partnership and charity operating in the Lancashire and South Cumbria public health regions.

2019/20		2020/21
£m		£m
0	Payments made during the year to Active Lancashire Limited	0.1

Local Pensions Partnership Limited

Lancashire County Council entered into a joint venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds. Lancashire Pensions Partnership operates the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies. In the case of the Lancashire County Pension Fund, the Pension Fund Committee.

2019/20		2020/21
£m		£m
0.5	Payments made during the year to Local Pensions Partnership Limited	0.2
(18.3)	Income received during the year from Local Pensions Partnership Limited	(0.1)
0.1	Amounts owed at the year end from Local Pensions Partnership Limited	0.1
(0.4)	Amounts owed at the year end to Local Pensions Partnership Limited	0

Penna plc

Penna plc is a recruitment consultancy company, which during the course of 2019/20 provided recruitment and key management personnel services to Lancashire County Council.

2019/20		2020/21
£m		£m
0.4	Payments made during the year to Penna plc	0.2
(0.1)	Amounts owed at the year end to Penna plc	0

Hays Specialist Recruitment Limited

Hays Specialist Recruitment Limited is a recruitment consultancy company, which during the course of 2019/20 and 2020/21 has provided recruitment and key management personnel services to Lancashire County Council.

2019/20		2020/21
£m		£m
0.1	Payments made during the year to Hays Specialist Recruitment Limited	0.6
(0.1)	Amounts owed at the year end to Hays Specialist Recruitment Limited	0

Note 37 - Pooled budgets

Pooled budget for learning disabilities

2019/20		2020/21
£m	**Funding provided to the pooled budget**	**£m**
(113.7)	Lancashire County Council	(113.7)
(1.2)	NHS Morecambe Bay CCG	(1.2)
(1.6)	NHS Fylde and Wyre CCG	(1.6)
(0.2)	NHS Blackpool CCG	(0.2)
(2.1)	NHS Chorley and South Ribble CCG	(2.1)
(1.1)	NHS Greater Preston – central pool	(1.1)
(1.1)	NHS West Lancashire CCG	(1.1)
(1.9)	NHS East Lancashire CCG	(1.9)
(0.5)	Other	(0.5)
(123.4)	**Total**	**(123.4)**
	Expenditure met from the pooled budget	
140.7	Lancashire County Council	147.5
1.6	NHS Morecambe Bay CCG	1.6
2.1	NHS Fylde and Wyre CCG	2.3
0.2	NHS Blackpool CCG	0.3
0	NHS Greater Preston CCG	0.1
3.0	NHS Chorley and South Ribble CCG	3.1
1.6	NHS Greater Preston – central pool	1.6
1.6	NHS West Lancashire CCG	1.6
1.5	NHS East Lancashire CCG	1.6
152.3	**Total**	**159.7**
28.9	**Net (surplus)/deficit arising on the pooled budget during the year**	**36.3**
26.4	**Council share of the net (surplus)/deficit**	**33.4**

The council is the host partner of the pooled funds in respect of learning disability services and the better care fund. The arrangements are made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

The council has a pooled budget arrangement with the Lancashire Clinical Commissioning Groups for the provision of support for people with learning disabilities. Any surplus or deficit is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

Better care fund

2019/20 £m	Funding provided to the pooled budget	2020/21 £m
(14.7)	Lancashire County Council (Disabled facilities grant)	(16.7)
(24.6)	NHS East Lancashire CCG	(29.7)
(9.4)	NHS Greater Preston CCG	(14.7)
(8.4)	NHS Chorley and South Ribble CCG	(13.3)
(13.7)	NHS Fylde and Wyre CCG	(14.5)
(10.8)	NHS Morecambe Bay CCG	(11.3)
(8.0)	NHS West Lancashire CCG	(8.4)
(89.6)	**Total**	**(108.6)**
	Expenditure met from the pooled budget	
15.0	Lancashire County Council (Social care)	28.8
19.5	NHS East Lancashire CCG	20.5
9.4	NHS Greater Preston CCG	10.0
9.2	NHS Chorley and South Ribble CCG	9.4
9.1	NHS Fylde and Wyre CCG	9.8
7.3	NHS Morecambe Bay CCG	7.8
5.4	NHS West Lancashire CCG	5.6
14.7	Lancashire County Council (Disabled facilities grant)	16.7
89.6	**Total**	**108.6**
0	**Net surplus/(deficit) arising on the pooled budget during the year**	**0**

Highlighted as a key element of public service reform, the better care fund (BCF) has a primary aim to drive closer integration and improve outcomes for patients, service users and carers. The fund is a partnership arrangement whereby clinical commissioning groups and the council contribute an agreed level of resource into a single pooled budget that is then used to commission or deliver health and social care services.

The BCF plan sets out the council and its partners' vision to deliver an integrated health and social care system to reduce the demand on acute hospital and care home provision in favour of sustainable integrated neighbourhood health and social care. The regulations require that one of the partners is nominated as the host of the pooled budget and this body is then responsible for the budget’s overall accounts and audit. It has been agreed that Lancashire County Council will act as the host for the BCF agreement in Lancashire.

Note 38 – Agency services

Lancashire Local Enterprise Partnership

The council acts as accountable body for the Lancashire Local Enterprise Partnership (LEP) and processes transactions through its financial ledger using the council's procedures and processes as set out in the LEP assurance framework. The LEP is a collaboration of leaders from local businesses, universities and local councils, who direct economic growth and drive job creation. The council has no entitlement to retain any funds or interest generated from funds or to direct the use of these funds.

Where the council is merely an agent for the expenditure, these transactions are not reflected within the council's accounts. However, where the council is the project sponsor for a scheme then expenditure incurred will be recognised within the council's financial statements.

Income

2019/20 restated		2020/21
£m		£m
(63.0)	Growth deal	(38.6)
(12.3)	City deal *	(78.6)
0	Getting building fund	(17.1)
(1.0)	LEP core activity funding	(0.9)
(1.4)	LEP additional projects ◦	(0.9)
(0.3)	Growth hub	(0.3)
(78.0)	**Total income**	**(136.4)**

* The City deal total includes contributions of £3.8 million from Lancashire County Council in 2020/21. (2019/20: £3.8 million)
◦ The 2019/20 figures have been restated to correct for an error when reclassifying headings within the note.

Expenditure

2019/20 restated		2020/21
£m		£m
18.1	Growth deal	84.5
26.2	City deal	59.4
2.1	LEP core activity funding ◦	1.5
0.9	LEP additional projects ◦	0.8
0.3	Growth hub	0.3
47.6	**Total expenditure**	**146.5**

In 2020/21, expenditure totalling £56.2 million was spent on LCC schemes. (2019/20: £25.8 million)
◦ The 2019/20 figures have been restated to correct for an error when reclassifying headings within the note.

Growing places

2019/20		2020/21
£m		£m
4.1	Payments out	5.4
(4.1)	Repayments	(5.6)
(1.0)	Loan interest	(0.3)
(1.0)	**Total**	**(0.5)**

Reserves

2019/20 restated		2020/21
£m		£m
(60.7)	**Balance at 1 April**	**(92.1)**
(78.0)	Income ◦	(136.4)
47.6	Expenditure ◦	146.5
(1.0)	Growing places	(0.5)
0	Employment liabilities	(0.1)
(92.1)	**Balance at 31 March ◦**	**(82.5)**

◦ The 2019/20 figures have been restated to correct for an error when reclassifying headings within the note.

Note 39 – Material items of income and expense

UK Municipal Bonds Agency

In August 2020, the UK Municipal Bonds Agency (UKMBA) issued a bond on behalf of Lancashire County Council for £250 million repayable in 2060.

The bond was issued by a financing vehicle incorporated in the Republic of Ireland and branded as a UKMBA vehicle (UK Municipal Bonds Agency). The issuance is fully guaranteed by the county council and the sole purpose of the financing vehicle was to issue the bond and co-ordinate the cash movements between the county council and the investors.

Key features of the bond are:

- £250 million issued
- It is a 'Fixed Rate Bond'
- 40 years maturity

This is recorded in the balance sheet as long term borrowing.

Transfers to academy status

When a maintained school converts to academy status, the school's buildings held on the council's balance sheet are treated as a disposal. The carrying value of the asset is written off to financing and investment income and expenditure in the comprehensive income and expenditure statement. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

During the year, four schools transferred to academy status. The value of the disposals totalled £23.1 million.

School	**Value**
	£m
Northbrook Primary School	1.9
Warton St Paul's C of E Academy	1.1
Marsden Heights Community College	18.5
Farrington Primary School	1.6
Total	**23.1**

Pension prepayment

On 7 May 2020, the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its future service and deficit recovery payments for the three years 2020/21 to 2022/23. The value of the payment totalled £120.5 million and has the purpose of generating a cash saving to the council.

Note 40 – Events after the reporting period

The statement of accounts was authorised for issue by the Chief Executive and Director of Resources on 26 May 2021. Events taking place after this date are not reflected in the financial statements or notes.

Technical annex

Bowland heather moorland
Photo: Graham Cooper

Income, expense, gains and losses on financial instruments – 2020/21

The gains and losses on financial instruments recognised in the comprehensive income and expenditure statement are shown in the following tables:

	Financial liabilities		Financial assets			Total
	Amortised cost	Fair value through profit and loss	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss	
	£m	£m	£m	£m	£m	£m
Interest expense	41.6	0	0	0	0	41.6
Loss on de-recognition	0	0	0	0.5	0	0.5
Impairment losses	0	0	(0.8)	(0.1)	0	(0.9)
Fees paid	0.4	0	0	0	0	0.4
Interest payable and similar charges	**42.0**	**0**	**(0.8)**	**0.4**	**0**	**41.6**
Interest income	0	0	(5.5)	(3.0)	(3.3)	(11.8)
(Increases)/decreases in fair value	0	(36.0)	0	0	23.8	(12.2)
Gain on de-recognition	0	0	0	(34.1)	(4.4)	(38.5)
Interest and investment income	**0**	**(36.0)**	**(5.5)**	**(37.1)**	**16.1**	**(62.5)**
Net impact on the surplus or deficit on provision of services	**42.0**	**(36.0)**	**(6.3)**	**(36.7)**	**16.1**	**(20.9)**
Loss on revaluation	0	0	0	36.5	0	36.5
Impact on other comprehensive income	**0**	**0**	**0**	**36.5**	**0**	**36.5**
Net gain/(loss) for the year	**42.0**	**(36.0)**	**(6.3)**	**(0.2)**	**16.1**	**15.6**

Income, expense, gains and losses on financial instruments – 2019/20 restated

	Financial liabilities		Financial assets			Total
	Amortised cost	Fair value through profit and loss *	Amortised cost	Fair value through other comprehensive income	Fair value through profit and loss *	
	£m	£m	£m	£m	£m	£m
Interest expense	37.5	0	0	0	0	37.5
Loss on de-recognition	0	0	0	3.4	3.3	6.7
Impairment losses	0	0	0.1	0.1	0	0.2
Fees paid	3.3	0	0	0	0	3.3
Interest payable and similar charges	**40.8**	**0**	**0.1**	**3.5**	**3.3**	**47.7**
Interest income	0	0	(5.4)	(3.1)	(2.6)	(11.1)
(Increases)/decreases in fair value	0	48.3	0	0	(49.9)	(1.6)
Gain on de-recognition	0	0	0	(21.6)	(15.8)	(37.4)
Interest and investment income	**0**	**48.3**	**(5.4)**	**(24.7)**	**(68.3)**	**(50.1)**
Net impact on the surplus or deficit on provision of services	**40.8**	**48.3**	**(5.3)**	**(21.2)**	**(65.0)**	**(2.4)**
Loss on revaluation	0	0	0	21.8	0	21.8
Impact on other comprehensive income	**0**	**0**	**0**	**21.8**	**0**	**21.8**
Net gain/(loss) for the year	**40.8**	**48.3**	**(5.3)**	**0.6**	**(65.0)**	**19.4**

* In 2019/20 the fair value adjustment of the forward contract agreement was incorrectly shown against the financial asset category, so this has now been restated to reflect the split between the financial liability and financial asset elements with regards to this contract.

Fair value of financial assets and liabilities

Financial instruments, except those classified at amortised cost, are carried in the balance sheet at fair value. For most assets, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the following table, split by their level in the fair value hierarchy.

Level 1	Fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
Level 2	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
Level 3	Fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Allowances for impairment have been calculated for assets held at amortised cost by applying a forward looking 'expected loss' impairment model that focuses on the risk that a loan will default rather than whether a loss has been incurred.

Fair value of financial assets

31 March 2020				31 March 2021		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
			Financial assets held at fair value through other comprehensive income			
300.6	300.6	1	Bond, equity and property funds	1	554.1	554.1
			Financial assets held at fair value through profit and loss			
0	0	1	Bond, equity and property funds	1	79.5	79.5
151.7	151.7	2	Bond, equity and property funds	2	129.7	129.7
151.7	**151.7**		**Total**		**209.2**	**209.2**
			Financial assets held at amortised cost			
15.3	18.6	2	Local authority bonds	2	10.2	11
11.5	12.4	2	Long term bank deposits	2	15.2	17.4
29.2	34.4	2	Lease receivables	2	28.1	35.8
7.2	8.1	2	Long term loans to companies	2	7.1	8.6
63.2	**73.5**		**Subtotal**		**60.6**	**72.8**
515.5	**525.8**		**Total**		**823.9**	**836.1**
861.8			Assets for which fair value is not disclosed #		340.2	
1,377.3			**Total financial assets**		**1,164.1**	
29.2			Long term debtors		28.1	
334.5			Long term investments		586.6	
113.3			Short term debtors		98.6	
266.3			Short term investments		266.3	
634.0			Cash and cash equivalents		184.5	
1,377.3			**Total financial assets**		**1,164.1**	

The fair value of short term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made. This shows a notional future profit (based on economic conditions at the end of the financial year) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

31 March 2020				31 March 2021		
Balance sheet value	Fair value	Fair value level		Fair value level	Balance sheet value	Fair value
£m	£m				£m	£m
			Financial liabilities held at amortised cost			
(439.6)	(475.2)	2	Long term PWLB loans	2	(284.6)	(341.4)
(1.3)	(1.3)	2	Long term creditors	2	(1.3)	(1.2)
(350.2)	(350.5)	2	Long term loans	2	(591.3)	(572.0)
(55.0)	(56.0)	2	Other long term loans	2	(21.4)	(23.0)
(146.6)	(219.1)	2	PFI liabilities	2	(139.5)	(220.2)
(992.7)	**(1,102.1)**		**Total financial liabilities held at amortised cost**		**(1,038.1)**	**(1,157.8)**
			Financial liabilities held at fair value through profit and loss			
(198.5)	(198.5)	1	Short term liabilities for short investments	1	(162.5)	(162.5)
(198.5)	**(198.5)**		**Total financial liabilities held at fair value through profit and loss**		**(162.5)**	**(162.5)**
(895.8)			Liabilities for which fair value is not disclosed #		(633.6)	
(2,087.0)	**(1,300.6)**		**Total financial liabilities**		**(1,834.2)**	**(1,320.2)**
			Recorded on balance sheet as:-			
(181.1)			Short term creditors		(144.6)	
(714.7)			Short term borrowings		(489.0)	
(205.6)			Other current liabilities		(169.0)	
(1.3)			Long term creditors		(1.3)	
(844.8)			Long term borrowing		(897.3)	
(139.5)			Other long term liabilities		(133.0)	
(2,087.0)			**Total financial liabilities**		**(1,834.2)**	

The fair value of short term financial liabilities including trade payables is assumed to approximate to the carrying amount

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date. This shows a notional future loss (based on economic conditions at the end of the financial year) arising from a commitment to pay interest to lenders above current market rates.

Nature and extent of risks arising from financial instruments

The council has adopted CIPFA’s Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks.

The council's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central finance team, under policies approved by the council in the annual Treasury Management Strategy.

The strategy also imposes a maximum sum and duration that the council can invest in an institution. This is dependent upon the quality of credit rating and in 2020/21 the investment portfolio has maintained a very high AA credit rating.

A main principle of the credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating.

Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to the council.

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies.

Credit risk – treasury investments

The table below summarises the credit risk exposures of the council's treasury investment portfolio by credit rating:

31 March 2020		Credit rating	31 March 2021	
Long term	**Short term**		**Long term**	**Short term**
£m	**£m**		**£m**	**£m**
137.0	0	AAA	213.0	47.1
145.9	266.3	AA	366.2	219.1
44.5	0	A	0	0
327.4	**266.3**	**Total**	**579.2**	**266.2**
7.1	0	Credit rating not applicable	7.1	0
334.5	**266.3**	**Total investments**	**586.3**	**266.2**
0	0	Accrued interest excluded	0.3	0.1
334.5	**266.3**	**Total investments**	**586.6**	**266.3**

The maximum single commercial exposure is to GILT UKT 3 1/2 07/22/68 at £40 million, which is lower than individual counterparty limit of £500 million for cash deposits. Overall the portfolio is diversified by the use of 43 counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The council manages aged debt within the agreed policy. Loss allowances on treasury investments have been calculated on the 12 month expected credit loss model by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. For local government and central government investments these have been excluded for this loss allowance calculation. There is no expected credit loss due as at 31 March 2021 as all the investments held were not below Moody's Aa2 level so the historic default rate is 0%.

In 2020/21 there are no treasury investments that have suffered a significant increase in credit risk since initial recognition.

Credit risk: trade receivables

The impairment allowance on trade debtors has been calculated using the lifetime credit losses basis. The impairment allowance loss on other financial assets has been calculated based on the expected 12-month credit loss.

	Trade debtors	Financial investments	Total
	£m	£m	£m
Balance at 1 April 2020	**(18.4)**	**(0.2)**	**(18.6)**
Impairment allowance for trade debtors	0.7	0	**0.7**
Impairment allowance for corporate bonds and long term loans	0	0.2	**0.2**
Balance at 31 March 2021	**(17.7)**	**0**	**(17.7)**

Liquidity risk

Liquidity risk is the danger that the council will have insufficient funds in its bank account to make the payments necessary to meet its financial obligations.

The maturity analysis of principal sums borrowed is as follows:

31 March 2020		31 March 2021
£m		£m
713.6	Less than 1 year	490.9
713.6	**Total short term borrowing**	**490.9**
224.1	1 to 2 years	47.9
430.8	3 to 5 years	435.6
112.6	6 to 10 years	90.7
216.8	More than 10 years	456.1
984.3	**Total long term borrowing**	**1,030.3**
1,697.9	**Total borrowing**	**1,521.2**

The council has a comprehensive cash flow management system, which seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the Public Works Loans Board and access to the investment portfolio, which is also considered to be liquid. There is no significant risk that the council will be unable to raise finance to meet its commitments under financial instruments.

Market risk

Market risk is the possibility that financial loss might arise as a result of changes in interest rates and stock movements.

The council is exposed to interest rate movements on its borrowings and investments. Movement in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

Borrowing at variable rates	The interest expense charged to the surplus or deficit on the provision of services will rise
Borrowing at fixed rates	The fair value of the liabilities will fall
Investments at variable rates	The interest income credited to surplus or deficit on the provision of services will rise
Investments at fixed rates	The fair value of the investments will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the comprehensive income and expenditure statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in other comprehensive income or the surplus or deficit on the provision of services as appropriate.

There is a significant level of short term borrowing which needs to be regularly refinanced as part of the strategy to benefit from low short term interest rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the council to switch from short term to long term borrowing should the UK enter a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by two factors:

- Maturing and available for sale short term investments, which could be used to pay down debt, should it become cost effective to do so.
- Long term loans of over £500 million with both the Public Works Loans Board and UK bond issuance, with maturity dates beyond 31 March 2025 with guaranteed interest rates.

The council's strategy takes advantage of market conditions whilst managing interest rate risk. The treasury management team proactively reviews interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The effect if interest rates were 1% higher with all other variables held constant

The following table attempts to quantify the interest rate risk. The impact of a 1% fall in interest rates would be the same but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise.

	2020/21
	£m
Increase in interest payable on variable rate borrowings	4.9
Increase in interest receivable on variable rate investments	(4.3)
Decrease in fair value of traded investments	29.3
Decrease in fair value of borrowings held for trading	(38.8)
Impact on surplus on the provision of services	**(8.9)**
Decrease in fair value of fixed rate other comprehensive income investment assets	(211.0)
Impact on other comprehensive income and expenditure	**(219.9)**
Decrease in fair value of fixed rate loans and investments	(5.2)
Decrease in fair value of fixed rate borrowings	(129.7)

Information on the overall borrowing amounts held on the balance sheet along with the interest rates and maturity information is as follows:

	Borrowing at 31 March 2021	Contractual rates 2020/21	Average rate paid 2020/21	Years to maturity at 31 March 2021
	£m	%	%	
Long term borrowing				
Fixed rate funding:				
Public works loan board	(284.6)	1.57 to 4.625	3.574	Over 1 year to 49 years
Long term bonds	(241.1)	1.625	1.625	39 years
Other long term loans	(15.0)	3.1 to 3.8	3.350	Over 1 year to 11 years
Total fixed rate funding	**(540.7)**			
Variable rate funding:				
Long term bonds	(350.2)	(0.846)	(0.846)	4 years
Salix funding	(6.4)	0	0	
Total long term borrowing	**(897.3)**			
Short term borrowing				
Fixed rate funding:				
Public works loan board	(155.0)	2.04 to 4.625	2.078	Less than 1 year
Other market loans	(258.0)	0.79 to 1.8	0.530	Less than 1 year
Accrued interest	(4.6)			
Total fixed rate funding	**(417.6)**			
Variable rate funding:				
Shared investment scheme	(68.8)	0.05 to 0.1	0.083	Less than 1 year
Salix funding	(1.4)	0	0	Less than 1 year
Other variable funding	(1.2)	0.100	0.100	Less than 1 year
Total variable funding	**(71.4)**			
Total short term borrowing	**(489.0)**			
Total borrowing	**(1,386.3)**			

Forward contract agreement

In 2019/20 the council entered into a forward contract agreement in which it agreed to purchase £90 million of UK government bonds at a future time for a sale price of £150.2 million, to mitigate market risk relating to local authority loans made to other local authorities. At 31 March 2021 the fair values represented in the comprehensive income and expenditure statement recognised an overall gain of £14 million.

	Financial liabilities at fair value through profit and loss	Financial assets at fair value through profit and loss	Impact on comprehensive income and expenditure statement
	£m	£m	£m
Fair value adjustment	36.0	(22.0)	14.0

The council is exposed to interest rate movements when it invests and borrows that can affect the fair value of assets and liabilities. Through investing in other local authorities the council was exposed to changes in the market value of those loans which in part varied due to the prevailing interest rate. Through the undertaking of a forward contract loan which is exposed to this same risk but negatively correlated in its affect, the potential impact is effectively hedged.

The fair value through profit and loss assets relate to LOBO loan investments with other local authorities and were valued at 31 March 2021, using the Bermudian SWAP basis, in accordance with industry standards. This methodology resulted in a large decrease on the balance sheet values for these assets. There was a decrease in market prices for the UK government bonds and therefore reduced the liability owed by the council which offset the large fair value losses from the LOBO assets resulting in a net gain of £14 million for these transactions.

Defined benefit pension schemes

As part of the terms and conditions of employment of its employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The council's principal pension arrangement for its employees is the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the fund are calculated in accordance with the LGPS regulations. The regulations require an actuarial valuation to be carried out every three years and require the contributions to be set with a view to targeting the fund's solvency. The detailed provisions are set out in the fund's funding strategy statement.

The council also participates in some other defined benefit pension arrangements, governed under statute, but these other schemes are unfunded.

These other arrangements relate to:

Teachers

The council's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The council is, however, responsible for paying some additional pensions to retired teachers that were awarded at the point of retirement.

Health workers

The council's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

NEST pension scheme

The council's costs in relation to this scheme are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government.

Governance and risk management

The liability associated with the council's pension arrangements is material to the council. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

Lancashire County Pension Fund

The fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund. The Pension Fund Committee comprises twelve county councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Borough Council, Blackpool Council and trade unions. The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the panel and committee are published in the Investment Strategy Statement.

Risks and investment strategy

The fund's primary long term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the fund with maximising the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the forecast cash flow.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The objective of the fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund investment strategy.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the investment panel and its investment advisors.

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund's currency risk is routinely monitored by its investment advisors in accordance with the risk management strategy.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur financial loss. The selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner. Deposits are not made with banks and financial instructions unless they meet the fund's credit criteria. The fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments, and the fund has immediate access to its cash holdings.

Other risks

Actions taken by the government, or changes to European legislation, could result in stronger local pension funding standards, which could materially affect the council's cash flow.

Amendments, curtailments and settlements

The provisions of the fund were amended with effect from 1 April 2014. For service up to 31 March 2014, benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the fund, and who take on part of the council's assets and liabilities as a result of employing members who have accrued benefits with the council.

Schemes for teachers and transferred NHS staff

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the council.

Funding the liabilities

Contributions to the arrangements are set by the government for teachers and NHS staff pension schemes, having taken advice from the government actuary, no liability is reflected in the council's balance sheet. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the council is responsible. Only this additional pension to retired teachers' part of the liability, which directly falls to the council, is recognised within the council's balance sheet and these liabilities are shown under teachers' pension scheme figures within the following tables. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment risk

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the council's contributions to them.

Transactions relating to retirement benefits

The council recognises the costs of post-employment/retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement.

The following transactions have been made in the comprehensive income and expenditure statement and the movement in reserves statement during the year:

- In 2020/21 £73.3 million was paid to the Department for Education for teachers' pension costs. This represents 23.7% of teachers' pensionable pay (2019/20: £63.7 million and 20.7%).
- In 2020/21, the Council paid £0.3 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 17% of pensionable pay (2019/20: £0.3 million and 17%)*.
- The council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2020/21, these amounted to £7.8 million, representing 2.5% of pensionable pay (2019/20: £8.2 million and 2.7%).

In addition to the recognised gains and losses included in the comprehensive income and expenditure statement, a re-measurement of the net defined liability loss of £371.0 million (2019/20: £203.6 million gain) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £415.6 million.

* The 2019/20 % of pensionable pay has been restated to reflect additional contributions paid.

Transactions relating to retirement benefits

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2020/21	**2019/20**	**2020/21**	**2019/20**
	£m	**£m**	**£m**	**£m**
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	134.6	141.9	0	0
Past service cost	0	16.5	0	0
(Gain)/loss from settlements and curtailments	0.5	1.4	0	0
Administration expenses	2.5	2.5	0	0
Financing and investment income and expenditure				
Net Interest expense	20.8	25.9	2.5	2.9
Total post-employment benefit charged to the surplus or deficit on the provision of services	**158.4**	**188.2**	**2.5**	**2.9**
Other post-employment benefit charged to the comprehensive income and expenditure statement				
Re-measurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(299.7)	8.6	0	0
Experience (gains)/losses on liabilities	(96.7)	28.6	(1.7)	0.1
Actuarial (gains)/losses arising on changes in financial assumptions	760.7	(76.3)	8.4	(2.0)
Actuarial (gains)/losses arising on changes in demographic assumptions	0	(158.1)	0	(4.5)
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**522.7**	**(9.0)**	**9.2**	**(3.5)**
Movement in reserves statement				
Reversal of net charges made to the (surplus)/deficit on the provision of services for post-employment benefits in accordance with the Code	158.4	188.2	2.5	2.9
Actual amount charged against the general fund balance for pensions in the year				
Employers' contributions payable to the scheme	**76.8**	**85.6**	**9.9**	**9.9**

Assets and liabilities in relation to retirement benefits

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plans is as follows:

2019/20			2020/21	
Local government pension scheme	**Teachers' pension scheme**		**Local government pension scheme**	**Teachers' pension scheme**
£m	**£m**		**£m**	**£m**
3,434.2	0	Fair value of plan assets	3,795.0	0
(4,476.7)	(110.4)	Present value of the defined benefit obligation	(5,201.6)	(109.6)
(1,042.5)	**(110.4)**	**Net liability arising from defined benefit obligation**	**(1,406.6)**	**(109.6)**

Reconciliation of the movements in fair value of the scheme assets:

2019/20		2020/21
£m		**£m**
3,376.7	**Opening balance as at 1 April**	**3,434.2**
(8.6)	Re-measurement (assets)	299.7
81.3	Interest on plan assets	84.5
(2.5)	Admin expenses	(2.5)
85.6	Employer contributions	76.8
25.1	Contributions from scheme participants	25.8
(123.4)	Benefits/transfers paid	(123.5)
3,434.2	**Closing balance as at 31 March**	**3,795.0**

Reconciliation of present value of the scheme liabilities

2019/20			2020/21	
Funded liabilities: Local government pension scheme	**Unfunded liabilities: Teachers' pension scheme**		**Funded liabilities: Local government pension scheme**	**Unfunded liabilities: Teachers' pension scheme**
£m	**£m**		**£m**	**£m**
(4,474.6)	**(123.7)**	**Opening balance as at 1 April**	**(4,476.7)**	**(110.4)**
(141.9)	0	Current service cost	(134.5)	0
(16.5)	0	Past service cost	0	0
(107.2)	(2.9)	Interest on pension liabilities	(105.3)	(2.5)
(25.1)	0	Contributions from scheme participants	(25.8)	0
123.4	9.8	Benefits/transfers paid	123.5	9.9
(1.4)	0	Curtailment cost	(0.5)	0
(28.6)	(0.1)	- Experience gains/(losses) on liabilities	96.7	1.7
76.3	2.0	- Actuarial gains/(losses) arising from changes in financial assumptions	(760.7)	(8.3)
158.2	4.5	- Actuarial gains/(losses) arising from changes in demographic assumptions	0	0
(39.3)	0	Lump sum early payment of contributions	81.7	0
(4,476.7)	**(110.4)**	**Closing balance as at 31 March**	**(5,201.6)**	**(109.6)**

Local Government Pension Scheme assets comprised:

31 March 2020	Asset category	Quoted in active markets (Y/N)	31 March 2021
£m			**£m**
37.8	**Cash and cash equivalents**	N	**83.8**
	Bonds (by sector):		
85.9	Corporate	Y	0
85.9	**Sub-total bonds**		**0**
	Property (by type):		
3.4	Retail	N	3.7
44.6	Commercial	N	61.3
48.0	**Sub-total property**		**65.0**
	Private equity:		
274.7	Overseas	N	304.5
274.7	**Sub-total private equity**		**304.5**
	Other investment funds:		
473.9	Infrastructure	N	455.1
243.8	Property	N	475.4
2,270.1	Miscellaneous	N	2,411.2
2,987.8	**Sub-total other investment funds**		**3,341.7**
3,434.2	**Total assets**		**3,795.0**

Basis for estimating assets and liabilities

2019/20		2020/21
Mortality assumptions		
Longevity at 65 for current pensioners		
22.3 years	Male	22.4 years
25 years	Female	25.1 years
Longevity at 65 for future pensioners		
23.8 years	Male	23.9 years
26.8 years	Female	26.9 years
Financial assumptions		
2.1%	Rate of CPI inflation	2.7%
3.6%	Rate of increase in salaries	4.2%
2.2%	Rate of increase in pensions	2.8%
2.4%	Rate for discounting scheme liabilities	2.1%

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates and salary levels. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer, an independent firm of actuaries. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary are shown in the table.

Sensitivity analysis

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption	Decrease in assumption
	£m	£m
Longevity (increase or decrease in 1 year)	158.6	(158.6)
Rate of inflation (increase or decrease by 1%)	903.1	(903.1)
Rate of increase in salaries (increase or decrease by 1%)	92.0	(92.0)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(887.8)	887.8
Change in investment returns (increase or decrease by 1%)	(38.8)	38.8

The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same.

This approach is not necessarily realistic since some assumptions are related.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation and discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis indicates the change in the defined benefit obligation for changes in the key assumptions.

Impact on the council's cash flows

Actuarial valuations are required to be carried out every three years. The last actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On 7 May 2020, the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its future service and deficit recovery payments for the three years 2020/21 to 2022/23. The value of the payment totalled £120.5 million and has the purpose of generating a cash saving for the council.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2022 are £29.2 million. Expected contributions for the teachers and health workers in the year are £74.1 million and £0.3 million respectively.

McCloud judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. The figures include an allowance for the McCloud judgement.

Guaranteed minimum pension equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the 'Barber' judgement) and this includes providing equal benefits accrued from that date to reflect the differences in guaranteed minimum pensions. The 26 October 2018 Lloyds Bank court judgement provided further clarity in this area. In response to this judgement, HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement". Therefore, it is concluded for the main public service pension schemes including the Local Government Pension Scheme, it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgement, at least at the present time.

Post-retirement increases on guaranteed minimum pension benefits

At present the public service schemes are required to provide full CPI pension increases on guaranteed minimum pension benefits for members who reach state pension age between 6 April 2016 and 5 April 2021. There is a possibility that all public sector schemes will be required to index-link guaranteed minimum pension benefits in respect of those members who reach state pension age after April 2021. The figures include an allowance for post-retirement increases on guaranteed minimum pension benefits.

General principles

Basis of preparation

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 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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 way 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 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.

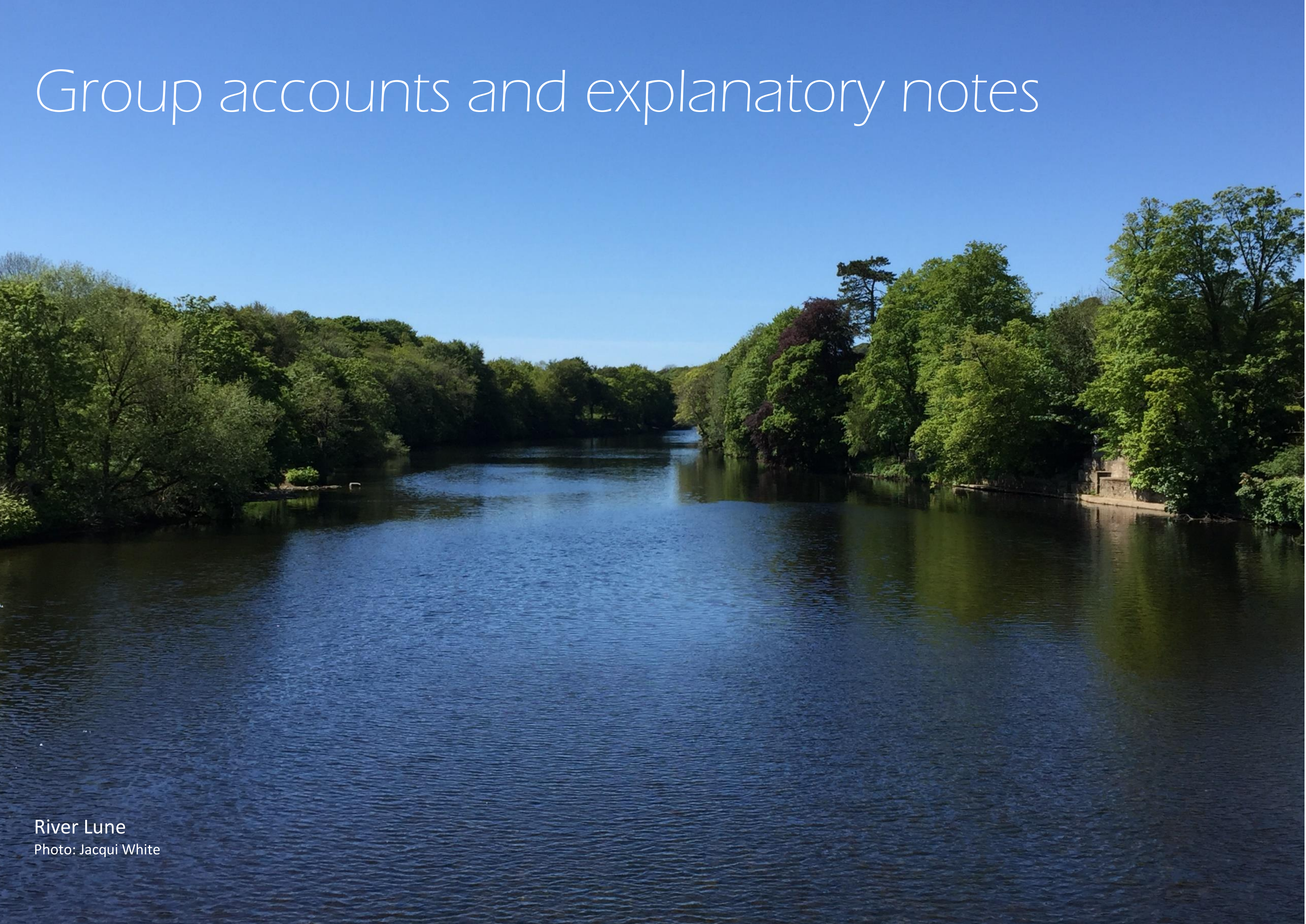
Some voluntary aided and controlled schools are owned by trustees. However, these schools are included within the council's property, plant and equipment as the council receives the benefit from using the properties in terms of delivery of services and also meets the costs of service provision.

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.

Group accounts and explanatory notes



River Lune
Photo: Jacqui White

Introduction

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. These are classified into the categories of subsidiaries, joint ventures and associates.

The CIPFA Code of Practice requires that where an authority has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the council’s financial activities and the resources employed in carrying out those activities.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the council’s interest and control over the entity. Where an entity is considered immaterial, it is not included in the group accounts. Details of the council's relationships with other entities are detailed in the notes supporting the group accounts.

Group comprehensive income and expenditure statement

2019/20				2020/21		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
509.5	(135.2)	374.3	Adults	583.0	(216.9)	366.1
8.3	(0.4)	7.9	Policy, information, commissioning and safeguarding ◦	8.8	(0.3)	8.5
70.1	(70.0)	0.1	Public health and wellbeing ◦	70.2	(108.7)	(38.5)
225.2	(23.4)	201.8	Education and children's services	239.6	(23.1)	216.5
19.3	(12.1)	7.2	Growth, environment and planning	17.8	(11.4)	6.4
125.3	(34.3)	91.0	Highways and transport ◦	134.2	(32.2)	102.0
2.0	0	2.0	Organisational development ◦	2.1	0	2.1
70.3	(14.1)	56.2	Waste management ◦	83.7	(14.4)	69.3
70.5	(28.2)	42.3	Finance	72.8	(29.9)	42.9
25.9	(6.4)	19.5	Corporate	27.4	(6.1)	21.3
54.7	(26.3)	28.4	Strategy and performance ◦	54.9	(32.9)	22.0
60.4	(2.4)	58.0	Chief executive services ◦	76.2	(12.2)	64.0
1,009.2	(957.7)	51.5	Schools	979.7	(979.5)	0.2
2,250.7	**(1,310.5)**	**940.2**	**Cost of services**	**2,350.4**	**(1,467.6)**	**882.8**
72.2	(5.9)	66.3	Other operating income and expenditure	33.4	(8.3)	25.1
69.6	(43.2)	26.4	Financing and investment income and expenditure	64.4	(80.7)	(16.3)
0	(946.2)	(946.2)	Taxation and non-specific grant income	0	(974.6)	(974.6)
2,392.5	**(2,305.8)**	**86.7**	**(Surplus)/deficit on provision of services**	**2,448.2**	**(2,531.2)**	**(83.0)**
(0.1)	0	(0.1)	Taxation on profit on ordinary activities	3.9	0	3.9
2,392.4	**(2,305.8)**	**86.6**	**Group (surplus)/deficit**	**2,452.1**	**(2,531.2)**	**(79.1)**
		(60.7)	(Surplus)/deficit on revaluation of non-current assets			(48.9)
		(203.6)	Remeasurement of the net defined benefit pension liability/(asset)			371.0
		21.8	(Surplus)/deficit on financial assets measured at fair value through other comprehensive income			36.5
		(242.5)	**Other comprehensive (income) and expenditure**			**358.6**
		(155.9)	**Total comprehensive (income) and expenditure**			**279.5**

◦ The 2019/20 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period restatements.

2020/21

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**	**(46.8)**	**(1,285.0)**
Movement in reserves during 2020/21								
Total comprehensive income and expenditure	(64.0)	0	0	(64.0)	358.6	294.6	(15.1)	279.5
Adjustment between accounting basis and funding basis under regulations	(95.1)	(8.3)	(8.4)	(111.8)	111.8	0	0	0
(Increase)/decrease in year	**(159.1)**	**(8.3)**	**(8.4)**	**(175.8)**	**470.4**	**294.6**	**(15.1)**	**279.5**
Balance at 31 March 2021	**(492.9)**	**(8.4)**	**(142.1)**	**(643.4)**	**(300.2)**	**(943.6)**	**(61.9)**	**(1,005.5)**

2019/20

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2019	**(308.6)**	**(1.0)**	**(98.9)**	**(408.5)**	**(673.5)**	**(1,082.0)**	**(47.1)**	**(1,129.1)**
Movement in reserves during 2019/20								
Total comprehensive income and expenditure	86.3	0	0	86.3	(242.5)	(156.2)	0.3	(155.9)
Adjustment between accounting basis and funding basis under regulations	(111.5)	0.9	(34.8)	(145.4)	145.4	0	0	0
(Increase)/decrease in year	**(25.2)**	**0.9**	**(34.8)**	**(59.1)**	**(97.1)**	**(156.2)**	**0.3**	**(155.9)**
Balance at 31 March 2020	**(333.8)**	**(0.1)**	**(133.7)**	**(467.6)**	**(770.6)**	**(1,238.2)**	**(46.8)**	**(1,285.0)**

31 March 2020		Note	31 March 2021
£m			£m
3,071.2	Property, plant and equipment		3,122.4
28.7	Heritage assets		28.7
44.7	Investment properties	8	70.1
10.9	Intangible assets		12.5
331.0	Long term investments		582.0
42.9	Long term debtors		41.2
3,529.4	Long term assets		**3,856.9**
267.9	Short term investments		267.7
3.4	Inventories		3.2
164.3	Short term debtors		155.0
24.1	Payments in advance		35.1
634.0	Cash and cash equivalents		184.5
3.7	Assets held for sale		2.4
1,097.4	Current assets		**647.9**
(707.6)	Short term borrowing		(487.6)
(227.7)	Short term creditors		(215.2)
(21.6)	Receipts in advance		(33.0)
(13.4)	Short term provisions		(13.4)
(205.6)	Other current liabilities		(169.0)
(1,175.9)	Current liabilities		**(918.2)**
(24.8)	Long term provisions		(26.8)
(2.5)	Deferred tax liability	9	(6.4)
(844.8)	Long term borrowing		(897.3)
(1.3)	Other long term creditors		(1.3)
(1,292.5)	Other long term liabilities		(1,649.3)
(2,165.9)	Long term liabilities		**(2,581.1)**
1,285.0	Net assets		**1,005.5**
(467.6)	Usable reserves	10	(643.4)
(770.6)	Unusable reserves	10	(300.2)
(27.6)	Subsidiary usable reserves	10	(27.6)
(19.2)	Subsidiary unusable reserves	10	(34.3)
(1,285.0)	Total reserves		**(1,005.5)**

2019/20		Note	2020/21
£m			**£m**
(86.6)	Net surplus/(deficit) on the provision of services		79.1
240.9	Adjustments to net surplus/deficit on the provision of services for non-cash movements	11	65.1
(174.3)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	11	(140.6)
(20.0)	**Net cash flows from operating activities**		**3.6**
73.3	Investing activities	12	(301.4)
512.1	Financing activities	13	(151.7)
565.4	**Net increase/(decrease) in cash or cash equivalents**		**(449.5)**
68.6	Cash and cash equivalents at the beginning of the reporting period		634.0
634.0	**Cash and cash equivalents at the end of the reporting period**		**184.5**

Note 1 - General notes to the financial statements

Where figures in the group accounts differ materially from the council's accounts, the relevant explanatory notes have been prepared on a consolidated basis.

Note 2 - Group accounting policies

The accounting policies of the council's subsidiary company have been aligned with the council's accounting policies.

The subsidiaries of Lancashire County Developments (Property) Limited and Lancashire County Developments (Investments) Limited are consolidated into the group accounts of Lancashire County Developments Limited.

Lancashire County Developments Limited has been consolidated using the acquisition accounting basis. This is a full, line-by-line consolidation of the financial transactions and balances of the council and Lancashire County Developments Limited. 100% of all balances and transactions are consolidated, with the minority interest recognised as an unusable reserve in the group balance sheet. To avoid overstating the figures within the group financial statements, all inter-group transactions and balances between the council and Lancashire County Developments Limited have been eliminated.

Lancashire County Developments Limited has the same reporting date as the council. Year-end accounts to 31 March 2021 have been used for consolidation.

Note 3 - Entities not consolidated

Details of the council's relationships with other entities are outlined below:

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

Company	Interest	Relationship
Lancashire Renewables Limited	100%	Subsidiary
Marketing Lancashire Limited	100%	Subsidiary
Lancashire Enterprise Partnership Limited	50%	Joint venture (Dormant company)
Active Lancashire Limited	100%	Subsidiary
Local Pensions Partnership Limited	50%	Joint venture
Lancashire Partnership Against Crime Limited	25%	Associate
Lancashire Environmental Fund Limited	25%	Associate
Lancashire UDF Limited	100%	Subsidiary (Dormant company)
Lancashire UDF - SPV2 Limited	100%	Subsidiary

Note 4 - Entities consolidated

Lancashire County Developments Limited has been consolidated into the council's group accounts.

Lancashire County Developments Limited

Company registration number: 01624144

Lancashire County Developments Limited is a company under the control of Lancashire County Council within the meaning of Part V of the Local Government and Housing Act 1989.

Lancashire County Developments Limited (LCDL) is an economic development agency for the County. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The council controls 80% of the members' voting rights, with the other two members of the company (Blackburn with Darwen Borough Council and Blackpool Council) having 10% of voting rights each. It is classed as a subsidiary of the county council.

County Councillors have been appointed as directors on the board. The council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are:

- Lancashire County Developments (Property) Limited - owns and manages two commercial estates in Lancashire;
- Lancashire County Developments (Investments) Limited - has an investment portfolio of business loans to companies operating in Lancashire within key sectors to enable start up and economic growth.

Note 5 - Group fees payable to auditors

2019/20		2020/21
£000		**£000**
	Fees in respect of Lancashire County Council	
87.0	Fees incurred with regard to external audit services provided by Grant Thornton	87.0
4.0	Fees incurred for certification work undertaken by Grant Thornton	7.8
9.0	Fees payable in respect of other services provided by Grant Thornton	5.0
0	Fees payable in respect of additional prior year work	33.9
(10.0)	Reimbursement from Public Sector Audit Appointment	0
90.0	**Total fees for Lancashire County Council**	**133.7**
	Fees in respect of Lancashire County Developments Limited	
27.7	Fees incurred with regard to external audit services provided by Beever and Struthers	24.8
3.0	Fees payable in respect of other services provided by Beever and Struthers during the year	4.0
30.7	**Total fees for Lancashire County Developments Limited**	**28.8**
120.7	**Total**	**162.5**

Note 6 - Group taxation

Taxation expenses are only applicable to subsidiary companies of Lancashire County Council.

2019/20		2020/21
£m		£m
0.3	Deferred tax: origination and reversal of timing differences	0.3
(0.4)	Capital gains	3.6
(0.1)	**Total deferred tax**	**3.9**
(0.1)	**Taxation on profit on ordinary activities**	**3.9**

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021
	£m	£m	£m	£m	£m	£m	£m
Total earmarked reserves of the council	**(308.6)**	**54.9**	**(80.1)**	**(333.8)**	**108.1**	**(267.2)**	**(492.9)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(18.8)	0.7	(0.8)	(18.9)	0	0	(18.9)
Total revenue and capital reserves of the subsidiary	**(27.5)**	**0.7**	**(0.8)**	**(27.6)**	**0**	**0**	**(27.6)**
Total reserves	**(336.1)**	**55.6**	**(80.9)**	**(361.4)**	**108.1**	**(267.2)**	**(520.5)**

Note 8 – Group investment properties

2019/20 restated		2020/21
£m		£m
(4.3)	Rental Income from investment property	(4.2)
1.2	Direct operating expenses arising from investment property *	1.0
(3.1)	**Total**	**(3.2)**

* The 2019/20 operating expenses figure has been restated to correct a prior year error.

2019/20		2020/21
£m		£m
47.5	**Balance as at 1 April**	**44.7**
0.3	Additions	6.4
(1.5)	Reclassifications	0
(1.6)	Disposals	0
0	Net gains/(losses) from fair value adjustments	19.0
44.7	**Balance as at 31 March**	**70.1**

The items of income and expense shown in the table have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or for the repairs, maintenance or enhancement of the properties.

The table summarises the movement in the value of investment properties over the year.

Valuation process for investment properties

The fair value of the investment property is revalued annually by the council's internal estates department as at 31 March. Every three years the company obtains an external valuation.

The 2020/21 commercial unit valuations have been undertaken by Cushman and Wakefield, in accordance with the appropriate sections of the current edition of the RICS Valuation — Global Standards, which incorporate the International Valuation Standards and the RICS UK national supplement (effective from 31 January 2020) (RICS Red Book).

Basis of valuation

The fair value of the properties has been primarily derived using comparable recent market transactions on arm's length terms.

Where the market approach is used, properties are valued by reference to market-based evidence using observed prices for recent market transactions for comparable properties. Where appropriate, adjustments are made to market price information to reflect differences in the legal, economic or physical characteristics of the property being valued. These include significant unobservable adjustments to reflect differences in the nature, condition and location of the property, tenure and encumbrances. Where an income approach, or market approach with significant unobservable adjustment has been used, valuations are predominately based on unobservable inputs and accordingly are categorised as level 3 within the fair value hierarchy. Where a market approach does not include significant unobservable adjustments, these assets are categorised as level 2.

Fair value hierarchy

Details of the council’s investment properties and information about the fair value hierarchy are as follows.

31 March 2020			Property type	31 March 2021		
Balance sheet value	**Fair value**	**Fair value level**		**Fair value level**	**Balance sheet value**	**Fair value**
£m	**£m**				**£m**	**£m**
44.7	44.7	2	Commercial units	3	70.1	70.1
44.7	**44.7**		**Total**		**70.1**	**70.1**

Fair value measurement of investment properties using significant unobservable inputs – level 3

Details of the valuation techniques and significant unobservable inputs used in determining the fair value measurement of investment property classified within level 3 are set out in the following table together with a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs.

Site	Fair value at 31 March 2021 £m	Valuation technique	Unobservable inputs	%
Lancashire business park	55.3	Market rent	Net initial yield	4.94
			Reversionary yield	7.52
			Nominal equivalent yield	6.84
			True equivalent yield	7.12
White Cross business park	14.8	Market rent	Net initial yield	6.23
			Reversionary yield	9.86
			Nominal equivalent yield	8.63
			True equivalent yield	9.07

Significant changes in rental income and rent growth; vacancy levels or discount rate would result in a significantly lower or higher fair value. All other factors being equal, a higher equivalent yield or discount rate would lead to a decrease in the valuation of an asset while an increase in the current or estimated future rental stream would have the effect of increasing the capital value and vice versa.

Note 9 - Deferred taxation

2019/20		2020/21
£m		£m
(2.6)	**Balance as at 1 April**	**(2.5)**
0.1	Charge for the year	(3.9)
(2.5)	**Balance as at 31 March**	**(6.4)**

Taxation expenses are only applicable to subsidiary company of Lancashire County Council. The deferred taxation balance consists of accelerated capital allowances.

Note 10 - Group reserves

The total usable reserves are shown in the table below:

31 March 2020		31 March 2021
£m		£m
(23.4)	General fund	(23.4)
(244.6)	Earmarked reserves	(352.7)
(65.8)	School reserves	(116.8)
(333.8)	**Total earmarked reserves of the council**	**(492.9)**
(133.7)	Capital grants unapplied reserve	(142.1)
(0.1)	Usable capital receipts	(8.4)
(467.6)	**Total usable reserves of the council**	**(643.4)**
(27.6)	Usable reserves of the subsidiary	(27.6)
(495.2)	**Total usable reserves of the group**	**(671.0)**

The table below shows the group's unusable reserves:

31 March 2020 £m		31 March 2021 £m
48.3	Financial instruments adjustment account	44.7
27.7	Financial instruments revaluation reserve	64.2
(1,004.9)	Revaluation reserve	(1,024.9)
(1,017.8)	Capital adjustment account	(1,031.6)
1,152.9	Pensions reserve	1,598.1
(6.5)	Collection fund adjustment account	20.2
29.7	Accumulated absences adjustment account	29.1
(770.6)	**Total unusable reserves of the council**	**(300.2)**
(19.2)	Revaluation reserve for subsidiary	(34.3)
(789.8)	**Total unusable reserves of the group**	**(334.5)**

The revaluation reserve for the subsidiary is detailed below.

31 March 2020 £m		31 March 2021 £m
(19.6)	**Balance as at 1 April**	**(19.2)**
(0.1)	Upward revaluation of assets	(19.0)
(0.3)	(Loss)/profit for the year	0
0.9	Realisation on disposal of investment properties	0
(0.1)	Deferred taxation	3.9
0.4	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(15.1)**
(19.2)	**Balance as at 31 March**	**(34.3)**

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

2019/20		2020/21
£m		£m
(43.0)	Interest received	(61.2)
40.3	Interest paid	44.1

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

2019/20		2020/21
£m		£m
55.8	Depreciation	70.8
(5.2)	Impairment and downward/(upward) valuations	1.4
4.4	Amortisation of intangible assets	3.5
(3.1)	Increase/(decrease) in provision for bad debts	(2.3)
11.4	Increase/(decrease) in creditors	13.6
(34.3)	(Increase)/decrease in debtors	(19.4)
(0.6)	(Increase)/decrease in inventories	0.2
134.9	Movement in pension liability	(7.6)
71.1	Carrying amount of non-current assets sold	31.8
6.5	Other non-cash items charged to the surplus or deficit on the provision of services	(26.9)
240.9	**Total**	**65.1**

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

2019/20 £m		2020/21 £m
(51.8)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(37.8)
(6.7)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8.3)
(115.8)	Capital grants credited to the surplus on the provision of services	(94.5)
(174.3)	**Total**	**(140.6)**

Note 12 - Group cash flows from investing activities

2019/20 £m		2020/21 £m
(98.8)	Purchase of property, plant and equipment, investment property and intangible assets	(106.7)
(4,563.8)	Purchase of short term and long term investments	(6,955.5)
6.6	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	10.2
4,444.0	Proceeds from the sale of short term and long term investments	6,654.2
285.3	Other capital grants and receipts from investing activities	96.4
73.3	**Net cash flows from investing activities**	**(301.4)**

Note 13 - Group cash flows from financing activities

2019/20		2020/21
£m		£m
2,014.2	Cash receipts from short term and long term borrowing	1,078.5
0.8	Appropriate to/from collection fund adjustment account	26.9
(1,498.0)	Repayment of short term and long term borrowing	(1,250.0)
(4.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(7.1)
512.1	**Net cash flows from financing activities**	**(151.7)**

Pension fund accounts and explanatory notes

Astley Hall, Chorley

Lancashire County Pension Fund

Fund account for year ended 31 March 2021

2019/20		Note	2020/21
£m	**Dealing with members, employers and others directly involved in the Fund**		**£m**
177.0	Contributions *	6	416.3
17.0	Transfers in from other pension funds	7	10.8
194.0	**Additions from dealings with members**		**427.1**
(287.1)	Benefits	8	(291.8)
(21.8)	Payments to and on account of leavers	9	(17.3)
(308.9)	**Withdrawals from dealing with members**		**(309.1)**
(114.9)	**Net (withdrawals)/additions from dealings with members**		**118.0**
(65.0)	Management expenses	10	(116.4)
(179.9)	**Net (withdrawals)/additions including fund management expenses**		**1.6**
	Returns on investments		
206.1	Investment income	11	143.8
1.4	Profit and losses on disposal of investments and changes in the value of investments	13	1,022.2
207.5	**Net return on investments**		**1,166.0**
27.6	**Net increase in the net assets available for benefits during the year**		**1,167.6**
8,410.1	**Opening net assets of the scheme**		**8,437.7**
8,437.7	**Closing net assets of the scheme**		**9,605.3**

* Contributions for the year ended 31 March 2021 include employer contributions of £178.4m paid up-front in respect of the years ending 31 March 2022 and 31 March 2023.

Net assets statement as at 31 March 2021

31 March 2020		Note	31 March 2021
£m			**£m**
8,320.6	Investment assets	13	9,490.9
108.8	Cash deposits	13	108.4
8,429.4	**Total net investments**		**9,599.3**
15.0	Current assets	19	12.6
(6.7)	Current liabilities	20	(6.6)
8,437.7	**Net assets of the fund available to fund benefits at the end of the reporting period**		**9,605.3**

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2021 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 1 - Pension Fund operations and membership

The Lancashire County Pension Fund is part of the Local Government Pension Scheme and is administered by Lancashire County Council. The County Council is the reporting entity for this Pension Fund.

Contribution income of £416.3m together with transfers in of £10.8m funded the payment of £309.1m in respect of benefits and transfers out. The resulted in a net cash inflow from transactions with members for the year ended 31 March 2021.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme (Amendment) Regulations 2018
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Lancashire County Council to provide pensions and other benefits for pensionable employees, whether active, deferred or retired members, of Lancashire County Council, the unitary and district councils in Lancashire and a range of other scheduled and admitted bodies within the geographic county of Lancashire. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund.

The Pension Fund Committee comprises twelve County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions.

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

The Investment Panel provides professional expert advice and makes recommendations to the Committee in relation to investment strategy. The Panel comprises the Head of Fund as Chair and two independent advisers.

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at Lancashire Fund Information.

The investments of the Fund are managed by the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP also manages the administration functions on behalf of the two partner authorities.

The Lancashire Local Pension Board assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at Lancashire Fund Information.

Membership

Membership of the LGPS is automatic although employees are free to opt out of the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership of the Fund, as at 31 March 2021 is detailed in the following table:

31 March 2020	Lancashire County Pension Fund	31 March 2021
313	Number of employers with active members[1]	313
140	Number of ceased employers (no active members but some outstanding liabilities)	139
	Number of active scheme members[2]	
25,614	County Council	25,594
28,340	Other employers	28,563
53,954	**Total**	**54,277**
	Number of pensioners	
25,497	County Council	26,093
25,674	Other employers	26,313
51,171	**Total**	**52,406**
	Number of deferred pensioners[2]	
36,753	County Council	35,697
36,272	Other employers	35,419
73,025	**Total**	**71,116**
178,150	**Total membership**	**177,799**

[1] Includes employers for whom admission to the Fund is in progress

[2] March 2020 membership numbers have been adjusted to transfer 2,985 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 3,157 pending leavers has been made at 31 March 2021.

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2020/21 are based on the valuation at 31 March 2019. The latest valuation was at 31 March 2019 for the three years commencing 1 April 2020.

Employer contribution rates for 2020/21 range from 0.0 % to 30.3 % of pensionable pay, with a primary rate of 17.4%, and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year. Accrued pension is updated annually in line with the consumer prices index. A range of other benefits are also provided including early retirement, disability pensions and death benefits.

The scheme benefits are summarised in the following table.

	Service Pre 1 April 2008	**Service post 1 April 2008 and pre 1 April 2014**	**Service post 1 April 2014**
Pension	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme).
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2021. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2020/21* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2021 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2020/21.

Note 3 - Accounting policies

Fund account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate certified by the fund actuary, in the payroll period to which they relate. Some employers exercise an option to pay future service rate contributions earlier than the due date, up to a period of 3 years in advance. These early contributions are recognised in the Fund account on receipt.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the scheme.

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme (Amendment) Regulations 2018.

Individual transfers in or out are accounted for when received or paid, which is when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Investment income

Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from pooled funds

Income (distributions) from pooled funds are recognised at the date of issue. It is the policy of the Fund to reinvest distributions on the LPPI Global Equities

Net income from properties

Rental income from leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Property expenditure is recognised on an accruals basis and is deducted from rental income to report net income from properties.

Any property income not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled property funds are recognised on receipt within pooled property income.

Movement in the net market value of investments

Changes in the value of investments (including investment properties) are recognised as income in the Fund account and comprise all realised and unrealised profits or losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed on the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its pension fund management expenses on an accruals basis and in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*".

- Administrative expenses
- Oversight and governance costs
- Investment management expenses

Administrative expenses

Administrative expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;
- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

All administrative expenses are accounted for on an accruals basis.

Oversight and governance costs

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;
- Operation and support of the pension fund committee (i.e. those charged with governance of the pension fund), local pensions board, or any other oversight body;
- Governance and voting services;
- Costs of compliance with statutory or non-statutory internal or external reporting (annual reports and accounts, etc.);
- Legal, actuarial and tax advisory services;
- Non-custodian accountancy and banking services; and
- Internal and external audit.

All administering authority staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. All oversight and governance expenses are accounted for on an accruals basis.

Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers, custody fees and any fees payable to fund managers which are deducted from fund assets together with a recharge of costs incurred by Lancashire County Council in provision of treasury management services to the Fund. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses. All investment management expenses are accounted for on an accruals basis.

External investment manager and custodian fees are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of investments under their management and therefore increase or reduce as the value of these investments change.

A number of the fee mandates in place include an element that is performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2020/21, £12.1m of fees is based on such estimates (2019/20: £8.3m).

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purpose of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). More details can be found at note 16.

Freehold and leasehold properties

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. The risks and rewards of ownership of these properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value.

The properties were valued at open market value at 31 March 2021 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book).

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses are treated as part of a change in market value of investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise of trade and other receivables and cash deposits and are recognised in the net asset statement at amortised cost.

Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial liabilities

The Fund recognises financial liabilities at fair value at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised in the fund account as part of the change in value of investments.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 24).

Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The AVC providers to the Pension Fund during the year were Prudential and Utmost Life and Pensions. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Pension Fund accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in note 18.

Note 4 - Critical judgements in applying accounting policies

Pension Fund liability

The net pension fund liability is calculated every three years by the appointed actuary, Mercer, and reviewed by the Fund and actuary during the intervening period. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted private equity, long term credit and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, long term credit and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities, long term credit and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines.

Note 5 - Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £1,884.7m (2019/20: £1,958.6m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements totals £1,261.6m (2019/20: £1,098.3m excluding investment in loans secured on real assets). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Indirect core property investments	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £831.7m (2019/20: £799.6m). Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks.
Non-core property investments	The non-core property investment comprises a 100% share in the real estate investment trust (REIT), HH No.1 Ltd. This investment is classified as real estate but the Fund holds an interest in the trust rather than the underlying investments which are shared ownership housing assets. The fair value is derived from the value of the REIT and is dependent upon future looking assumptions.	The Fund has an investment in shared ownership housing, classified as non-core property, and valued at £330.5m.

Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to relating to future experience. The main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed rate of return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied. Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, the impact of COVID19 and the court of appeal ruling on the Sergeant and McCloud cases. Further information can be found in note 24 to these accounts.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £600m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £130m and a 1-year increase in assumed life expectancy would increase the liabilities by approximately £350m. Estimation of the net liability to pay pensions depends on a number of complex assumptions relating to future experience – the main assumptions would be the discount rate used relative to assumed inflation (essentially the assumed real return on pension fund assets), the rate at which salaries are projected to increase, changes in retirement ages and future mortality rates. A firm of consulting actuaries (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied.
Direct property valuations	The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Valuation – Professional Standards – 2017.	Investment properties held directly by the Fund are valued at £159.7m (2019/20: £110.2m). The market value of £159.7m at 31 March 2021 comprises property situated within the county boundary of Lancashire (£114.7m) and properties located in Wales (£7.2m) and Scotland (£37.8m).

Note 6 - Contributions receivable

2019/20		2020/21
£m	**By category**	**£m**
61.4	Members	64.5
	Employers:	
101.5	Normal contributions[1]	327.4
11.2	Deficit recovery contributions[1]	18.0
2.9	Augmentation contributions [2]	6.4
115.6	Total employers contributions	351.8
177.0	**Total contributions receivable**	**416.3**
	By type of employer	
58.3	County Council [1]	175.8
98.2	Scheduled bodies [1]	220.5
20.5	Admitted bodies	20.0
177.0		**416.3**

[1] Following the actuarial valuation in 2019, the Fund gave some employers the option of paying their 3-year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2021 include £178.4m received in advance.

[2] Augmentation contributions comprise additional pension benefits awarded by employers to scheme members in line with the general conditions of employment

Within the employee contributions figure for 2020/21, £0.4m is voluntary and additional regular contributions (2019/20: £0.3m).

Note 7 - Transfers in from other pension funds

2019/20		2020/21
£m		£m
17.0	Individual transfers in from other schemes	10.8
17.0		**10.8**

Note 8 - Benefits payable

2019/20		2020/21
£m	**By category**	£m
239.3	Pensions	246.9
42.0	Commutation and lump sum retirement benefits	37.6
5.8	Lump sum death benefits	7.3
287.1	**Total benefits payable**	**291.8**
	By type of employer	
121.1	County Council	120.8
144.0	Scheduled bodies	147.0
22.0	Admitted bodies	24.0
287.1		**291.8**

Note 9 - Payments to and on account of leavers

2019/20		2020/21
£m		£m
1.3	Refunds to members leaving service	0.8
20.5	Individual transfers	16.5
21.8		**17.3**

Note 10 - Management expenses

2019/20		2020/21
£m		£m
3.4	Fund administrative costs	4.0
60.4	Investment management expenses	111.3
1.2	Oversight and governance costs [1]	1.1
65.0		**116.4**

[1] Oversight and governance costs above include external audit fees which amounted to £77,060 (2019/20: £31,310).

Investment management expenses

31 March 2021

	Total	Management fees	Performance related fees[2]	Transaction costs[1]
	£m	£m	£m	£m
Pooled investments	108.7	49.6	55.9	3.2
Pooled property investments	1.9	1.9	-	0.0
Private equity	0.0	0.0		
Property	0.7	0.2	0.5	
Cash deposits	-			
	111.2	**51.6**	**56.4**	**3.2**
Custody fees	0.1			
	111.3			

31 March 2020

	Total	Management Fees	Performance Related fees[2]	Transaction Costs[1]
	£m	£m	£m	£m
Pooled investments	58.3	38.5	17.5	2.3
Pooled property investments	1.1	1.1	0.0	(0.0)
Private equity	0.0	0.0	(0.0)	0
Property	0.9	0.9	-	-
	60.3	**40.5**	**17.5**	**2.3**
Custody fees	0.1			
	60.4			

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

Note 11 - Investment income

2019/20		2020/21
£m		**£m**
2.4	Fixed interest securities	0.4
179.5	Pooled investment vehicles	120.3
8.6	Pooled property investments	15.1
15.5[1]	Net rents from properties	8.1
0.1	Interest on cash deposits	(0.1)
206.1	**Total investment income**	**143.8**

[1]The reduction in rental income since last year is due to the transition of a significant number of directly held properties into the Local Pensions Partnership Real Estate Fund with effect from 1 October 2019. Income from the real estate fund is included within pooled investment income from the date of transition.

Note 12 - Property income

2019/20		2020/21
£m		**£m**
22.1	Rental income	9.9
(6.6)	Direct operating expenses	(1.8)
15.5	**Net income**	**8.1**

Note 13 - Reconciliation of movements in investments

	Market value as at 1 April 2020	Purchases at cost	Sales proceeds	Change in market value	Market value as at 31 March 2021
	£m	**£m**	**£m**	**£m**	**£m**
Fixed interest securities	142.5	210.2	(313.3)	5.1	44.5
Index linked securities	-	2,079.3	(2,079.3)	(0.0)	0.0
Pooled investment vehicles	6,913.5	508.3	(413.1)	1,048.0	8,056.7
Pooled property investments	1,130.1	59.6	(1.9)	(26.1)	1,161.8
Private equity	12.5	-	-	-	12.5
Direct property	110.2	54.3	**-**	(4.8)	159.7
	8,308.8	**2,911.8**	**(2,807.6)**	**1,022.2**	**9,435.1**
Cash deposits	108.8				108.4
Loan investments	3.0				55.0
Investment accruals	8.8				0.8
Net investment assets	**8,429.4**				**9,599.3**

	Market value as at 1 April 2019	Purchases at cost	Sales proceeds	Change in value during the year [1]	Market value as at 31 March 2020
	£m	**£m**	**£m**	**£m**	**£m**
Fixed interest securities	110.7	585.5	(546.3)	(7.4)	142.5
Index linked securities	283.6	-	-	(283.6)	-
Pooled investment vehicles	7,043.2	483.1	(522.4)	(90.4)	6,913.5
Pooled property investments	124.0	49.1	(14.1)	971.1	1,130.1
Private equity	-	12.5	-	-	12.5
Direct property	761.9	11.0	(23.6)	(639.1)	110.2
	8,323.4	**1,141.2**	**(1,106.4)**	**(49.4)**	**8,308.8**
Cash deposits	67.1				108.8
Loan investments	-				3.0
Investment income due	3.9				8.8
Net investment assets	**8,394.4**				**8,429.4**

[1] £1.4 m on the face of the Fund account includes the change in market value of investments disclosed above (£49.4m), plus profits and losses on disposals and changes in the market value of investments held within the pools. The change in value of direct property above includes £641.3m market value of properties transitioned to the LPPI Real Estate Fund during the year which is included as an increase in market value within pooled property investments above. The change in value of index linked securities (£283.6m) reflects the restructuring of the investment in shared ownership housing which is now reflected within pooled property investments.

Investments analysed by fund manager

31 March 2020			31 March 2021	
£m	% of net investment assets		£m	% of net investment assets
Private equity investments				
750.0	8.9%	LPPI Private Equity Fund	773.8	8.1%
Private equity investments managed outside of LPPI Private Equity Fund				
15.1	0.2%	Trilantic Capital Partners	12.4	0.1%
12.5	0.1%	Local Pensions Partnership Limited	12.5	0.1%
777.6	**9.2%**	**Total private equity investments**	**798.7**	**8.3%**
Long term credit investments				
947.4	11.3%	LPPI Credit Investments	1,167.9	12.2%
Credit investments managed outside of LPPI Credit Investments Fund				
61.2	0.7%	CRC	48.3	0.5%
51.7	0.6%	Neuberger Berman	22.5	0.2%
26.7	0.3%	Pimco Bravo	14.5	0.2%
7.6	0.1%	EQT	5.6	0.1%
3.7	-	Hayfin	2.8	-
1,098.3	**13.0%**	**Total long term credit investments**	**1261.6**	**13.1%**
Fixed income investments				
332.8	3.9%	LPPI Fixed Income Fund	309.6	3.2%
Liquid credit investments managed outside of LPPI Fixed Income Fund				
254.3	3.0%	LPPI internal and LCC Treasury Management	208.0	2.2%
587.1	**6.9%**	**Total fixed income investments**	**517.6**	**5.4%**
Global equity investments				
3,454.7	41.0%	LPPI Global Equities Fund	4,506.5	46.9%

3,454.7	**41.0%**	**Total global equity investments**	**4506.5**	**46.9%**
Infrastructure investments				
958.1	11.4%	LPPI Global Infrastructure Fund	940.5	9.8%
Infrastructure investments managed outside of LPPI Global Infrastructure Fund				
108.3	1.3%	Arclight Energy	68.7	0.7%
65.7	0.8%	Icon Infrastructure Partners	59.8	0.6%
27.7	0.3%	Highstar Capital	17.0	0.2%
-	-	Pike Petroleum Holdings LLC	7.9	0.1%
-	-	Eastern Generation Holdings LLC	3.2	-
21.2	0.3%	Capital Dynamics Red Rose	1.5	-
222.9	**2.7%**		**158.1**	**1.6%**
1,181.0	**14.1%**	**Total infrastructure investments**	**1098.6**	**11.4%**
Diversifying strategy investments				
90.3	1.1%	LPPI Diversifying Strategies Fund	94.8	1.0%
90.3	**1.1%**	**Total diversifying strategies investments**	**94.8**	**1.0%**
Property investments				
Directly held properties				
110.2	1.3%	Knight Frank	159.7	1.7%
Pooled property funds				
Core property				
799.7	9.5%	LPPI Real Estate Fund	831.3	8.7%
Non-core property				
330.5	3.9%	HH No.1 Limited	330.5	3.4%
1,240.4	**14.7%**	**Total property investments**	**1321.5**	**13.8%**
8,429.4	**100.0%**	**Net investment assets**	**9,599.3**	**100.0%**

The following individual investments represent over 5% of the net assets of the fund.

31 March 2020			31 March 2021	
£m	% of total fund		£m	% of total fund
3,454.7	41.0%	LPPI Global Equities Fund	4,506.5	46.9%
958.1	11.4%	LPPI Global Infrastructure Fund	1,167.1	12.2%
947.4	11.3%	LPPI Credit Investments	940.5	9.8%
799.7	9.5%	LPPI Real Estate Fund	831.3	8.7%
750.0	8.9%	LPPI Private Equity Fund	774.2	8.1%

Fixed interest securities

31 March 2020		31 March 2021
£m		£m
64.2	UK corporate bonds quoted	18.3
-	Overseas public sector	-
78.3	Overseas corporate bonds/supernational bonds quoted	26.1
142.5		**44.4**

Pooled investment vehicles

31 March 2020		31 March 2021
£m	**UK funds:**	**£m**
323.8	Fixed income funds	309.6
150.4	Private equity	164.5
979.3	Infrastructure	942.0
951.4	Long term credit investments	1,170.7
1,130.1	Property funds	1,161.8
90.3	Diversifying strategies	94.8
	Overseas funds:	
139.6	Fixed income funds	85.3
614.7	Private equity	621.9
201.7	Infrastructure	156.6
7.6	Long term credit investments	5.6
3,454.7	Equity funds[1]	4,506.5
8,043.6		**9,219.3**

[1]The LPPI Global Equities Fund includes UK equities.

Direct property investments

31 March 2020		31 March 2021
£m		**£m**
96.0	UK – freehold	128.4
14.2	UK – long leasehold	31.3
110.2		**159.7**

Property holdings

The Fund's investment in property comprises of investments in pooled property funds along with a number of directly owned properties which are leased commercially to various tenants.

Details of these directly owned properties are shown in the table.

31 March 2020		31 March 2021
£m		**£m**
761.9	**Opening balance**	**110.2**
	Additions:	
0.5	• Purchases	52.8
3.8	• New construction	1.3
6.7	• Subsequent expenditure	0.3
(23.6)	Disposals	-
(641.3)	Transition to LPPI Real Estate Fund	-
2.2	Net increase in market value	(4.8)
110.2	**Closing balance**	**159.7**

Leases

All directly held investment properties are leased to tenants. There are no investment properties held by the Fund used for purposes other than to generate rental income.

Residual asset risk

The independent valuation of the direct property portfolio considers the level of committed tenancies amongst other variables. Lessees do not have an option to purchase the properties at the expiry of their lease period and all rental contracts include market review clauses in the event that the lessee exercises an option to renew. Rental income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income generally reviewed to market rent five yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with property managers to fill these voids. As at 31 March 2021, the Fund has the following future minimum lease payments due from tenants.

2019/20		**2020/21**
£m		**£m**
0.3	Leases expiring within one year	0.6
1.8	Leases expiring between one and five years	17.8
36.7	Leases expiring later than five years	62.9
38.8	**Total future minimum lease payments receivable under existing non-cancellable leases**	**81.3**

The increase in total future minimum lease payments is largely due to the acquisition of three properties in 2020/21 with long term leases in place with existing clients, as well as the reduced credit loss allowance.

The above disclosures have been reduced by a credit loss allowance of 2.5% (2019/20: 7.5%) per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This adjustment is based on experience of rents outstanding 28 days after the due date. The credit loss allowance has decreased since the previous year as a result of market conditions, the allowance last year was unusually high because of the effects of restrictions associated with the Covid-19 pandemic and the effect on tenants' businesses – for example, requests for rent cancellations or deferments.

There are no contingent rents as all rents are fixed until the next rent review (generally on 5 year review patterns) and then are either reviewed to market rent, a fixed uplift or in line with an index.

Cash deposits

31 March 2020		31 March 2021
£m		£m
89.6	Sterling	69.1
19.2	Foreign currency	39.3
108.8		**108.4**

Note 14 - Financial instruments classification

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. Directly held property is excluded from this note.

31 March 2021

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	44.5		
Loan investments		55.0	
Pooled investment vehicles	8,056.7		
Pooled property investments	1,161.8		
Directly held private equity	12.5		
Cash deposits		108.4	
Investment accruals	0.8		
Debtors		12.6	
Total financial assets	**9,276.2**	**176.0**	
Financial liabilities			
Creditors			6.6
Total financial liabilities			**6.6**

31 March 2020

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	142.5		
Loan investments		3.0	
Pooled investment vehicles	6,913.5		
Pooled property investments	1,130.1		
Directly held private equity	12.5		
Cash deposits		108.8	
Investment accruals	8.8		
Debtors		15.0	
Total financial assets	**8,207.4**	**126.8**	
Financial liabilities			
Creditors			6.7
Total financial liabilities			**6.7**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1,022.2m (2019/20: £1.4m gain after adjusting for directly owned property)

Note 16 - Financial instruments – fair value hierarchy

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPPI Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided by the managers of the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Ordinarily, valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into level 1 to 3 based on the level of which the fair value is observable.

31 March 2021

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	4,842.3	849.6	3,584.4	9,276.2
Loans and receivables	98.2	65.1		163.4
Non-financial assets at fair value through profit and loss (property holdings)		159.7		159.7
Net investment assets	**4,940.5**	**1,074.4**	**3,584.4**	**9,599.3**

31 March 2020

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,786.5	949.8	3,471.1	8,207.4
Loans and receivables	35.5	76.3	-	111.8
Non-financial assets at fair value through profit and loss (property holdings)	-	110.2	-	110.2
Net investment assets	**3,822.0**	**1,136.3**	**3,471.1**	**8,429.4**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition).	Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties ;existing lease terms; nature of tenancies,	Not required.
Pooled property investments – core property	Level 2	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Pooled property investments - non-core property	Level 3	Value of equity holding in Real Estate Investment Trust.	Underlying investment valued at existing use valuation for social housing; discount rates; house price index; retail price index; staircasing rates (the rate of progressive tenant ownership % on a part-rent, part-buy ownership agreement).	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

Description of asset	Assessed valuation range[1]	Value at 31 March 2021	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Private equity funds	13.5%	798.8	906.2	691.3
Infrastructure funds	5.2%	1,098.6	1,155.5	1,041.7
Long term credit	5.2%	1,176.4	1,237.3	1,115.4
Fixed income funds	5.2%	85.3	89.7	80.9
Non-core property funds	2.0%	330.5	337.0	324.0
Diversifying strategies	5.2%	94.8	99.7	89.9
Level 3 investments		**3,584.4**		

[1] All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity funds	Infrastructure funds	Long term credit funds	Property funds	Diversifying strategies	Total level 3 investments
	£m	£m	£m	£m	£m	£m	£m
Market value 1 April 2020	**139.6**	**777.6**	**1,180.1**	**953.0**	**330.5**	**90.3**	**3,471.1**
Purchases during the year and derivative payments	0.1	102.0	20.6	180.0	0.0	0.0	302.7
Sales during the year and derivative receipts	(32.6)	(237.6)	(43.1)	(16.0)	0.0	(2.4)	(331.7)
Unrealised gains / (losses)	(30.2)	69.2	(68.5)	59.4	0.0	6.9	36.7
Realised gains	8.4	87.7	9.5	0.1	0.0	0.0	105.7
Market value 31 March 2021	**85.3**	**798.8**	**1,098.6**	**1,176.4**	**330.5**	**94.8**	**3,584.4**

Note 17 - Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect change in activity and in market conditions.

Market risk

Market risk is risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management strategy is to identify, manage and keep market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2020/21 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	5.4%
Total equities	13.5%
Alternatives	5.2%
Total property	2.0%

The sensitivities are consistent with the assumption contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market place would have been as follows (the prior year comparator is also shown):

Asset type	31 March 2021	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	5,305.2	13.5	6,018.8	4,591.7
Alternatives	2,764.6	5.2	2,907.8	2,621.4
Total property	1,321.5	2.0	1,347.6	1,295.3
Total bonds (including index linked)	44.5	5.4	47.0	42.1
Total assets available to pay benefits	**9,435.8**		**10,028.4**	**8,843.3**

Asset type	31 March 2020	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total equities	4,232.3	11.7%	4,728.8	3,735.8
Alternatives	2,702.3	5.1%	2,839.9	2,564.7
Total property	1,240.4	3.8%	1,287.6	1,193.2
Total bonds (including index linked)	145.6	6.3%	154.8	136.4
Total assets available to pay benefits	**8,308.8**		**9,011.1**	**7,630.1**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2020	Asset type	31 March 2021
£m		£m
108.8	Cash and cash equivalents	108.4
108.8	**Total**	**108.4**

Interest rate risk - sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long–term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

		Impact of	
	31 March 2021	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	108.4	1.1	1.1
Total change in assets available		**1.1**	**(1.1)**

		Impact of	
	31 March 2020	**1% increase**	**1% decrease**
Asset type	**£m**	**£m**	**£m**
Cash and cash equivalents	108.8	1.1	(1.1)
Total change in assets available		**1.1**	**(1.1)**

Currency risk

Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£). The Fund holds both monetary and non-monetary assets denominated in currencies other than Sterling.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

The following table summarises the Fund's currency exposure as at 31 March 2021 and as at the previous year end.

31 March 2020	Currency exposure – asset type	31 March 2021
£m		£m
4,068.5	Overseas equities	5,128.3
348.9	Overseas alternatives	247.6
78.3	Overseas bonds (including index linked)	26.2
4,495.7	**Total overseas assets**	**5,402.1**

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1%. A 6.1 % fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2019/20: 7.2%).

A 6.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value at 31 March 2021	Potential market movement +/- 6.1%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	5,128.3	311.7	5,440.1	4,816.7
Overseas alternatives	247.6	15.0	262.5	232.5
Overseas bonds (including index linked)	26.2	1.6	27.8	24.6
Total assets available to pay benefits	**5,402.1**	**328.3**	**5,730.4**	**5,073.8**

Currency exposure - asset type	Asset value at 31 March 2020	Potential market movement +/- 7.2%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas equities	4,068.5	294.0	4,362.5	3,774.5
Overseas alternatives	348.9	25.2	374.1	323.7
Overseas bonds (including index linked)	78.3	5.7	84.0	72.6
Total assets available to pay benefits	**4,495.7**	**324.9**	**4,820.6**	**4,170.8**

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial asset and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimise the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remain outstanding, and the cost of replacing the derivatives position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivatives contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independent and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

The Fund's cash holding under its treasury management arrangements at 31 March 2021 was £108.4m (31 March 2020: £108.8m) and was held with the following institutions:

31 March 2020	Summary	Rating	31 March 2021
£m			£m
	Bank deposit accounts		
33.1	Northern Trust	A2	72.0
75.7	Svenska Handelsbanken	AA2	-
-	Natwest	A1	36.0
	Cash float with property manager		
-	Barclays Bank Plc	A1	0.4
108.8	**Total**		**108.4**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flow. The appropriate strategic level of cash balances to be held forms part of the Funds investment strategy.

The Fund has financial liabilities of £6.6m at 31 March 2021, all of which is due within one year.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Utmost Life and Pensions and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2019 to 31 March 2020 for Prudential and are the latest available to the fund due to delays in the production of the annual benefits statement by the AVC provider and 1 September 2019 to 31 August 2020 for Utmost Life and Pensions and are not included in the Pension Fund accounts, in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Utmost Life and Pensions	**Prudential**	**Total**
	£m	**£m**	**£m**
Value at start of the year	**0.6**	**29.0**	**29.6**
Income (incl. contributions, bonuses, interest and transfers in)	-	6.5	6.5
Expenditure (incl. benefits, transfers out and change in market value)	-	(4.2)	4.2
Value at the end of the year	**0.6**	**31.3**	**31.9**

Note 19 - Current assets

31 March 2020		31 March 2021
£m		£m
9.0	Contributions due – employers	7.0
5.2	Contributions due – members	5.4
0.8	Sundry debtors	0.2
15.0		**12.6**

Note 20 – Current liabilities

31 March 2020		31 March 2021
£m		£m
0.8	Unpaid benefits	0.5
5.9	Accrued expenses	6.1
6.7		**6.6**

Note 21 - Contractual commitments

As at 31 March 2021 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £657.1m (2020: £409.3m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £79.9m (2020: £93.7m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

There are no outstanding commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio (2020: £0m).

There are no outstanding commitments in relation to the Pooled real estate fund (2020: £0m).

Note 22 - Related party transactions

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions.

There are three groups of related parties; transactions between Lancashire County Council as administering authority and the Fund; between employers within the Fund and the Fund; and between members and senior officers and the Fund.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council.

The Council incurred costs of £0.8m (2019/20: £0.6m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £149.8m to the Fund in 2020/21. A prepayment of contributions for the 3 year period starting 1 April 2020 totalling £120.5m, of which, £40.1m relates to 2020/21. Total employer contributions from the Council in 2019/20 amounted to £33.2m. All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2021 amount to £5.2m (2019/20: £5.4m).

The Fund has a private equity investment of £12.5m in the Local Pensions Partnership as at 31 March 2021.

Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2021 payroll, are included within current assets in note 19.

Pension Fund Committee, Pensions Board and Senior Officers

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2020/21 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2021.

Each member of the Pension Fund Committee and Pension Board formally considers conflicts of interest at each meeting.

Note 23 - Key management personnel

The key management personnel of the Fund are the Lancashire County Council Chief Executive and Director of Resources, the Lancashire County Council Director of Finance and the Head of Fund.

Total remuneration payable to key management personnel is set out below:

2020/21

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund[2]	01/04/20 – 20/10/20 01/03/21 – 31/03/21	38,956	6,622	45,578
Director of Finance	01/04/20 – 31/03/21	2,232	352	2,585
Chief Executive and Director of Resources	01/04/20 – 31/03/21	4,443	-	4,443

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work

[2]The position of Head of Fund was covered on an interim basis by an agency member of staff from 20/10/21 – 01/03/21

2019/20

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/19 – 31/03/20	57,801	8,728	66,529
Director of Finance	01/04/19 – 31/03/20	2,148	305	2,453
Chief Executive and Director of Resources	01/04/19 – 31/03/20	4,326	-	4,326

[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

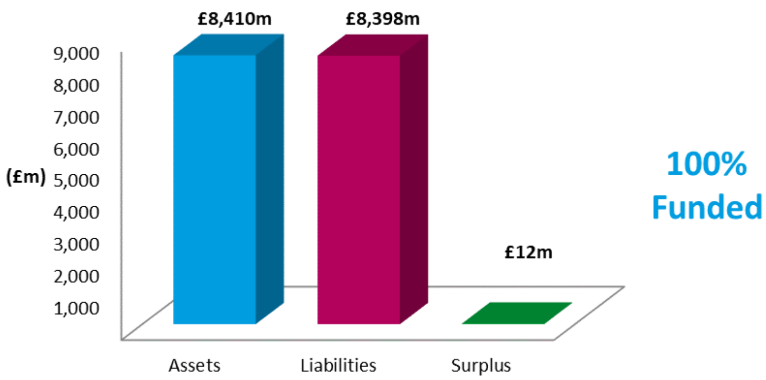
Note 24 - Funding arrangements

Accounts for the year ended 31 March 2021 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £8,410 million represented 100% of the Fund's past service liabilities of £8,398 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £12 million.



The valuation also showed that a Primary contribution rate of 17.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 16 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £2m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately, and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.8% per annum	4.55% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). At the overall Fund level we estimate that the cost of the judgment is an increase in past service liabilities of broadly £68 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be updated as a general rule but the Administering Authority is consulting on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial present value of promised retirement benefits for the purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4%). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. Both of these factors served to increase the liabilities over the year. The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £11,052 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£262 million and allowing for net benefits accrued/paid over the period also increased the liabilities by c£105 million (this includes any increase in liabilities arising as a result of early retirements). There was also an increase in liabilities of £1,707 million due to "actuarial losses" (i.e the effects of the *changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £13,126 million.

GMP indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching

State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Leanne Johnston Fellow of the Institute and Faculty of Actuaries	Mark Wilson Fellow of the Institute and Faculty of Actuaries

Mercer Limited
May 2021

Governance statements

Moor Park, Preston
Photo: Helen Curran

Executive summary

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

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

This year, the Covid-19 crisis continued to bring unprecedented challenges for local government and the County Council has sought to minimise disruption to the services we deliver. We have shown that the County Council can thrive in the most challenging of circumstances. We have seen a combination of a flexible, dynamic, committed workforce and implementation of new ways of working that will reshape the council going forward. We also put in place a robust set of emergency governance measures to monitor and respond to the pandemic.

Therefore, it is essential that the AGS reflects the impact of the Covid-19 pandemic on governance and we will include a second conclusion on the adequacy of governance arrangements during this period. Once the crisis is over, we will conduct a review of the lessons to be learned from our response. As such, this will be one of the organisation's significant governance issues for 2021/22.

Cipfa guidance relating to Local Government Pension Service Fund Accounts 2020/21 states that in England, where the pension fund accounts form part of the administering authority's statement of accounts then the AGS should also cover the pension fund. Therefore, this year the pension fund governance statement will be included rather than published as a separate document. On the 18 June 2021 the Pension Fund Committee approved the Annual Governance Statement for the Lancashire County Pension Fund.

On the 26 April 2021 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run. The final statement is signed by the Leader of the Council and Chief Executive and Director of Resources.

Governance issues

Overall, it can be confirmed that the council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work well, our review has identified the following issues which are currently underway but not yet completed:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Reshaping the Council: ***Our Improvement Journey*** ***Financial Sustainability***	Chief Executive & Director of Resources supported by the Director of Organisational Development & Change Director of Finance	March 2022 Ongoing
Family Safeguarding	Executive Director of Education & Children's Services	March 2022
Response to Special Educational Needs & Disability (SEND) Inspection	Executive Director of Education & Children's Services	March 2022
Integration & Innovation	Executive Director of Adult Services & Health & Wellbeing	March 2022
Provision of ICT	Director of Strategy & Performance	March 2022
Covid – 19 Moving Towards Recovery	Chief Executive & Director of Resources supported the Corporate management Team	March 2023

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

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

-- County Councillor Geoff Driver CBE
Leader of the Council

--- Angie Ridgwell
Chief Executive and Director of Resources

Signed on behalf of Lancashire County Council

Introduction

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

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

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

As mentioned in the executive summary, coronavirus will have impacted on governance since March 2020 and authorities also need to ensure that the AGS is current at the time of its publication, so it is essential therefore that the AGS reflects the impact of the Covid-19 pandemic on governance.

What is corporate governance?

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

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

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

Key elements of the county council's governance framework

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

Leader, Cabinet and Council	Decision making	Risk and performance management
• The Leader provides leadership • Cabinet develops and sets policy • Full Council agrees the annual budget, sets council tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework)	• Meetings are currently virtual (because of CV19 rules) and are webcast • Decisions are recorded on the Council's website • Scheme of delegation	• Risk registers identify both operational and strategic risks • Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee • Processes are in place for managing and reporting performance to CMT and members (CCPI) • Directors complete assurance statements
Council's leadership team	Scrutiny and review	External and internal audit and review
• Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team • Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs • The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct	• Scrutiny Committees review council policy, decisions and budget proposals • Work to deliver local public sector accountability	• External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources • Internal audit provides regular assurance on the governance, risk management and internal control framework • External inspections provide an accountability mechanism • Peer challenge/reviews highlight good practice and areas for improvement

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

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

An updated Local Code of Corporate Governance can be found on our website. This shows how the County Council has complied with the seven principles set out in the CIPFA/SoLACE Framework. The Code is reviewed annually and the outcome reported to Audit, Risk and Governance Committee and presented to Full Council for approval. It sets out the requirements underpinning these principles and how the council ensures that it meets them along with the evidence base used to assess their effectiveness. This year it has been updated to include the governance arrangements that have been put in place to manage the impact of CV-19.

Managing risk and performance

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

Before CV-19, service risk and opportunity registers were updated regularly and the Corporate Risk and Opportunity register was reported to Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee on a quarterly basis. As a result of CV-19, reporting was suspended and service level situation reports were introduced and continue to be in place. These reports are presented on a weekly basis to the Corporate Emergency Response Team and issues are escalated to CMT and the Local Resilience Forum (LRF).

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

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

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

During the year, CCPI received high-level metrics relating to the corporate strategy, together with more detailed, service specific performance metrics which enabled members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). A detailed forward plan for the annual reports was developed with the Leader of the County Council, as Chair of the Cabinet Committee on Performance Improvement.

A Performance Board that is chaired by the Director of Strategy & Performance met during the year. The Board receives a suite of performance dashboards, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action to CMT. Any concerns with the quality of the data are highlighted immediately and the recovery plan will focus on improving the data quality. Once there is confidence in the data, performance concerns are the focus of discussion. This approach requires a deeper understanding of data presented and is driving up the quality of data and reporting across the council.

Managing our resources (value for money)

The Council's external auditors, in their assessment of 2019/20, gave an unqualified opinion on the Group's financial statements on 25 January 2021 and were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

The auditors commented that the Council's financial position remains challenging and a continued reliance on reserves would be unsustainable, however, it is important that the momentum for change established over the last few years is maintained and financial control remains robust.

Therefore, throughout 2020/21 projections were reported to both the CMT and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The budget strategy involved a combination of budget savings with the use of reserves and capital receipts to ensure funding requirements were met. However, the plans for future years will need to be reviewed in light of any central government funding proposals for local government.

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

Financial sustainability

Financial sustainability remains a risk facing the County Council given the absence of a long-term financial settlement, the ongoing financial impact of Covid-19 and various funding changes likely to come into effect from 2022/23, including the outcome of the fair funding review. However, good progress has been made in recent years in addressing the existing financial shortfall primarily as the result of the identification and delivery of a significant savings programme.

The 2021/22 revenue budget was approved at Full Council in February 2021 with a small contribution of £3.860m required from the transitional reserve. The structural funding gap is forecast to be £50.048m by 2023/24, although this is based on assumptions being made on future funding levels in the absence of a long-term financial settlement from the Government. Uncommitted reserves are sufficient to support the gap through to 2023/24 and beyond with a forecast level of £67.325m at 31 March 2024, allowing time for a planned and structured approach to how the funding gap is addressed.

The impact of CV-19 on the council's financial resources is set out in the specific section on CV-19.

The Council regularly updates its medium-term financial strategy. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels. The forecast is necessarily underpinned by a range of estimates and recommendations through the Corporate Management Team, Cabinet and the Audit, Risk and Governance Committee.

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

Financial management code

The CIPFA Financial Management Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The code sets out six principles underpinned by a series of financial management standards identifying the professional standards to be met if a local authority is to meet the minimal expectations of financial management that are acceptable to meet the fiduciary duties to taxpayers, customers, and lenders.

Despite the Covid pandemic, the council has been able to undertake medium-term financial planning which has driven the annual budget-setting and monitoring process. Through the Budget Scrutiny Committee, and the Audit, Risk and Governance committee sources of assurance are recognised as an effective tool in delivering and demonstrating good financial management. The positive financial performance of the council during the year has once again evidenced that the long-term sustainability of local services is at the heart of the council's strategy supported by the prudent use of public resources.

Public bond issue

The County Council has been considering long term loan financing through accessing the capital markets and using alternative sources of funding to the Public Works Loan Board (PWLB) for many years. Some of the perceived obstacles that have prevented us from pursuing these options in the past have been addressed and it was considered that the pursuit would now enable the council to obtain financing at reduced costs. Cabinet agreed to its first Bond Issue in February 2020 (£350m) and to a further Issue in May 2020 (£250m). As a consequence, we managed to borrow at a lower cost than from the PWLB.

How do we know our governance arrangements are working?

There are a number of ways we do this:

The role of management

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

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2020/21 that reports on service compliance and they produced regular situation reports that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available, improvement plans are in place.

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

The role of the Audit, Risk and Governance Committee

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

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

In addition to the standard items on the agenda, the committee considered reports on the following:

- Review of the Code of Conduct for members – a report which provided an overview of the best practice recommendations of the Committee for Standards in Public Life in relation to local government standards. The committee considered the best practice recommendations and proposed changes to full council for approval.
- Code of Conduct – Summary of Complaints. For this item the appointed 'Independent Persons' who advise the Conduct Committee, were invited to attend the meeting in January 2021.

In July 2020, the Chairman presented his third annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness.

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the Council's governance, risk management and control frameworks and therefore the extent to which the Council can rely on them. The Internal Audit Annual Report and opinion have been considered in the development of the Annual Governance Statement.

The Head of Internal Audit's overall opinion is that moderate assurance can be given over the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control for

2020/21. However, as set out in the Internal Audit Annual Report, the evidence base for this opinion is significantly different this year and very few normal audit assignments have been undertaken. Nonetheless it is clear that the organisation as a whole is well controlled and has responded well to the challenges posed to the communities of Lancashire by Covid -19.

External assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

Information governance

The Council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group meets quarterly and is attended by the Senior Information Risk Owner and Data Protection Officer. The annual review of policies took place in January 2021 and amendments were made following the end of the 'transitionary period' and GDPR being mirrored in domestic legislation (UK GDPR). An interim 6-month grace period has been granted by the EU Commission specifically for EU to UK data transfers (ending 30 June 2021) and a decision on UK adequacy is expected imminently.

The team established an Internal Resource Pool in March 2020 and managed up to 900 employees being made available and redeployed at some point during the public health crisis. Whilst services across the council have now resumed and employees have returned to their substantive posts, the Information Governance Manager and Senior Officers continue to support the Internal Resource Planning Group.

Council services currently being managed under the BTLS contract will return 'in house' in April 2021 and Information Governance/ICT policy and frameworks will be reviewed and updated to reflect these changes.

Local government and social care ombudsman

During 2020/21 Full Council did not receive any public reports from the Local Government & Social Care Ombudsman.

Lancashire County Developments Limited

Lancashire County Developments Limited is an owned subsidiary of the county council. As a material entity it forms part of the council's group accounts. The county council has the power to change decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet, and receive financial and performance reports. In the 2020/21 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.

Scrutiny committees

Full Council ratified the constitution at its Annual General Meeting in July 2020 and agreed to merge the Education and Children's Services Scrutiny Committees to a new Education and Children's Services Scrutiny Committee. This reduced duplication and combined the expertise on the committees. Although the number of committees was reduced, to ensure there was no reduction in scrutiny activity the new committee increased the frequency of its meetings.

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

There is also a cross party Budget Scrutiny Review Panel. The Panel:

- Provides further support to the overall budget monitoring process
- Considers and formulates recommendations on Cabinet budget proposals
- Monitors progress of agreed budget savings

The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the County Council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.

The Statutory Scrutiny Officer and Monitoring Officer are undertaking a review of scrutiny activity with a view to future improvement and new scrutiny web page is live and will support officers across the council to better understand and engage with scrutiny activity.

Independent remuneration panel

Full Council in December 2020 agreed revised terms of reference for the Independent Remuneration Panel. It also re-appointed the current three experienced members for a further term of office. A fourth member has since been appointed.

County council elections

Given the postponement of the elections last year there will be County, Police & Crime Commissioner and district elections (7 districts) taking place across Lancashire on the 6 May 2021. Some districts also have parish elections. Having combined elections is complex in itself but given the added dimension of the pandemic this has heightened the complexity and risk. As a result, the Returning Officer in conjunction with the Police Area Returning Officer have published detailed directions. Officers from all councils within Lancashire have met monthly to ensure a consistent and collaborative approach across the county. Officers have maintained regular dialogue with the Electoral Commission throughout the preparations and delivery of the polls and have worked with Lancashire Constabulary to maintain the integrity of the electoral process.

Officers and members have been briefed on pre-election rules on local authority publicity.

Local government reorganisation

At last June's full council meeting, the principle of a Combined Authority and elected mayor was agreed to unlock the potential for a devolution deal and secure extra funding for the people of Lancashire. The Leader of the Council wrote to government to ask them to consider new governance arrangements for Lancashire. These arrangements would see our current structure of a county council, 12 districts and two unitaries dissolved and replaced with three new unitary authorities which would cover the whole of the county and be responsible for delivering all of our services. The Government did not invite us to formally submit a proposal at this time.

However, in February 2021 the government announced an eight-week consultation process for proposals for local government reform in Cumbria. There are four proposals under consideration. Discussions have been taking place in Lancashire about local government reform here because, as with Cumbria, there is a general support for change. Whilst any of the proposals would have implications for Lancashire if adopted, the "Bay Unitary proposal" would have the most direct impact as it would mean that responsibility for the services currently delivered in Lancaster City Council District by the county council would transfer to the new Bay council. If this proposal were to go ahead it would represent a major administrative change to how all of our services are delivered in that area. There was an extraordinary meeting of Full Council on 8 April 2021. Full Council agreed the principles of the response to the consultation set out in the report and authorised the Chief Executive, in consultation with the Leader of the Council to finalise the response to the secretary of State.

EU Exit: Lancashire County Council preparedness

When the UK formally left the EU on the 31 Jan 2020, it moved from being a member state to the transition period and little changed in practice. In January 2021, the UK moved from transition to a new relationship, and wide-ranging change will likely result, albeit not immediately. People, communities, businesses, organisations' and our service areas will require time, clear communication, and support.

The council put in place an internal EU Exit Group, overseen by the Director of Corporate Services, to track key aspects of the UK's exit from Europe. Its role is focused on considering the implications for Lancashire and mitigating its impact.

Its areas of focus include Trade, State Aid, Workforce and EU Settled Status, including children looked after and care leavers of non-UK nationality, Border planning, Transfer of Powers/Regulatory change (GDPR, Employment Law, Procurement) and partnership working. The EU Exit Group continues to receive input from across council services and this enables a two-way communication flow and supports updates to BEIS, MHCLG or the NW regional CEO. It has provided timely reports on the level of the council's preparedness with assurance and recommendations to Cabinet and corporate management team. It currently provides monthly updates to CMT.

The EU Exit Group will continue to review direct and indirect consequences on residents whilst monitoring cost drivers as markets/communities react to this change.

Looking back on 2020/21

Several improvement actions were identified as part of the 2020/21 Annual Governance Statement. All of these have been the subject of reports to CMT, Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

Reshaping the Council

Our Improvement Journey

During 2020/21 we intended to progress Our Improvement Journey, but most of this work stopped when staff were redeployed into new roles to respond to the CV-19 pandemic. Consequently, areas of focus included:

- Recover Well, Recover Better
- Support our staff to work productively and maintain effectiveness
- Prioritise improvement journey outcomes which will support response and recovery
- Deliver an effective rapid testing system within Lancashire

We did manage to progress several initiatives such as the roll out of Microsoft 365. This will provide us with new tools and the technology to work flexibly. There is a significant review programme of HR policies and procedures that will influence flexible working and support desired new ways of working. We have also put in place a leadership and management development offer to support this approach.

Financial sustainability

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic.

In addition, there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23. Should the Covid emergency response continue for a protracted period it is likely that there will be further slippage. Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding in future years.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

Family safeguarding - children's social care

Family Safeguarding was evaluated by the Department of Education (DfE) to demonstrate excellent outcomes for families including fewer children coming into care and a reduction in attendances at A & E, and in call outs by the police. Lancashire undertook a bid process and were successful in securing £6.3 million pounds from the DfE to support the implementation of Family Safeguarding in Lancashire and this was matched by funding from the County Council. A Lancashire Family Safeguarding programme team was established and has ensured that the foundations for Family Safeguarding are in place and that we were able to go live on the 11 February 2021.

Family Safeguarding has been introduced as part of the transformation of children's services within Lancashire that has meant investing significantly in Early Help, developing teams around the school, and moving from a geographical management structure to a functional one. We are ensuring that children in care have secure and stable homes and that we invest in our ongoing support for Care Leavers.

There has been good progress in delivery against the priorities set out in our Getting to Good plan with a significant number of actions now closed. Child Protection Social Workers have been innovative in finding ways to facilitate contact between children and their families during the pandemic, enabling statutory duties to be carried out.

Special educational needs and disability (SEND)

The Joint Area SEND revisit that took place in March 2020 found that partners in Lancashire had made sufficient progress in addressing 7 of the 12 significant weaknesses identified at the initial inspection in 2017 and therefore no longer require monitoring by the DfE and NHS England.

The area however was found to have not made sufficient progress in addressing 5e significant weaknesses:

- Leaders had an inaccurate understanding of the local area.
- There were weak joint commissioning arrangements that were not well developed or evaluated.
- There was an absence of effective diagnostic pathways for autism spectrum disorders (ASD) across the local area and no diagnostic pathway in the north of the area.
- Transition arrangements in 0 to 25 healthcare services were poor.
- The local offer was inaccessible, and the quality of information published was poor.

Accelerated Progress Plans are in place to secure further improvement in the 5 areas subject to ongoing monitoring from the DfE and NHS England. A subcommittee to the Health and Wellbeing Board has been established to scrutinise improvement against the 5 Accelerated Progress Plans. Checkpoint review meetings with the DfE and NHS England have been positive with no identified issues regarding progress to date.

The strong working relationships and ambitious vision for children and young people with SEND across Lancashire is transforming our collective offer to meet need more effectively and improve outcomes. The parents who have worked with us are positive about the difference that their contributions have made as equal partners in driving improvements.

Financial leadership challenges in health and social care

Discussions through the Integrated Care System (ICS) are ongoing. In February 2021, the Government published a White Paper outlining how the NHS in England needs to change to enable health and care to work more closely together. Within the White Paper are several themes that are particularly relevant to the future working relationship between health and local government.

The White Paper does not address adult social care or public health reforms, with proposals on these areas expected later in the year.

Issues being considered within the Lancashire and South Cumbria ICS include:

- Planning and delivery of integrated services including Intermediate care, Children's and families, Population health (management), Mental Health, Learning Disabilities and Autism
- Ways of working including the role of Health and Wellbeing Boards and potential for pooling of financial resources, and
- Involvement of elected members.

The NW regional NHSEI team is providing support for Integrated Care Partnership (ICP) development through project management resources and subject matter experts who are facilitating a number of workshops and small group session that will shape the content of the ICP development programme for 2021/22. In addition, the NHSEI team has made a connection to the Local Government Association (LGA), which can offer support to the L&SC ICS during the remainder of 2020/21 and into 2021/22. Proposals for next steps are expected to be considered by the ICS System Leadership in April 2021.

Managing major projects

Strong governance arrangements are in place through the Major Projects Steering Group and Project Board. Internal and external legal/commercial advice and support is sought as required. We will look to access the Local Economic Growth & Recovery Fund and other funding opportunities to help the economic recovery agenda.

Future provision of ICT services

Work over 2020/21 has been focused on managing 10 major deliverables relating to the transition back form BTLS. This has included implementing a new management structure so that we are able to fully support the business from IT, payroll and recruitment perspectives. We conducted a smooth transition for inflight projects, and we are now able to provide commercially viable services to external 3rd parties (schools, police, district councils). We have also been able to put plans in place to continue to improve the quality of the IT service and deliver committed cost savings and look at future potential cost savings across the business. We now understand the cost of providing IT support at a business level and fully understand the breakdown of the cost and value of their returned services. We have no licensing liabilities and no unresolved compliancy issues. As an organisation we can to procure new IT services for ourselves.

This has involved co-working with Lancashire Constabulary, West Lancashire Borough Council, schools, and others to be successful. The Chief Digital Officer together with the Director of Finance, Director of Strategy & Performance and Head of HR has been guiding this contract to its conclusion in a safe managed way so that the services, staff, and customers are looked after and the opportunities that 'in house' services bring are realised to the maximum. A thorough approach to management of risks and issues has taken place over the last year and this will continue beyond the end of the contract.

Core systems and data

Oracle Fusion, Microsoft 365, BTLS – insource and Covid-19 have all put pressures on an already committed pipeline of business projects. Covid-19 particularly has challenged the service where responses have been required to support the emerging work of the organisation including supporting the Council's statutory response, meeting new government requirements and the support of our Lancashire young people. In the new financial year, a fresh look at the pipeline of work will produce a new Digital Delivery Plan for the Council which will continue to accompany the Digital Strategy and include the new Digital Service's Continued Improvement Plan.

Governance challenges for 2020/21 and actions to be taken

Reshaping the council

Our Improvement Journey

In 2019/20 we commenced on Our Improvement Journey with an aspiration to become a top performing council. This work stopped when staff were redeployed into new roles to respond to the CV-19 pandemic. However, as we move out of crisis response to recovery our focus will be on how we can develop Our Improvement Journey to help deliver our vision.
We will initially focus on:

Our ways of working – we want to develop a future workplace model that optimises the performance of our people, places, processes and technology. We want to leverage the best of what is possible today and continuously improve & adapt in response to future challenges. To help us do this we will engage our staff to help shape emerging proposals and develop new approaches.

Improved Partnership working – responding to the pandemic has highlighted the importance of partnership working and is proof of what can be achieved if we work together. We want to use this as a platform to build better alliances with our partners to deliver improved outcomes for the people of Lancashire.

A New County Council – following the elections in May we will need to ensure our new county councillors have the support they need to fulfil their roles within both the County Council and their communities.

Financial sustainability

There is ongoing uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency has exacerbated the problem. This has been identified as one of the highest-level risks in the council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required. However, whilst a multi-year spending review was expected from the Chancellor, a one-year spending review was implemented for 2021/22 to prioritise the response to Covid-19 and focus on supporting jobs. Therefore, the Medium-Term Financial Strategy contains a best estimate of our funding envelope over the coming years. Given the circumstances we also anticipate a delayed fair funding review and business rates system review. On current forecasts it will be necessary to identify additional savings to bring the council to a financially sustainable position. However, the current level of reserves will allow us to make those additional savings in a measured and structured way.

Family safeguarding

We have begun to implement a more strengths-based practice model, including the development of the Lancashire Family Safeguarding approach and the remodelled Early Help offer. Therefore, our area of focus over the next twelve months will be to implement the Family Safeguarding model alongside a remodel of Children's Social Care, embedding the revised approach to school improvement and implementing the re-modelled Early Help services. We will also ensure that the quality of practice continues to improve, eliminating inadequate practice and ensuring consistently good assessments and plans across county council early help services and children's social care.

Special education needs and disability

As mentioned above, in seven of the twelve areas of concern in respect of SEND, progress was judged to be sufficient and therefore no longer require monitoring by the DfE and NHS England. During 2021/22 the following Accelerated Progress Plans are in place to secure further improvement in the 5 areas:

- Continuing to improve our understanding of the local area
- Further developing and evaluating our commissioning arrangements
- Improving the effectiveness of the new neuro-developmental pathway
- Improving transition arrangements in 0 to 25 healthcare services
- Implementing the changes to the Local Offer

The Key Performance Indicator's included in the plan will enable us to demonstrate the impact of our work as part of the ongoing transformation of services for SEND across the local area.

Integration and Innovation

Earlier this year, the Department of Health and Social Care published the legislative proposals for a Health and Care Bill. The proposals contained within the white paper **'Integration and innovation**: **working together to improve health and social care for all'** sets out a range of reforms due to take effect from April 2022. These include:

- Making Integrated Care Systems (ICS) statutory bodies
- Transferring the functions of Clinical Commissioning Groups to the ICS
- Removing competition and changing procurement rules
- Seeking to strengthen the voice/influence of local government
- Introducing measures to enhance assurance of social care by CQC
- Creating a standalone power for Better Care Fund
- Encouraging joint appointments of executive directors to support integrated care/working
- Strengthening the role of Health and Wellbeing Boards

As mentioned above, several themes are particularly relevant to the future working relationship between health and local government, and we will be looking to develop these through 2021/22.

The government has also said that reforms to social care and public health will be dealt with later in 2021 outside the Health and Care Bill addressed in the white paper, with some minor exceptions. In readiness for this, the County Councils Network simultaneously launched ' The Future of Adult Social Care- Optimised Delivery.

ICT provision

The BTLS contract came to an end on the 31 March 2021. The contract is, however, much more than just ICT, and we will need to ensure that all the services that are currently delivered by BTLS are transferred back to the council in a seamless manner, mostly through the launch of the new Digital Service.

Covid 19 – moving towards recovery

The impact of the coronavirus pandemic has been felt by all organisations in the UK and the County Council is no exception, being a significant employer, service provider and community leader in the county.

It is clear that this emergency is unlike any other we have ever faced, and as such the move towards recovery will be a different path to any we have seen before. Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic are ongoing and we are beginning to understand the implications of coronavirus and how it will affect the day-to-day lives of our citizens. This will inform our planning during the recovery

phase of the crisis. However, adapting our services will take time and we aim to have completed this review by 2023.
There have been devastating impacts on families across the county. From job loss to supply shortages. There has been an impact on emotional and mental health, and we have witnessed a rise in inequality and deprivation. We have a key role to play in the coming months as we will be at the heart of building a stronger, healthier and more prosperous Lancashire for our residents and businesses.

Monitoring implementation

The key governance challenges facing the Council in 2021/22 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

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

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

Conclusion

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

Responding to the Coronavirus Crisis

There has been a tremendous amount of work done by staff and with our partners to ensure that our emergency response has been effective. During this crisis we have had two goals:

- To protect the most vulnerable
- Make sure our most vital services continue to be delivered

We have completely transformed the way in which we do business which is a testament to our preparedness to face emergencies. We could not have predicted the scale and scope of the challenges that this emergency has presented, but because we have exceptionally good business continuity plans, we have been able to rise to those challenges at speed. We recognised that partnership working is the key to an effective response, and have been central to the ramping up of the Local Resilience Forum (LRF) to become the central hub for all activity. Our Chief Executive and Director of Resources is currently the chairperson of the Forum.

We aligned our response to the LRF structures to ensure clarity and continuity between our internal work and the wider partnership activity. This means that we have a clear understanding of our essential role and can move and adapt to changing circumstances. During the year we reviewed our structures and established a Covid-19 Corporate Recovery Group, a Corporate Safer Working Group, a Vaccination Sub-group and put in place an effective Outbreak Management process.

Impact on business as usual in the delivery of services

Our response to this emergency means we have been able to continue to delivery vital services to the people of Lancashire. That is not to say that it has all been plain sailing. The rapidly developing situation meant that we have had to make decisions that we have had to change, and have sometimes made mistakes, but these have all been quickly dealt with to ensure that we remain on course and we have managed to:

- Keep more almost 600 schools open throughout both lockdown periods to support the children of key workers and our most vulnerable families.
- There are more than 400 care homes and hundreds of domiciliary and other types of care providers across Lancashire and to ensure that they have the most up-to-date information we developed a new portal on our website where we have been posting all the latest advice. We also hosted fortnightly online care provider webinars that have been attended by hundreds of providers. We launched a campaign to recruit social care staff for Lancashire to meet the extra demand that the coronavirus crisis was creating.
- Support district councils in setting up their community hubs.
- Deliver School appeals over the summer months. Due to social distancing measures these will be heard remotely.
- Continue to register deaths and births.
- Move from being an organisation which is primarily location-based to one that is primarily remotely based.

During the first wave of the pandemic, many staff who were not in roles which are critical to the emergency response were temporarily shifted to new duties to support the response. As the crisis progressed and the demands on our services and colleagues changed, we placed our resources where they had the most benefit. A new Internal Resource Pool was established. At its peak, the pool comprised over 1000 staff and the critical functions that received staff from the pool include:

- **Care Capacity Tracker** - to contact community and residential care providers regarding Covid-19. The role is to make telephone calls to care providers in Lancashire daily to understand their current operating position, staffing and any issues related to the current Covid-19 situation. A small number of redeployed staff continue to work on the Tracker.
- **Provider Assistance** - a contacts list of 'go to people' quickly if a care home falls over and we need to keep it running
- **Hospital Discharges** - in Care Navigation, staff needed to ring around care homes to identify places and so help with hospital discharges. This freed up beds for critical care patients
- **Provider Queries** - Contract Management Responding to social care provider queries
- **Infection Control Recording** - Business support staff recorded details of infection notifications
- **Infection Control Advice** - ex nurses or social workers helping to provide infection prevention advice to care homes who are reporting outbreaks and concerns with Covid-19
- **Provider Escalation Team** - a provider escalation team was set up that involves teleconferences for multi-disciplinary teams in relation to care homes. As the year progressed this Team was renamed and

repurposed to the Outbreak Management Team, to support the continued high level of outbreaks across care homes

- **Vaccination** - we are working with the LRF to assist with the vaccination programme
- **Public Health** - set up a pathway for staff and their family who display symptoms to access testing
- **Excess Deaths** - the Coroners Covid-19 project involved taking calls from GPs regarding Covid-19. It was a service needed around the clock so people would be on call on an 8-hour shift system.
- **Registration Support** - a hub was created in Preston and Business support staff worked to carry out the pre-registration 'screening' process for death registrations
- **PPE Equipment** - there was a need for members of staff to help with a range of activities associated with PPE. These include operating the phone line, taking deliveries, updating stock records, packing PPE packages for internal services and non-council care providers. During the year, this resource was gradually stood down and staff returned to their BAU roles as the supply routes for PPE became more stabilised.
- **Asset Management** - needed more resources on the Lancashire Volunteer Partnership to work on the helpdesk taking calls and signposting to the appropriate volunteer officer.
- **Waste Recycling Centers** - members of staff were needed to help direct traffic and engage with customer (at a safe distance) when the Centre's reopened
- **Highways** - maintaining safety critical works.

Decision making arrangements

At the start of the pandemic all formal meetings of the council including cabinet and committees were suspended whilst the relevant powers to hold remote meetings were granted by legislation, and the appropriate technology put in place. Only business critical decisions were taken, and these have been taken under the relevant urgency procedures. Initially, we deferred all decisions currently listed on the forward plans for Cabinet and committees. For regulatory-type processes and decisions, we considered the appropriate mechanisms with officers responsible to ensure we meet our obligations.

To ensure that the council was able to make essential decisions quickly, the Leader agreed for officers to take all Executive (i.e. Cabinet) decisions should the need arise. However, the intention remained that Cabinet decisions are made by elected representatives wherever possible in line with the urgent business procedures and as such this new delegation was for genuinely emergency situations. All decisions made by officers under this specific delegation have been properly recorded.

With the agreement of the Chairman, the Full Council AGM in May was cancelled. All appointments made at the AGM last year, including the Chairman of the council and committee appointments, continued until the meeting of Full Council on 16 July 2020.

We hosted our first virtual Cabinet meeting in May 2020 and Development Control Committee in June 2020 with all participants dialling in. We have continued to hold virtual meetings since. To facilitate this, we introduced a brand-new MS Teams product with associated training and support package for all county councillors. This was done within all governance and decision-making parameters.

Opposition groups have been regularly briefed by the Chief Executive and Director of Resources and Scrutiny committees have a future work programme in place. Bite sized briefing on all aspects of Covid-19 have been delivered for members.

Managing risk

Our quarterly risk register was suspended and initially replaced by a twice weekly situation report that fed into both the Corporate Emergency Response Team (CERT) and CMT. The reports set out:

- Impacts on current service delivery
- Mitigation actions to minimise impacts
- Resource issues

The reports informed decision making in terms of resource allocation to help minimise the impact within Lancashire communities. The reports also set out actions taken to date and proposed actions. They also provided a forward view highlighting other issues. The reports were shared with multi-agency partners. The reports are now produced weekly. We have also carried out stress testing of our response and scenario planning setting out how we would operate with reduced staffing levels of 20%, 40% and 50%. The situation reports have now been updated and aligned to our strategic and tactical objectives.

To provide flexibility to changing circumstances a number of our HR policies and procedures have been either temporarily amended or suspended. We have maintained constructive dialogue with the Trades Unions throughout the crisis.

All staff working from home have completed a home working risk assessment to ensure they have the correct set-up to work safely at home.

Health and wellbeing

Many staff are working so hard to look after others through this emergency, but it is also really important that they look after their own health and wellbeing. Keeping physically and mentally well is a challenge for us all. We have ensured that we have lots of useful information on the intranet about the help that we can offer, and guides to how people can help themselves. For colleagues not able to access the intranet, this information is also available on the staff section of our website, which anyone can access. All of our wellbeing information is updated regularly.

New areas of activity as part of the national response to coronavirus and any governance issues arising

Excess Deaths - Temporary body storage facility

Like many other places in the country, we must prepare for all contingencies as part of our response to the coronavirus pandemic. This meant we had to be prepared for the anticipated increase in deaths.

We originally built a temporary storage facility at BAe Systems' Site at Warton but this was decommissioned in September 2020. However, as we progressed through the pandemic it was predicted that there would be a further wave over the winter months. Mortuary occupancy is always significantly higher during these months in any event. This, together with the fact that our mortuary based at Blackburn Hospital is a designated Mass Fatalities mortuary for the North West resulted in a formal request being made to the Cabinet Office for three temporary Titan Units in order to ensure that we could meet any capacity issues.

Cabinet Office agreed to this request and three Titan Units are now based at the Environmental Education Centre at Leyland. Although this site only provides 210 additional spaces as opposed to the original 800 spaces at BAe, all the Hospital Mortuaries have also increased their storage capacity and to date we have never had more than 66.8% occupancy across all the mortuaries.

The LRF Death Management Group are currently reviewing the need to keep the Leyland site in standby mode and are also looking at the potential to use either this site or another identified site in the future should this be required again. All the protocols, plans and decisions taken in the setting up of this facility and the processes to support it will be kept so that they can be amended and used again.

Schools

The majority of schools have stayed open throughout the pandemic to accept our vulnerable children and those of key workers, with thousands of pupils attending each day. All schools have maintained close contact with all parents and pupils. We have been in daily contact with schools and have been supporting them with issues that have arisen, as well as sharing all the latest guidance.
More recently the focus was on supporting schools return on 8th March 2021 and establishing processes and protocols to ensure we tested secondary school pupils every 2-3 days and the potential transport issues linked to positive tests.

Throughout the pandemic there has been a focus on staff well-being and links to a range of resources have been available. Chrome books have been successfully distributed to disadvantaged children and for those families who chose to educate children at home we have performed the necessary safeguarding checks.

We have used additional government funding to support vulnerable children and young people in digital poverty with extra tutoring. Food vouchers have been provided and a lot of work to cover ages 2-4 has been undertaken. In total over 1 million vouchers have been allocated and free school meals have continued over the spring half term period and will also be provided over the Easter holidays.

Testing

Lateral flow testing (LFT) is progressing well with volumes increasing on a weekly basis. We now have up to four testing centres in each district. Priority at the moment is on local businesses and work locations where people are still having to go to a place of work during lockdown; and on providing locations in each district where workers can get a test if their place of work isn’t providing them. We are recruiting additional testing teams and a roll out of home testing has commenced. This follows pilot testing with schools' pupils and their families will have an option to collect kits to carry out home testing.

Care home support package

At the outset of the Covid-19 Pandemic in mid-March 2020 officers and members of the county council identified that support for the providers of adult social care services was a key priority in securing the best possible health and wellbeing outcomes for our most vulnerable residents. A social care cell was introduced as part of LRF which the Executive Director of Adult Services & Health & Wellbeing chairs and we submitted a response to the Care Home support package that was developed in conjunction with NHS.

Senior Officers in Adult Services immediately established a Human Aspects Cell (HAC) for Adults Services, which now meets weekly, and the Executive Director reports twice weekly into CMT meetings and weekly into the Corporate Emergency Response Teams (CERT). This enabled close oversight on the support being given to the care sector and also to provide regular briefings to the county council's Cabinet and leader of the opposition group.

In addition, senior officers from Adult Services immediately established and have continued to maintain working groups and cells with key partners including health, district, and unitary councils, which continue to meet as frequently as required, to manage the hospital discharge process, provision of PPE for the sector, Infection Prevention Control, data collection, testing and tracing and workforce support.

Provider/Market Engagement

We recognised at the outset of the Covid-19 outbreak that effective engagement and communication with the care market in Lancashire was key to supporting them in their crucial role of securing the best health and wellbeing outcomes for our most vulnerable residents.

We immediately established a Provider Engagement Portal on the county council's website and set up weekly zoom webinars which all Lancashire providers are invited to attend and where we provide up to date guidance and information. These webinars are now held fortnightly and on the alternate weeks we provide updates or facilitate discussions on topics such as care home visiting, day services, provider fees etc. Providers can submit questions which we answer live and via FAQs on the portal, which we update regularly. We regularly attract around 200 providers on the webinar.

We have received a considerable amount of positive feedback from our valued providers in Lancashire, and the questions and comments that we have received have ensured that, through ongoing dialogue, we have provided the clarity or support required to maintain a strong and stable care market during the current crisis and for the future. For example, we have developed a Financial Assistance scheme to support the current and future financial viability of our care market. It sets out the pathway that providers can follow to secure a speedy response from us in relation to financial issues that they may be facing including accessing additional funding for example in relation to additional staffing and PPE.

Data and Intelligence

The Business Intelligence Team established a Covid-19 Intelligence website on 'Lancashire Insight' to bring together publicly available information to support planning and decision making. In addition, the team supported the LRF by providing daily epidemiology reports. Reports on various aspects of the crisis response to Covid-19 (including death statistics, case-rates. test and trace, outbreaks, vaccination eligibility and uptake etc) were provided to all boards, LRF Cells, and management meetings as needed, frequently on daily or bi-weekly basis. The team has produced communications for the general public and directors of public health pan Lancashire.

Several one-off research pieces have been produced including modelling, profiling and locating people at risk of social isolation or digital exclusion to support the work done by district councils and the community hubs. Economic modelling on the financial impact of lockdowns and Covid-19 more generally supported conversations with the government, and planning interventions. The team has worked closely with Lancaster University, and supplied weekly data to facilitate analysis of the Covid-19 reproduction rates at lower level geographies. Analysis of domestic abuse supported community safety actions. Close working with the Integrated Care System (ICS) Data Hub has facilitated the flow of data into the system, and the use of its analytics across all districts, and health services to enable planning and prioritisation of support to vulnerable people.

As the nominated 'Data Hub' by MHCLG, for the support of clinically extremely vulnerable people, the team has worked closely with MHCLG and district councils to ensure the right information has been provided to the right people, enabling the provision of food delivery, care support and other services at the height of the first wave of the pandemic. More recently the team has been the designated contact for MHCLG's National Shielding Support System (NSSS); and has supplied daily information to districts to ensure continued support of vulnerable people during lockdowns.

The team has supported the LCC Human Aspects Cell, providing regular reports and. working closely with adult social care colleagues, the team has provided investigative reporting support to Covid-19 related activity. Modelling care home capacity using data from the care capacity tracker and models provided by Imperial College, the team provided estimates of the potential impact of Covid-19 on provider capacity. The care capacity tracker and outbreak management system (complex cases) were both supported by the team developing dashboards and reports (and continually maintaining and further developing them to meet emerging needs throughout the various pandemic waves). Children's Services were supported by the development of a weekly demand dashboard, and a Multi-Agency Safeguarding Hub (MASH) dashboard enabling the effective planning of interventions and highlighting risks. The team also supplied regular reports to the Department for Education and Regional Intelligence Group. The Children and Young People's Justice Service (CYJS), formerly the Youth Offending Team (YOT) were supplied with additional analysis to establish the impact of Covid-19. A number of one-off pieces of work supported the phased re-opening of library services and facilitated the development of Covid-secure home delivery services, as well as the further development of the eBook service.

The team also supported the wellbeing of Lancashire County Council staff during the pandemic, providing support for a wellbeing survey, reporting staff sickness, self-isolation and Covid related illness weekly (more frequently initially). Vaccine eligibility and uptake information has also been provided.

Infection Prevention and Control

Our Infection Prevention and Control team have played a key role in supporting providers to maintain safe and healthy care services for Lancashire residents. The team have published regular guidance and advice to all providers including guidance documents and video training for the correct use of PPE.

The team is now playing a key role in gathering daily information in relation to outbreaks in homes and supporting care providers in minimising and

preventing the further spread of the disease. Their work supports the Care Homes Admissions Policy statement that is regularly updated and signed off by the LRF Social Care Cell.
The statement sets out how we will best maintain the status of 'cold' homes (i.e. those with no cases) and reduce the spread of the infection in 'hot' homes (those with cases). The policy is aimed at ensuring effective and safe hospital discharge and movement of residents between settings. It also incorporates the ASC Cell's position on the use of designated settings.

The county council has continued to secure sufficient quantities and quality of the full range of PPE which meets national guidance (as it changes). We have received positive feedback from providers as the availability of PPE has been paramount in their continued efforts to contain the virus. In the main providers now obtain the bulk of their PPE supplies via the government supply chains. The county council will continue to step in in emergency situations.

Testing in adult social care

Regular testing in Adult Social Care (ASC) was delayed nationally at the start of the pandemic. From August 2020 regular covid testing has been rolled out over a 6-month period for Adult Social Care, initially for Residential Care with arrangements for Homecare, Supported Living, Personal assistants following in subsequent months.

The testing regime has not been without its challenges with constant changes in national guidance, delays in receiving test results, test kits not being picked up amongst the main challenges. Throughout this we have done our best to support care providers with support from Contract Management, Infection Prevention Control, Care Capacity Tracker calls. We have raised issues through the LRF Testing and Containment Cell to be taken up regionally and nationally.

In 2021 Department for Health & Social Care (DHSC) introduced Enhanced Testing Regimes with additional LFT Testing twice a week. This was announced with additional funding for residential care which was given to local authorities in February 2021 to be spent by the end of March 2021. The conditions and limited timescales have meant significant percentages of the care sector have not been able to meet the conditions set by DHSC.

Rigorous testing has meant as the Pandemic has increased in communities this has been reflected in care homes with staff and residents testing positive meaning homes and care settings being in regular outbreak. The ASC cell continues to update its position in relation to testing policies (for services users and staff), ensuring alignment with national policy (where appropriate), the latest Admissions Policy for care settings and the current Visiting guidance for care settings.

Personal Protective Equipment and supply

The county council's procurement team were at the forefront of working alongside the LRF to secure sufficient quantities of compliant PPE to support both the county council's care service staff and the wider market. A PPE pathway was established early in the pandemic which encouraged care providers to secure their own PPE equipment via the national route, and to contact the county council if other routes had failed. This route for accessing PPE was relied upon heavily by a significant proportion of the wider care market.

The county council has continued to support the distribution of PPE to both internal services and the wider care sector throughout the pandemic from

PPE received from central government, in addition to the council's own sourced stocks. To date over 24.5 million items of PPE have been issued by the county council, with 57% of the total items distributed to the wider market. The introduction of a national supply chain through the PPE Portal has seen a reduction in the PPE distributed to the wider market in more recent months, but we continue to be supplement provider PPE requirements, acting as an emergency supply and provide items to those sectors not provided for by the PPE Portal, for example personal assistants, domestic violence refuges, education and childcare services and unpaid carers.

Workforce Support

In April 2020, faced with the pandemic and its implications on frontline care staff we set up an internal staffing agency – Lancashire Temporary Staffing Agency (LTSA). This has successfully built capacity for care workers, easing the burden on care providers’ management teams to ensure they can focus on increasingly demanding frontline activities.

We initially launched a local recruitment campaign through LTSA to meet demand for residential care roles, as in Lancashire this area of care was the first to see the impact of the pandemic. This campaign received 1,454 expressions of interest, 738 of those received within the first two weeks. To date, LTSA has 160 carers on their books, and is supporting 60 residential care homes for older people. Built at speed, this campaign was launched with the help of corporate communications colleagues, and to support the LTSA, we deployed our own staff from services that had been stood down as a result of the pandemic. Initially, LTSA involved care homes run by the County Council to assist in the work-shadowing process for new recruits, and as the programme went from strength to strength, LTSA gained the support of private care providers in this process too. Once candidates were trained and cleared, they would be put into the LTSA pool and deployed to care homes as needed. In practice, many candidates have remained working in homes where they underwent work-shadowing, but are sometimes deployed elsewhere following demand, whilst adhering to infection control requirements.

In terms of demand, we also created a care capacity tracker, in which a team of staff calls providers daily to assess capacity and then feed this through to LTSA as an early alert to identify temporary staff who can fill gaps in rotas. Following the success of this initial campaign, LTSA has used the same model to recruit for community-based care roles, cleaners and caterers within care homes, drivers and passenger assistants, and staff for community testing sites – all of which can be found on our recruitment campaign website.

As the first wave of the pandemic eased people returned to furloughed roles, university, and secured permanent roles. Therefore, the LTSA resource became depleted in certain areas of Lancashire. Subsequent campaigns have followed on the back of regional and national campaigns. We have also sought support from our adult social care teams for volunteers to be deployed if appropriate.

We have always recognised that maintaining the supply of a workforce for the care market in Lancashire was another key component to ensuring the stability of the market and saving lives. As further waves of the pandemic have arrived providers have been significantly challenged to maintain staffing levels and we have established internal teams to provide additional support to them and availability so far has managed to respond to provider pressure and failures.

We have supported some of these external initiatives with offers of financial assistance from a range of DHSC Covid specific Grants targeted at the Care sector across Lancashire. During Covid wave 2 the number of care homes facing critical staff shortages increased at times and our staff worked tirelessly to support them via daily calls, liaising with independent staff agencies and bolstering homes with our own staff drawn from the initiatives described above.

Clinical Support

One of the pathways that we have established is in relation to nursing support and clinical/medical interventions that may be required in a care setting. We have worked with health colleagues to establish a pathway to access such support from any of the 5 Integrated Care Partnerships (ICPs) in Lancashire.

Safe discharge from the NHS to social care settings

Shortly after the start of the pandemic, a new National Hospital Discharge Operating Policy was introduced which placed a firm emphasis on people only remaining in hospital if they have a defined clinical need to do so. Everyone else not meeting the agreed 'criteria to reside' must be urgently discharged. Initially the discharge window was 2 - 4 hours and following the learning during the first 6 months this was revised to reflect some of the challenges in preparing people for and facilitating discharge. So, from the 1 September 2020 the desired discharge timescale was within the same day.

The new policy sets out changes in roles and functions of various staff and organisations involved in the discharge process including hospitals, upper tier councils and social care providers. People are now no longer assessed whilst in hospital but are discharged onto 'discharge to assess/recover pathways' ranging from home with no support right up to 24hr care in a Care Home. The clear aim is to achieve 95% of people returning directly home and the policy is underpinned by a national Discharge Support Fund of £588m, which ends on the 31 March 2021.

The Council in partnership with the NHS locally already had a range of intermediate care services in place. These include the 'Home First' service which provides immediate care support for people who need it in their own home for up to 5 days, enabling them to recover from their hospital stay before having a fuller assessment to determine the most appropriate onward service to meet their needs. For many people the initial support is enough to help them recover to be able to manage independently again, some people, need short term support for example from the Reablement Service and a smaller number of people will need longer term homecare support.

In Lancashire & South Cumbria, whilst the implementation of the national Hospital Discharge Policy was undertaken across all the hospitals at significant pace to meet the requirements and ensure rapid discharges could take place, this resulted in a lack of consistent processes and agreements across the Integrated Care System (ICS). This is now being picked up through an ICS Hospital Discharge project which aims to bring a level of consistent practice across the ICS underpinned by a Lancashire & South Cumbria standard operating procedure that aligns to the national policy. This work will ensure that there is a consistent process and service offer to all ICS residents, no matter which hospital the person is discharged from. The project is jointly led by the County Council and the NHS on behalf of all ICS partners, and is supported by a Hospital Discharge Executive group with the executive leads from each Integrated Care Partnership (ICP), project officers from the Midland and Lancashire Commissioning Support Unit, an ICS operational group plus ICP steering groups to ensure local implementation and delivery of the ICS operating process.

Some of the key achievements of the ICS project so far include:

- An agreed set of discharge principles that place the person at the centre of the process
- The establishment of the ICS Executive group and the ICP steering groups to ensure consistent implementation
- Bespoke Emergency Care Improvement Support Team (ECIST)/LGA facilitated workshops for Therapy staff, Social Care staff and a data interpretation session
- The development of Designated Settings for people who need 24/7 support, are COVID positive and needing to leave hospital
- Agreed set of discharge pathway definitions that will bring consistency of discharge options and reporting across the ICS

In responding to the new national policy, our Hospital Discharge teams moved quickly to base themselves into the community to be able to undertake the majority of assessments there rather than on hospital wards, after people have been discharged. Some assessments such as Mental Capacity Assessments, Best Interests Decisions and some safeguarding work still needs to be undertaken by social workers with people whilst they are in hospital, but in the main our hospital discharge staff now undertake assessments with people in their own home, a rehabilitation unit or in a CQC registered care home.

Initial challenges included undertaking many assessments with people remotely, with the aim of reducing transmission of the virus. Creative ways to conduct assessments have been used including use of video calls. The role of care home providers has become even more critical in supporting people to be assessed and to participate in their assessment through digital technology.

An additional challenge was that in the first few months of the pandemic and the national need to free up hospital beds quickly, we saw more people being transferred into care homes. Work has been underway across the second half of the year to assess all those people and understand their ongoing needs, and where their needs can be met at home this has been facilitated. At times, there have been significant challenges in finding care home placements for people who need them on discharge when there has been reduced care home capacity due to Covid-19 outbreaks or where people's needs have been very complex and more difficult to support.

The work through the pandemic whilst it has been hugely challenging, has also enabled improved collaborative working with the NHS, and through having to find more creative ways to work closely together to best meet people's need when being discharged from hospital this has seen communication and relationships strengthened. Adult Social Care has also continued to develop and implement new ways of working, bringing together social care teams to further improve our response and meet the demands of 2 hour and same day discharges. During the pandemic we have rolled out our Intermediate Care Allocation Teams (ICAT) into Fylde and Wyre and West Lancashire so that we now have these in place across the county. The teams have made greater use of services such as reablement, Age UK 'Take Home and Settle' and crisis support and have also forged closer relationships with district councils in supporting people who are homeless or have other housing needs and need to be discharged.

The hospital discharge work has remained high across the last 10 months, and the social care teams have worked hard with their NHS colleagues to increase the number of people able to return directly home through Home First. Overall, the teams have been involved with 10,364 discharges since 1 March 2020 – 11 February 2021. At the same time, we have seen discharge delays significantly reduce meaning that many more people have been able to be discharged as soon as possible after they no longer have a clinical need to stay there.

The national Adult Social Care Plan published in September 2020 set out the requirement for designated beds in care homes to enable the discharge from hospital of people who are Covid-19 positive and need a care home placement. Designated settings must meet a defined set of requirements including a separate unit, a separate set of staff and enhanced infection control measures. People are discharged into a designated setting to complete the necessary 14-day isolation before returning to their existing care home or transferring to a discharge to assess care home bed. These interim beds help avoid the transmission of the virus in care homes following discharge from hospital.

In partnership with the NHS, CQC and care home providers we have opened 58 designated beds across Lancashire. Whilst the beds continue to be an important service to support hospital discharge of people who are Covid-19 positive, the usage of the beds has remained steady but lower than anticipated.

Returning professionals coming to work in social care

The county council is working with various professional bodies, including Social Work England and the Health and Care Professionals Council, to identify returning social work professionals who worked in the sector within the last few years. Despite issues with the quality of some of the information provided we are working with human resource professionals and looking at other options to get a clearer picture of how many social workers may potentially be recruited from this group.

Active travel

As Lancashire's businesses prepare to reopen, work is taking place across the county to ensure this can happen as safely as possible.

We have been working closely with our colleagues in the districts and business to help our residents take advantage of the easing of the lockdown, whilst still maintaining social distancing to prevent the spread of coronavirus.

One way we are doing this has been through the creation of pop-up cycle lanes to encourage people to walk and cycle for regular journeys. The lanes in Lancaster and Preston city centres are to make it easier for people to cycle in these busy areas, and avoid using public transport if they can, to help prevent the spread of coronavirus and of course, protect themselves.

By making it easier for people to walk and cycle more, it also has the added benefit of assisting our physical and mental health.

We are also asking people to highlight public places where social distancing may currently be difficult and road space could temporarily be reallocated to give people more room.

Lancashire Outbreak Control Plan

In June 2020, Cabinet agreed to develop an Outbreak Control Plan. This work will be led by the Director of Public Health with NHS and district partners. The plan will address prevention, protection and response. A Local Outbreak Engagement Board has also been established. Cabinet supported the proposal that the Health and Wellbeing Board be empowered to make the necessary arrangements.

Adult Social Care Vaccination

In December 2020, the government launched an ambitious vaccination programme for all adults in the United Kingdom. The Joint Committee on Vaccination & Immunisation established 9 priority groups to be vaccinated first. The first 4 priority groups included all people aged over 80, all residents in care homes, care home staff and front-line health and social care workers.

ASC staff have been supporting the roll out of the vaccine, in particular the priority group 2 for H&SC staff. The DAS is responsible for identifying all eligible front-line staff, both LCC employed staff and those employed by providers. Uptake has been good and from our data collection work we have identified those staff (internal and external) who have yet to take up the vaccine (for a range of reasons) and we are doing targeted work with ICS colleagues to support those staff to come forward.

The NHS have led on the overall vaccination programme and have visited all care homes and vaccinated the vast majority of care home residents and a high number of care home staff. Work is now ongoing to ensure uptake of the 2nd jab for those people who now require it, and we are turning our attention to priority groups 5 and 6 which includes Clinically Vulnerable (staff and service users) and Carers. This will be an ongoing programme into 2021/22.

Engage & Enforce Action

We continue to work with the LRF Business Compliance Group to develop a consistent process to enforcement. All our current enforcement directions will be allowed to lapse as there is nothing currently allowed to be open. These will be reviewed with any change in restrictions as lockdown eases.

Economic Support, Recovery & Growth

The pandemic has hit the Lancashire economy hard. To date there have been 18,834 redundancies and 82 liquidations. Added to this there have been 171200 employment furloughs and a 58% decrease in leisure and recreation activity. Therefore, in addition to direct interventions (e.g. to support workforce working with DWP) and business support (including sectoral issues and grants), a significant volume of activity is taking place to tackle specific hotspots (e.g. redundancies, business at risk) and economic impacts, engage government in active dialogue/response to highlight issues and secure potential further support, funding and investment. We are delivering the £13m local recovery and growth programme aligned to Redefining Lancashire and the £1.75m development pipeline ongoing to maintain opportunities for economic growth. Lancashire has been allocated European Regional Development Funds to deliver small grants (between £1k and £5k) to SMEs in Lancashire to support their response to the economic impact of Covid 19. The funding is split between Visitor Economy and Wider Economy businesses.

We are current on track to have paid out £1m+ to over 350 businesses by the end of March 2021.

We are proactively responding to potential inward investment to assist Lancashire's economy/recovery e.g. around clean energy. This involves supporting inward investment and business diversification/ growth to help avoid long term economic scarring.

Significant volumes of work are being undertaken in relation to economic recovery including influencing and engaging government post Spending Review and ahead of the Budget and in preparation for significant funding and bidding work expected imminently to coincide with the Budget including the Levelling Up Fund and the UK Shared Prosperity Fund (to replace the former European programmes).

Community Safety & Domestic Abuse

Through the Community Safety Partnership, we are working closely with our partners in the police, Housing, health services and wider domestic abuse sector, to reassure people at risk and provide support and guidance.

Internal Vaccination Sub-Group

An Internal Vaccination Subgroup was established and maintained to coordinate the organisational preparedness for the national Covid-19 vaccination programme, as delivered in Lancashire.

The structure and membership of the subgroup is flexible to meet the needs of the incident but the subgroup considers all Directorate areas across the council, linking into external partners as required, to ensure we support the delivery of the national vaccination programme into the council and also support the local delivery of the NHS vaccination programme in Lancashire.

We have 1157 volunteers in the vaccination programme through Lancashire Volunteer Partnership.

Corporate Safer Working group

As part of the Council's operational response to the Covid-19 pandemic a corporate safer working group has been established and has met on an ongoing regular basis. The group is made up of senior officers and lead specialists to. The purpose of the group has been to provide coordinated support and guidance for Lancashire County Council services as they continue to provide critical services and where they prepare to re-establish service delivery. The group:

- Provides guidance for the safe and effective use of our premises in the light of Covid-19 constraints and government guidance, including keeping fully up to date with and applying revised advice.
- Develops guidance for managers and premises managers about safe working requirements in a range of settings.
- Has developed a risk management framework in line with government guidance – this has included the approach to home working arrangements.
- Supports service and premises managers to identify mitigation measures in relation to key risks; and
- Prioritises service requests to recommence or increase service delivery.

The Safer Working Group report to the Corporate Management Team, the Corporate Emergency Response Team, and the Planning for Recovery Group as appropriate. There is also a multi-disciplinary buildings sub-group which provides a practical response to the key theme of 'buildings' through consultancy support to operational services and management of the programme to re-establish premises-based service delivery.

The funding and logistical consequences of delivering the local government response

There is ongoing uncertainty in relation to future local government funding and the financial impact of the Covid-19 emergency has exacerbated the problem. In response to the crisis the government has provided a number of streams of additional funding to local government to support the financial pressures that have been experienced, with c£76m of un-ringfenced emergency response grants along with some other grants that have been very specific in their focus a good example of which is the Adult Social Care Infection Control Fund where we received £31m with a clear requirement that this was to be passed on quickly to support care homes and CQC regulated community care providers in taking measures to reduce rates of transmission within and between care settings.

The main mechanism for assessing the financial pressures has been a monthly data collection exercise via Ministry of Housing, Communities and Local Government (MHCLG) financial returns. The MHCLG returns collect data on the use of government support funding, key financial pressures (cost and income) and reserves. The purpose of this has been to enable MHCLG to obtain a reliable estimate of the financial challenge caused by Covid-19 at a local level and has supported the incremental process of Covid funding being provided across the year. The financial pressures have primarily related to additional unbudgeted expenditure (e.g. support to the Adult Social Care Market and purchase of PPE), delayed delivery of agreed savings due to the prioritisation of Covid-19 response activity and income pressures as a result of the disruption to a number of the authority's income generating activities as a result of the Government's response to the pandemic including the lockdown and tiering measures that were implemented.

Overall, we are forecasting to have received £153m of Covid related funding during 2020/21 which is broadly sufficient to meet the in-year financial impact of Covid but there is an expectation that the financial pressures from the pandemic will continue into the medium term. We received a one-year financial settlement for 2021/22 which included additional Covid funding for quarter one 2021/22 and other funding flexibilities (Adult Social Care precept) being made available, and which enabled a revenue budget to be agreed for 2021/22 with only a small requirement for gap funding from reserves and overall we have a sufficient level of reserves to meet the funding gap forecast in our medium term financial strategy covering the period up to and including 2023/24.

Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic

It is clear that this emergency is unlike any other we have ever faced, and as such the move towards recovery will be a different path to any we have seen before. At the end of last summer, we began to plan for recovery only to be faced by a second wave and further lockdown. However, we now have the Government road map to recovery and as part of our preparations, CMT is currently considering three key areas:

- What do we want to achieve and what will a full recovery look like? How can we balance the varying needs of our residents, businesses and communities to ensure we are supporting their financial, physical, and mental wellbeing?
- What are the positives we have gained in this emergency that we want to secure? We have made significant changes to how we go

about our business, and there has been some excellent innovation and practice that we need to capture and build on as we move back to whatever normality will look like in the future.

- What are the triggers for transition and recovery? How will we identify when to move into different phases of this journey? What will different services need to look at to indicate a change is needed? What warning signs will we need to be aware of to ensure we remain on track?

We have a key role to play in the coming months as we move to recovery. We will be at the heart of building a stronger, healthier, and more prosperous Lancashire for our residents and businesses.

Senior officers are already working on the implications and logistics associated with moving from crisis to recovery within their respective service areas. We established a Covid-19 Corporate Recovery Group and a senior officer working group to examine all of the issues around safety in the workplace as we move towards opening our buildings and reopening our services. The group has produced guidance and risk assessments in consultation with staff and trade unions to ensure social distancing in the workplace and that we maintain a safe work environment. The group is looking at wider issues than just having workplaces reopened and is considering all aspects of safe working as we start to move towards the new normal. This includes support for routinely working remotely from home and other locations.

Conclusion

The current coronavirus pandemic has tested the Council’s governance arrangements and we are pleased to note that the governance framework has provided a strong foundation from which to respond to the challenging circumstances. We recognise the importance of continuously improving our practice, including learning from how we respond to major incidents. We will use this knowledge to ensure that the Council’s governance arrangements continue to provide effective foundations for the Council to achieve its objectives.

Lancashire County Pension Fund

The Lancashire County Pension Fund (the “Fund”) is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund. While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Ensuring that the Fund has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Lancashire County Council).

At 31 March 2021 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 177,843 members across 313 organisations with active members and a range of other organisations with only deferred or pensioner members.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, scheme members' money is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

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

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement – which was updated in January 2021 - is available through the following link appendix-a.pdf (lancashirecountypensionfund.org.uk)

In addition, the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition). The Framework defines the seven core principles that should underpin the governance of each local authority namely:

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

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2021.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's objectives and intended outcomes to Fund members and employers.

The Fund has clear objectives as outlined in the funding strategy statement and other strategy documents. It has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed on funding position, strategy and other developments. This is supported by the role of the Local Pension Board.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements

The Pension Fund Committee is responsible for establishing the strategic objectives of the Fund through a rolling three-year Strategic Plan and for monitoring the progress on the delivery of the strategic objectives. In addition, periodic reviews of strategy statements and policies are undertaken.

The Head of Fund reviews new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

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.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the four dimensions of the running of a pension fund – governance, asset and liability management, administration and communication. Many of these functions are now performed under contract by Local Pension Partnership Limited (LPPL). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance against Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities, cashflow and funding level. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk.

The administration service is undertaken by Local Pensions Partnership Administration Limited (LPPA), which is a subsidiary of LPPL. As part of its responsibility for the governance of the Fund the Pension Fund Committee is responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the performance/activities of LPPA and the Head of Fund meets with representatives of LPPA on a quarterly basis.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication*.*

Appropriate guidance documents and constitutional documents provide the basis on which the management of the Fund is undertaken. The Terms of Reference of the Pension Fund Committee are set out in Article 7 of the Constitution of the County Council and include matters reserved to Full Council, Employment Committee and Officers (Head of Fund, Director of Corporate Services and the Section 151 Officer). The Investment Panel and the Lancashire Local Pension Board have separate Terms of Reference which are also set out in Article 7 of the Constitution. This information is also communicated in the LCPF Governance Policy Statement. In addition, agreements are in place covering the provision of services by LPPL and its subsidiaries.

Development, communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the county council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of county council elections.

Review of the effectiveness of the Fund's decision-making framework including delegation arrangements.

The Pension Fund Committee reviews governance arrangements, decides on pension functions to be delegated to officers and appoints suitable advisors to the Investment Panel. The interaction between the Pension Fund Committee and the Investment Panel meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

In addition, the Pension Fund Committee conducts an annual appraisal, with the purpose of reviewing and improving its efficiency and effectiveness.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the county council's Constitution. These are reviewed on a regular basis.
The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with the fund, including risks associated with managing scheme assets and pension liabilities;

- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – temporary risks arising from changes in the management of investments or service delivery;
- Emerging risk.

The Coronavirus global pandemic presents a major risk to the Fund. Therefore, in addition to the main risk register, the Fund continues to operate a risk register solely dedicated to Covid-19.

The risk register is reviewed quarterly to ensure that each risk is effectively managed or reduced and is regularly reported to the Pension Fund Committee and the Local Pension Board.

Fulfilling the core functions of an Audit Committee

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee.

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

The various LGPS Regulations (covering both the structure and benefits payable by the Fund and the investment of funds) and the Pension Regulator Code of Practice, are key from an operational point of view.

Compliance with the Regulations is ensured by a dedicated in-house team that identify changes to regulations and monitor change using the risk register. LPPA has a Risk & Compliance function to ensure all administration activities comply with the Code of Practice and public sector pensions legislation and use a pension's administration system specifically designed for the LGPS. In addition, the Pension Fund Committee and Local Pension Board have specific roles regarding compliance activities.

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 LPPL's custodian. Local Pensions Partnership Investment Limited (LPPI) - the investment arm of LPPL - is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

Assurance provided by internal audit

Assurance over the Pension Fund is available to the Council from its own Internal Audit Service, and work undertaken by Deloitte for the Local Pension Partnership Limited (LPPL).

Audit work	Assurance
Assurance provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service	
Recovery of overpayments	Limited
Accounting through the council's general ledger	Substantial
Assurance provided by Local Pensions Partnership Limited own internal auditors (Note that Deloitte disclaims any liability to the county council)	
LPPA	
Benefits administration calculations	Effective
Benefits administration: quality assurance and on hold process review	Effective with scope for improvement
Data quality	Effective
LPPI	
Investment valuations – Phase 1	Ineffective; but all high-risk actions have subsequently been closed
Investments portfolio monitoring	Effective with scope for improvement
Senior manager certification regime (SMCR)	Effective with scope for improvement
Cyber security follow-up	All actions arising have been closed

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the county council's whistle blowing policy, the effectiveness of which is reported to the Audit, Risk and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the county council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually to the Local Pensions Board.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

The Training Policy of the Lancashire County Pension Fund sets out the approach to support the learning/development needs of individuals with responsibility for the strategic direction, governance and oversight of the Fund through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

County councillors undertake training needs analysis linked to the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition, prior to major decisions coming before the Pension Fund Committee topic-based training relating to the decision at hand is provided.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake continuing professional development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Member communications – such as Annual Benefit Statement for active members and newsletters for active, deferred and pensioner members;
- Engagement events – including workshops, conferences and guidance materials provided to employers;
- Fund website - provides information about investments and governance arrangements, as well as all relevant fund publications;
- Member website and portal - which contains transactional capability for members and employers;
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation;
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund itself has a number of partnerships, which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the pension fund is LPPL. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's statement The Role of the Chief Finance Officer in Local Government, and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the county council's functions as administering authority rests with the Head of Fund.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2020/21 were:

- Monitor the impact of Covid19 with the continued development and monitoring of a separate risk register;
- Review and propose any necessary changes to the Investment Strategy Statement following the triennial actuarial review;
- A high level review of LPPL including the consideration of feedback from the balanced scorecard review;
- To assess the work undertaken by LPPA on employer risk. This work is being brought in-house from 1 April 2021.

Actions Planned for 2021/22

The following specific actions are proposed for during 2021/22:

- To develop an employer risk framework and effective in-house employer risk services;
- Planning and preparation work for the 2022 valuation, including engagement with employers;
- Review the governance arrangements of the Fund in light of the implementation of a single code of practice and expected government response to the Good Governance Project by the Scheme Advisory Board;
- Implementation of the regulations following the McCloud judgement in line with statutory deadlines;
- To undertake a Service Based Review of LPP and its subsidiaries.

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Lancashire County Pension Fund - independent auditor's report

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Glossary of terms and contact information

Borwick Hall

A

Accounting policies

The rules and practices applied by the council that determine how the transactions and other events are reflected in the financial statements.

Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred or because the actuarial assumptions have been changed.

Associate

An associate is an entity over which an investor has significant influence.

C

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads and computer equipment.

Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the comprehensive income and expenditure statement and transferred into capital grants unapplied via the movement in reserves statement.

Capital receipts

Income received from the sale of land, buildings or equipment.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a ‘true and fair’ view of the financial position, financial performance and cash flows of the council.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the council's control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the council; or
- A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Creditors

Amounts owed by the council for goods and services received but not paid for as at 31 March.

D

Debtors

Amounts owed to the council for goods and services provided but where the income had not been received by 31 March.

Depreciation

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

E

Earmarked reserves

The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

F

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Floating rate note

A bond with a variable interest rate. These bonds typically have coupons renewable every three months and pay according to a set calculation derived from the interest set for each quarter.

I

Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

Intangible assets

Assets which do not have a physical substance for example computer software licences.

International financial reporting standards (IFRS)

Defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

J

Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

M

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Minimum revenue provision

The minimum amount that the council must charge to the accounts to provide for the repayment of borrowing associated with capital expenditure.

N

Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

O

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the council.

Operational assets

Assets used by the council in the delivery of services for which it has responsibility.

P

Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of errors.

Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

R

Related party

Related parties are bodies or individuals that have the potential to control or influence the council or be controlled or influenced by the council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Members, and senior officers and their close family members.

Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the council. Examples include works on property owned by other parties and capital grants to other organisations.

S

Subsidiary

A subsidiary is a company that is controlled by a holding or parent company.

Contact details

I would like to thank you for showing an interest in the council's finances and hope you find this information useful. We feel it is important that residents and businesses in the county understand all of the services that we provide and how council tax and business rates are spent during the year. If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

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PO Box 78
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Preston
Lancashire
PR1 8XJ