# Statement of accounts 2021/22

Lancashire County Council

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Front cover: Stocks Reservoir
Photo: Catherine Broadley

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Forest of Bowland

# Foreword by the Chief Executive and Director of Resources


I am pleased to introduce the statement of accounts for the 2021/22 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.

## Corporate priorities

Following the local council elections that took place in 2021 and the appointment of the new Leader of the County Council, the council's corporate priorities have been refreshed. They communicate the aims that we are working towards as we continue to make Lancashire the best place to live, work, visit and prosper:

- Delivering better services
- Caring for the vulnerable
- Supporting economic growth
- Protecting our environment

I think these summarise very well the work that we do to make the lives of people in Lancashire better.

## Achievements

The excellent work across the council's teams has been recognised throughout the year by a number of awarding bodies.

### MJ Awards' success

Our residential and outreach workers in Children's Services won Best Council Services Team of the year at the MJ Awards. This prestigious award recognises their hard work and determination to keep all 16 of our children's homes open and safe throughout the pandemic.

### Institute for Improvement in Public Services Award

Our colleagues in Adults Social Care won first place for the Best Health and Wellbeing Initiative in the Association for Public Service Excellence Awards. This was on the back of winning Bronze in the Transformation in Health and Social Care category of the iESE Public Sector Transformation Awards. The tracker has been recognised on a number of occasions now for providing a vital way of reducing bureaucracy during the pandemic. We are very proud of the team and the innovation they have shown.

### Local Government Chronicle (LGC) awards

The council is shortlisted for the LGC awards in the categories of Health and Social Care and Most Improved Council.

I am extremely proud of the work that has been done across the whole of the council which is highlighted by these awards and recognition.

# Outlook for the future

## Devolution

In 2021/22 the Government published their Levelling-up White Paper that sets out how local authorities can get more powers and resources from central Government so they can better respond to local need. As part of its levelling up plans the government announced it would introduce County Deals as part this devolution, with the aim of transferring powers from Whitehall to local areas.

Local council leaders in Lancashire have made a pledge to work together to deliver a bold vision for a County Deal to benefit the people of Lancashire. All 15 of Lancashire's council leaders who make up Greater Lancashire have been working in close collaboration to develop a set of ambitious and forward-thinking proposals. If adopted they would represent a New Deal for a Greater Lancashire across a range of areas including the economy, transport, jobs, skills and the environment.

## Care systems

Our care systems are undergoing nationally led changes which are expected to come into force in the coming years. These include the proposed reforms relating to Adult Social Care and Children's services alongside the changes being implemented in how our local health systems are organised as Integrated Care Systems. Through these we have an opportunity to improve the circumstances of the people needing care and we commit to advocating the best outcomes for our residents.

## Organisational development

Whilst we have already made significant improvements to our organisation, we all recognise that in an organisation of the scope and scale of the county council that embedding changes and improvements and building on them will take time, commitment and perseverance.

To improve and achieve consistently excellent outcomes for Lancashire we need to be very focused on our customers and their needs, whilst also ensuring our staff experience is a positive one. Through embedding new approaches, technology, and ways of working our continuing improvement journey aims to deliver the best services for the people of Lancashire.

## Financial resilience

As recognised in the Local Government Association peer review of the council that was undertaken earlier in the year, the council has significantly improved its financial standing over the last 3-4 years. Key to which has been the delivery of a significant number of permanent savings and a reduced reliance on reserves. Whilst rising costs due to inflation and demand for services present challenges in the future, the council is in a strong financial position from which we can deliver our corporate priorities.

*A Ridgwell*

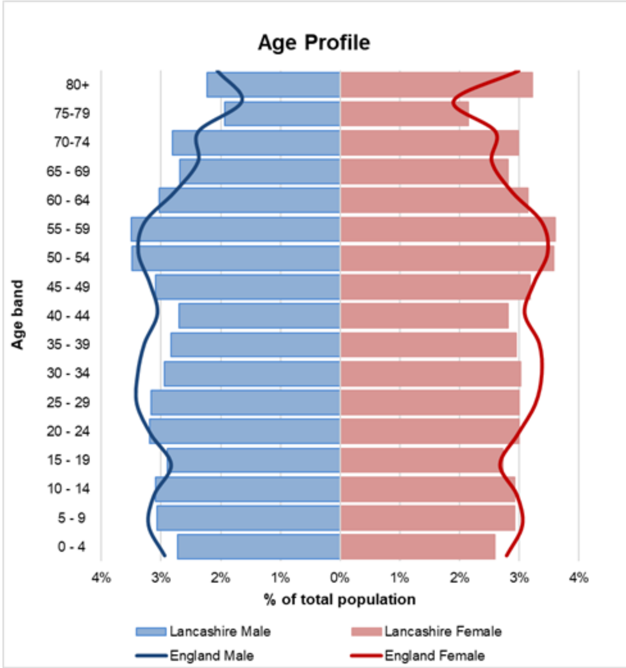
Angie Ridgwell
Chief Executive and Director of Resources (Section 151 officer)

# 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.

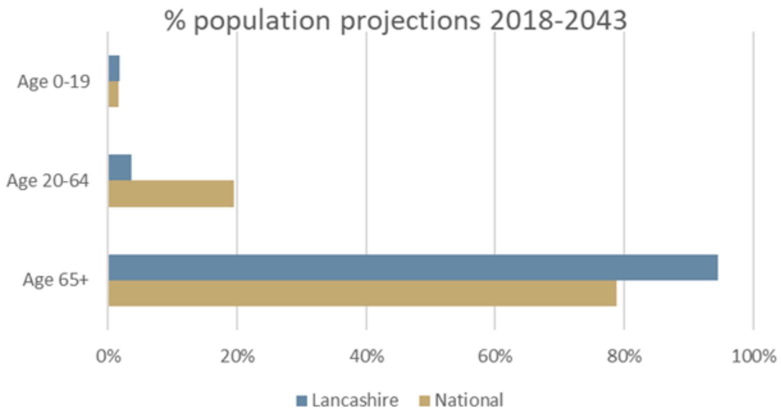


ONS mid-2020 population estimates

## Demographic profile of Lancashire

The Office of National Statistics (ONS) mid-year population estimate for Lancashire in 2020 showed that there were 1,227,076 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 2,894km$^2$. 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 and minerals 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

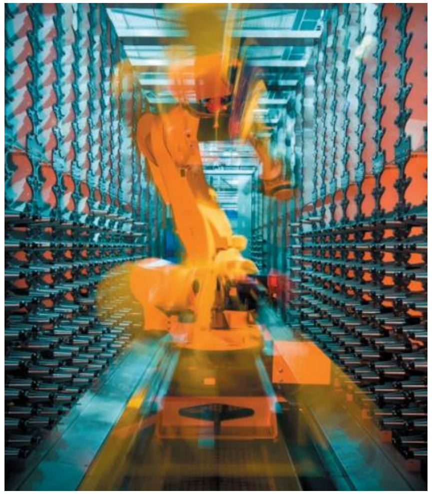
## Lancashire will be the place to work

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 corporate priorities

## Delivering better services

We will:

- Provide services that are effective, efficient and appropriate to local circumstances
- Improve services by changing the way we do things
- Help people and families live healthier lifestyles and enjoy a better quality of life

## Caring for the vulnerable

We will:

- Protect, safeguard, support and enable the most vulnerable residents in our society
- Challenge and reduce areas of inequality and provide opportunity for all
- Ensure children of all abilities do well in our schools and colleges, gaining important skills and expertise for life

## Protecting our environment

We will:

- Lead on environmental improvement schemes and renewable energy initiatives
- Work with businesses and communities on flood prevention, decarbonisation projects and climate change resilience
- Promote more recycling and better waste management

## Supporting economic growth

We will:

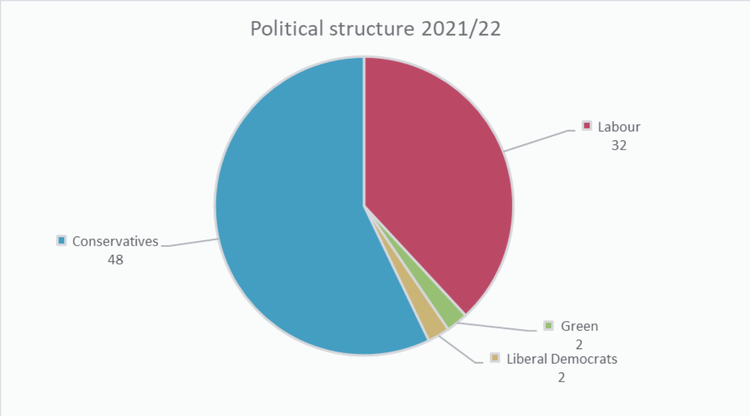
- Develop and build effective infrastructure and transport networks, to help people and businesses connect and grow
- Secure inward investment, to boost and level up the county
- Invest in skills and innovation, to secure economic growth and maximise Lancashire's potential

# Our governance structure

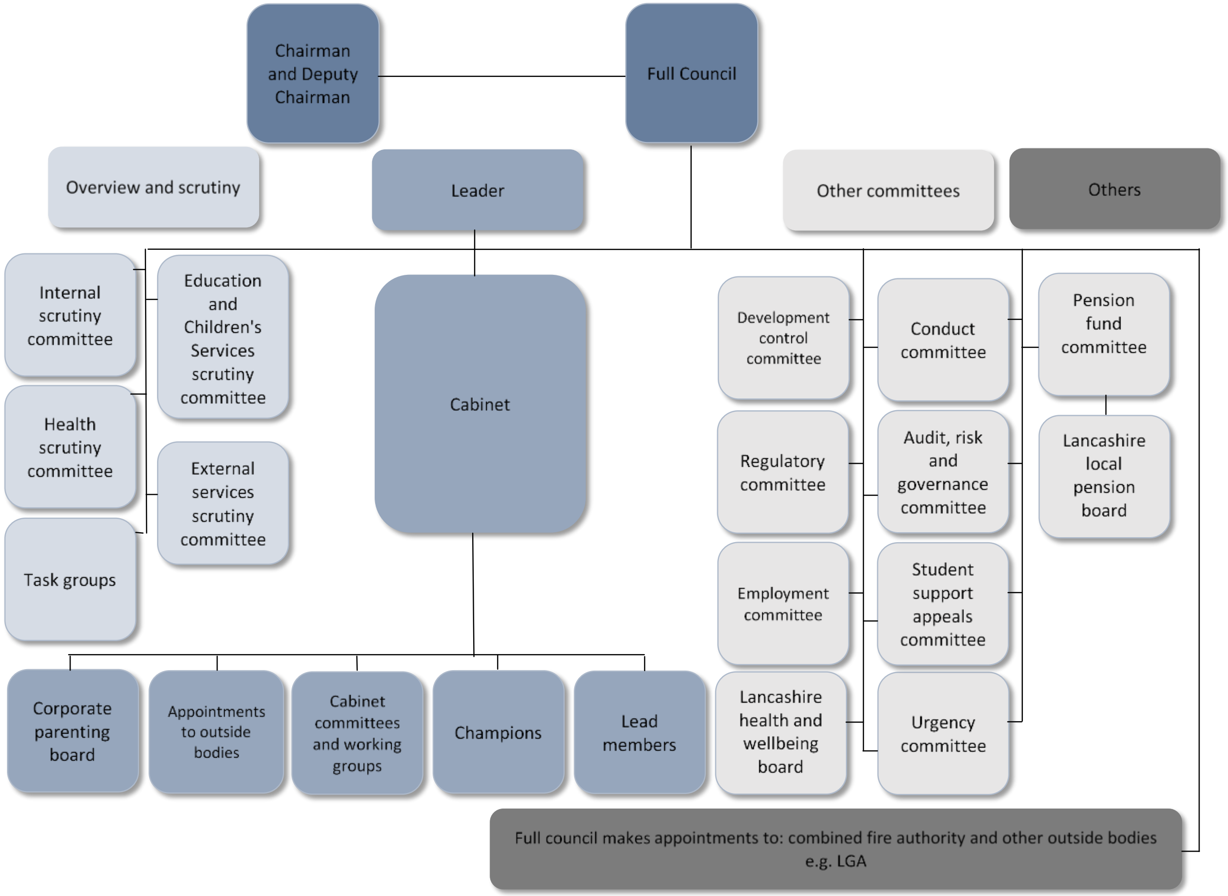
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities in the council's decision-making processes.

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 2022.




The political management structure of the council is shown below.

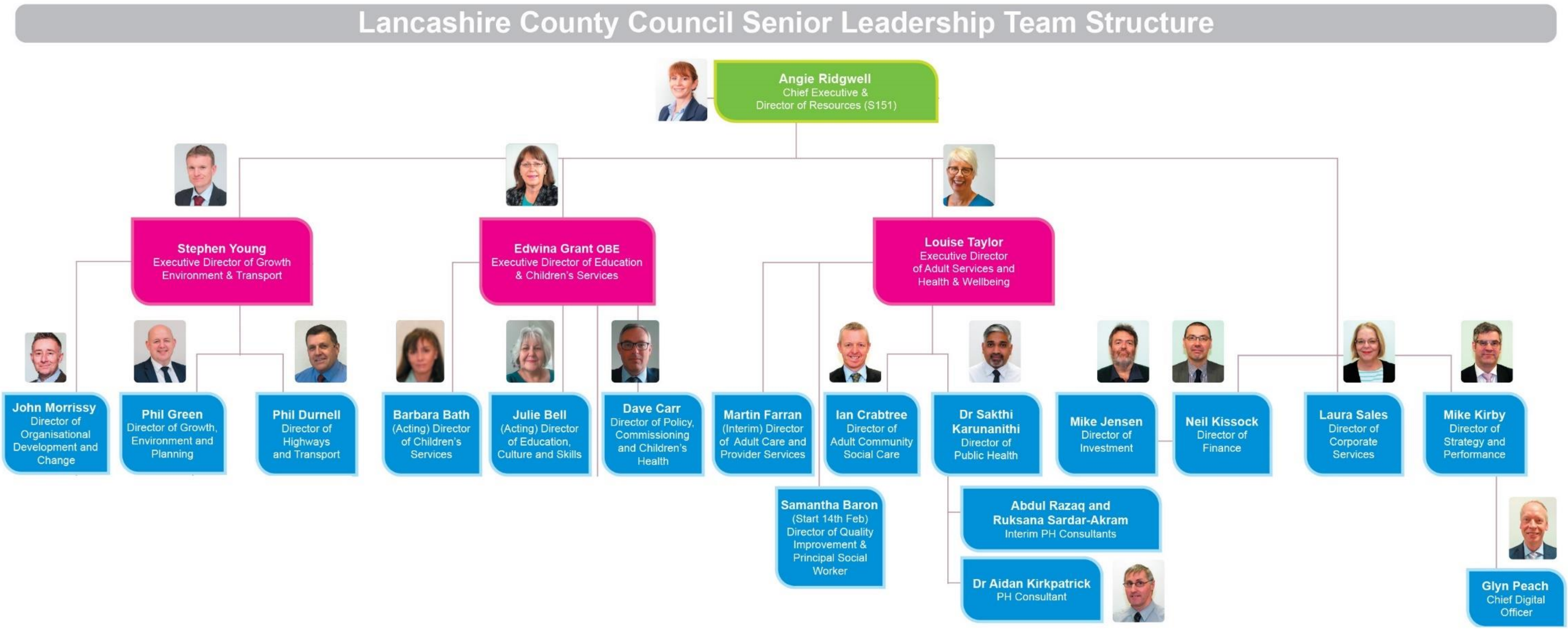



Further details of the council's governance arrangements are provided in the Annual Governance Statement.

# 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 28,600 people employed in schools.

The council's management structure as at 31 March 2022 is shown below.



# Our performance

## Adult services

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.

Over the past 12 months, the number of supported admissions to residential care has significantly increased and is now above the national average. However there has also been an increase in the number of older adults who are still at home 91 days after discharge from hospital to reablement/rehabilitation services to 87.8%

Arguably Covid has had a direct impact on some areas of performance as in effect we have supported more people over this period; we have used more residential care to facilitate rapid discharges from acute NHS care, but also experienced significant workforce capacity issues due to staff ill health. Although most services were maintained, capacity was restricted e.g. staff in non-critical services were redeployed to support mandatory service for example staff cover in residential care homes.

Of new clients coming into the service the percentage of those who required short term support to maximise independence, 98.3% of these achieved a successful outcome without needing any longer sustained period of care. The focus on enabling people to achieve independence is demonstrated by the effectiveness of our reablement service and reducing the number of people who would otherwise have been admitted to residential care.

The proportion of adults with learning disabilities who live in their own home has reduced slightly over the last year which reflects some restrictions in both completing assessments and moving highly vulnerable people, but Lancashire is still above the national average of 78.3% at 82.4%. Those with learning disabilities within employment still shows Lancashire to be under the national average. Work is ongoing to improve this as staff who were redeployed have returned to substantive posts, plus we are seeking to secure additional resources.

We are committed to ensuring the quality of services for people needing our support and safeguarding and protecting vulnerable people from harm. The proportion of care homes and community-based services rated as 'Good' or 'Outstanding' by the Care Quality Commission continue to be high, although for Lancashire the proportion for residential homes is slightly lower than the national and north-west averages, but the proportion for community-based services is higher than both the national and north-west averages. CQC have suspended their routine inspection programme and are using desk top approach and targeting their input to services at greatest risk. However, one of our residential care homes for Older People that was rated Requires Improvement has recently been re-inspected and the overall rating has improved to 'Good'.

| **Indicator** | **Good is** | **2020/21** | **2021/22** |
|---|---|---|---|
| Rate of supported permanent admissions to residential and nursing care homes per 100,000 population aged 65 or over * | Low | 476.8 | 692.0 |
| Percentage of older people (65 and over) who were still at home 91 days after discharge from hospital into reablement / rehabilitation services | High | 81.6% | 87.8% |
| Percentage of new service users who completed short term support to maximise independence | High | 97.6% | 98.3% |
| Proportion of adults and older people receiving long term services who are supported in the community | High | 72.3% | 69.6% |
| Proportion of adults with learning disabilities who live in their own home * | High | 83.0% | 82.4% |
| Percentage of adults with learning disabilities in employment * | High | 2.3% | 2.10% |

* 2020/21 updated for final published figure.

Care Quality Commission ratings for Lancashire residential care homes and community based adult social care services as at March 2022

| **Proportion rated as Good or Outstanding** | **Good is** | **2020/21** | **2021/22** |
|---|---|---|---|
| Residential care homes | High | 83.9% | 80.6% |
| In-house residential care homes | High | 87.5% | 83.3% |
| Community based adult social care services | High | 95.6% | 96.0% |
| In-house community based services | High | 100% | 100% |

## Education and children's services

Lancashire performs well with the level of pupils offered one of their three preferences for school admissions, although there are hotspots in some areas of the county where places are more limited. The number of schools who are 'Good' or 'Outstanding' is above the 90% national benchmark and it must be remembered that not all schools will have been inspected within the year.

Significant progress has been made in the number of children not in employment or training, as a 0.6% reduction is good progress, given the number of children. Tracking children who are not receiving education remains a priority. The referrals to children's social care per 10,000 population has reduced which is in line with our Family Safeguarding model as more children should be picked up in early intervention. Family Safeguarding also accounts for the drop in numbers of children on protection plans and who are looked after. On social care assessments completed in time and the stability of placements is affected by workforce issues. Our workforce strategy is a priority for the Directorate.

| **Indicator** | **Good is** | | |
|---|---|---|---|
| Percentage of pupils offered one of top three preferences primary / secondary | High | 97.1%/95.3% (2020) | 98.6%/96.3% (2021) |
| Key Stage 4 – Average attainment 8 score | High | 49.7# (2019/20) | 50.4 (2020/21) |
| Looked After Children Key Stage 4 – Average attainment 8 score | High | 20.5 (2019/20) | 23.1 (2020/21) |
| Percentage of education settings rated Good/Outstanding | High | 90.1% (Mar 2021) | 90.9% (Mar 22) |
| 16-17 year old Not in Education, Employment or Training (NEET) | Low | 5.8% | 5.2% |
| Referrals to children's social care per 10,000 population | Measure of demand | 321 | 230.9 |
| Percentage of Children and Family assessments in time (<45 days) | High | 92.4% | 88.1% |
| Stability of placements: Percentage of 'children looked after' with 3 or more placements | Low | 6.4% (Mar 2021) | 7.4% (Mar 22) |
| Number of children on Child Protection Plans | Measure of need | 571 (Mar 2021) | 487 (Mar 22) |
| Number of children on Child Looked After | Measure of need | 2,002 (Mar 21) | 1,941 (Mar 22) |

# 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.

## Growth, environment, transport and community services

To support delivery of the corporate strategy, our aims include:

- Safe roads and pavements maintained to a good standard
- Achieve high recycling rates and disposing of waste in a way that meets the latest environmental standards
- Investing in business to support economic growth

The year 2021/22 has seen the highest number of issues with roads to date with 66,897 reports of faults known as defects. The harsh winter of 2020/21 meant a significant deterioration of the network which saw the list of daily maintenance jobs at around 4,000 to 5,000 jobs countywide and this continued throughout the year.

A second significant peak in demand in October and November and then in January and February has placed a huge demand on the service, whilst the winter service was also being delivered.  This contributed to increasing spend in 2021/22 and a heavy reliance on contractors to keep us on track.

The performance for street-lights repaired on time has improved compared with the previous year and is above the target of 95%. Overall, the number of faults detected\reported has reduced from the previous year.

The recycling rate for 2021/22 is comparable to last years out-turn at circa 45%.  We collected 416,000 tonnes of residual waste at doorsteps, a drop of only 2,000 tonnes across Lancashire and Blackpool combined– as we continued to accept and treat high volumes of waste, levels of which far exceed pre-pandemic years. Kerbside collected recyclables: green, glass, cans and plastics and paper and card saw a drop of 7% on 2020/21 down by approximately 13,000 tonnes – with glass/cans and plastics seeing the highest drop. Recycling Centres performed well with positive results, recyclable tonnes achieving levels of up to 85% against where they were at pre-pandemic a couple of years ago.

The focus for business support activity during the second half of 2021 was on planning, designing, and procuring services for the fourth phase of Lancashire's Growth Hub 'Boost' (2022/23) whilst ensuring the delivery and management of Boost 3. Considerable effort was made to get the buy-in of our primary funding authority, Department for Levelling Up, Housing and Communities (DLUHC) for the £9.2 million continuation programme. According to McKinsey, 90% of the businesses surveyed by the firm during the pandemic believe that Covid will fundamentally change the way they do business in the next 5 years and 85% are concerned that the Covid crisis will have a lasting impact on their customers' needs and wants over the next 5 years. This is also reflected in the Boost Diagnosis of Need and Business Report Reviews of Lancashire companies. Core Boost 4 services have been repositioned so that the Growth Hub is able to meet the demands for new solutions for new problems and provide the right support at the right time.

| Indicator | Good is | 2020/21 | 2021/22 |
|---|---|---|---|
| Streetlights - non-traffic management faults fixed within 5 working days | High | 91% | 97.9% |
| Streetlights - traffic management faults fixed within 20 working days | High | 89% | 95.1% |
| Safety carriageway defects repaired within 4 hours (emergency) + 1 and 2 working days (urgent) (good is high) | High | 87.5% | 86% |
| Safety carriageway defects repaired within 5 working days (non-urgent) + (10/+20 working days) (non-urgent) (good is high) | High | 88.5% | 89.3% |
| Percentage of waste re-used, recycled and composted (good is high) * | High | 45% | 45%* |
| Number of small businesses supported by Boost (good is high) | High | 316 | 611 |
| Number of small businesses established by Boost (good is high) | High | 70 | 159 |
| Superfast broadband coverage (good is high) | High | 97.8% | 98.1% |

* 2021/22 is a provisional figure (final published statistics for 2021/22 will be available in November 2022).

# 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. Some of the most significant of these risks are highlighted below:

| Risk description | Possible consequences | Mitigating actions |
|---|---|---|
| Increased service demand impact on community and services | Risk of reduction in quality standards/not meeting care quality requirements.<br>People may not receive care services in the most beneficial setting.<br>Delays in receiving critical social care services. | Close monitoring of providers enables pathways to be 'actioned' immediately if issues arise.<br>Service users and their families are being offered support and alternatives being offered/developed including links to community-based support.<br>Lancashire Resilience Forum will intervene if required in event of activity spike. |
| Reshaping the county council | Inability to deliver full programme of staff and customer experience improvement.<br>Inability to identify improvement opportunities that could contribute to service efficiencies / improved outcomes. | Corporate Management Team to have visibility of the entire change programme.<br>Agree governance which will allow effective prioritisation and sequencing of change activity at a corporate level. |
| Special Educational Needs and Disability Improvement Plan | Children and families do not receive timely and effective support<br>Loss of confidence of children, young people, parents and carers | Accelerated Improvement Plans agreed and monitoring arrangements in place.<br>Investment to strengthen specialist nursing services considered alongside other NHS investment through Integrated Care System governance arrangements. |

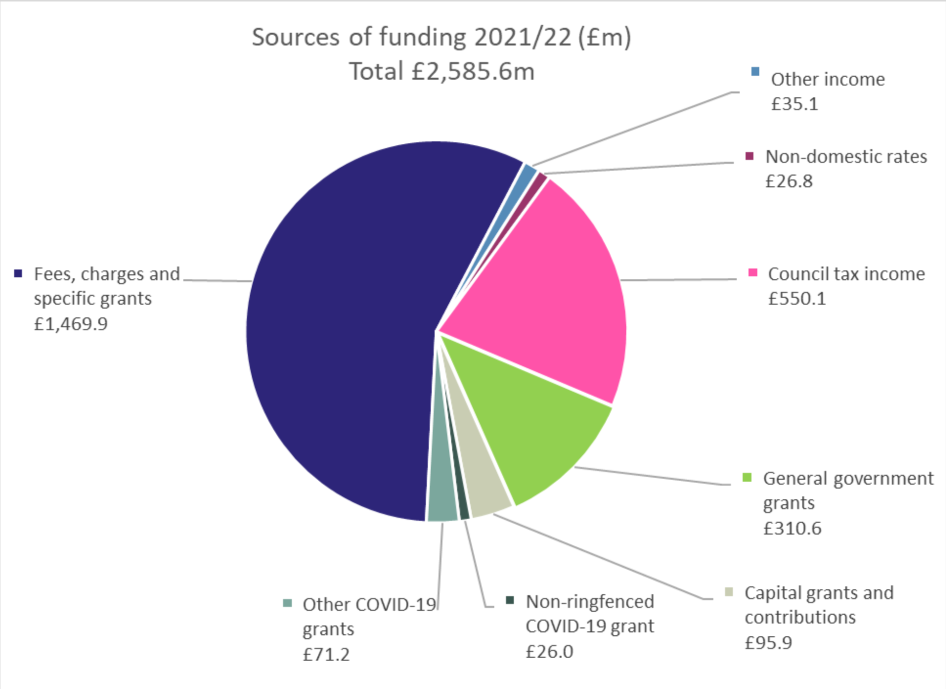
# Our financial performance

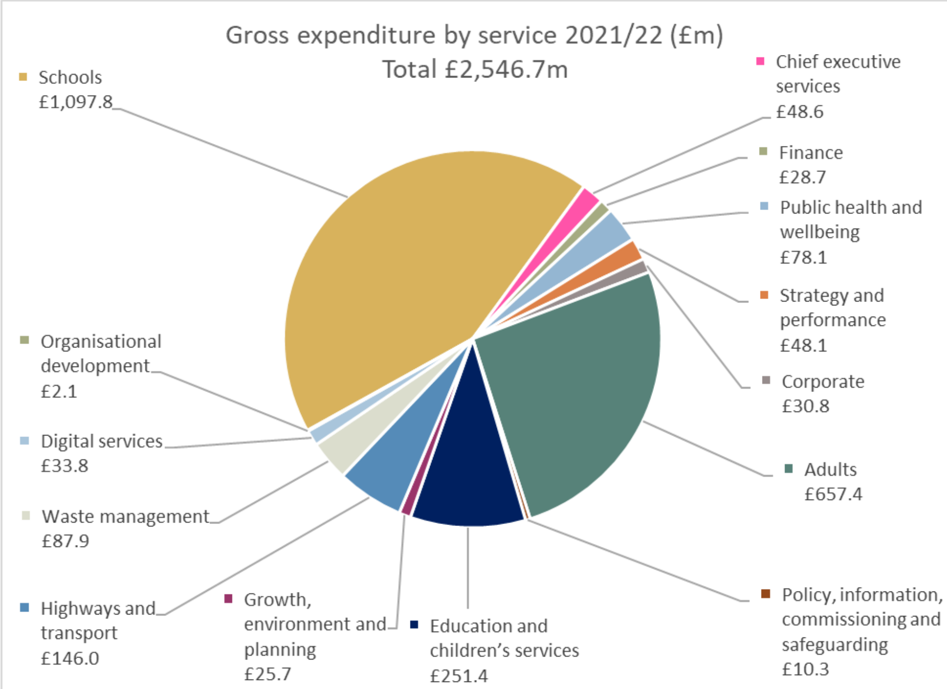
## Revenue summary

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 2021, the council approved a net revenue budget of £881.413 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 | 388.736 | 375.723 | (13.013) |
| Policy, information, commissioning and safeguarding | 7.824 | 7.942 | 0.118 |
| Public health and wellbeing | (4.405) | (5.039) | (0.634) |
| Education and children's services | 218.181 | 213.797 | (4.384) |
| Growth, environment and planning | 6.699 | 5.603 | (1.096) |
| Highways and transport | 71.403 | 79.293 | 7.890 |
| Organisational development | 1.947 | 1.732 | (0.215) |
| Waste management | 70.121 | 66.928 | (3.193) |
| Finance | 18.052 | 16.858 | (1.194) |
| Corporate services | 21.890 | 20.866 | (1.024) |
| Strategy and performance | 31.629 | 39.144 | 7.515 |
| Digital services | 31.969 | 27.100 | (4.869) |
| Chief executive services | 17.367 | 1.543 | (15.824) |
| **Sub total** | **881.413** | **851.490** | **(29.923)** |
| Schools | 0 | (15.954) | (15.954) |
| **Total** | **881.413** | **835.536** | **(45.877)** |

The major underspends against the budget largely reflect the on-going demand uncertainties resulting from the Covid-19 pandemic where demand was below budgeted expectations in the year. Demand projections for future years will be rebased using these revised assumptions. The council also received funding from the NHS and government grants to meet the cost of some new or changed services, reducing spending activity elsewhere. The overall net underspend position is further increased by good investment return performance from the council's cash balances.

The underspend on schools is due to a number of factors including the impact of Covid-19 through reduced activity with delays in progressing building and maintenance projects. The surplus funding of £15.954 million will be carried forward in the ring-fenced dedicated school's reserve, for use by schools in future years.

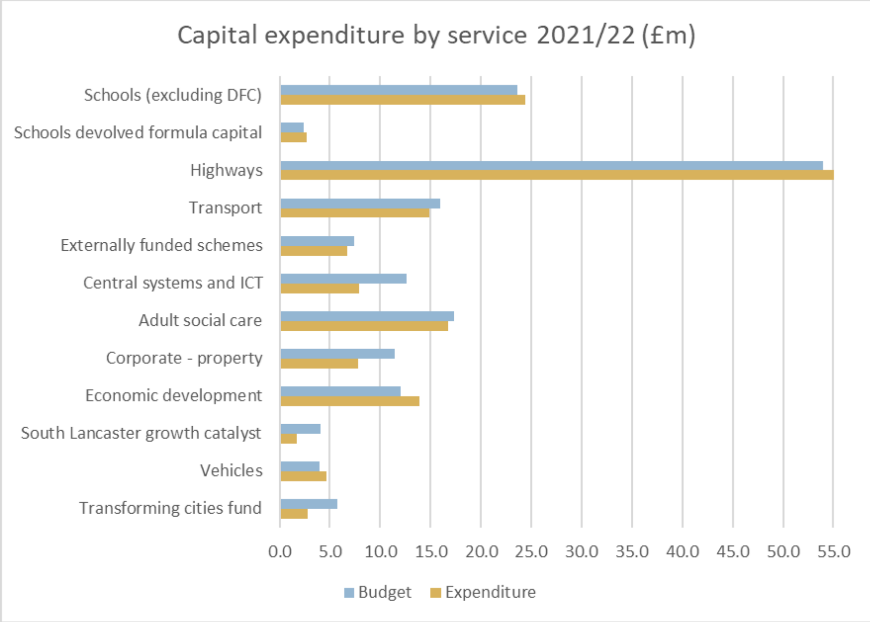
The outturn position is reconciled to the figures shown in the comprehensive income and expenditure statement in Note 5 - expenditure and funding analysis.

## Capital investment programme

In February 2021, the council approved an initial capital budget of £152.439 million for 2021/22. The final capital programme for the year following review and subsequent investment decisions totalled £170.563 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 2021/22 was £164.124 million which represents 96.2% of the budgeted programme.

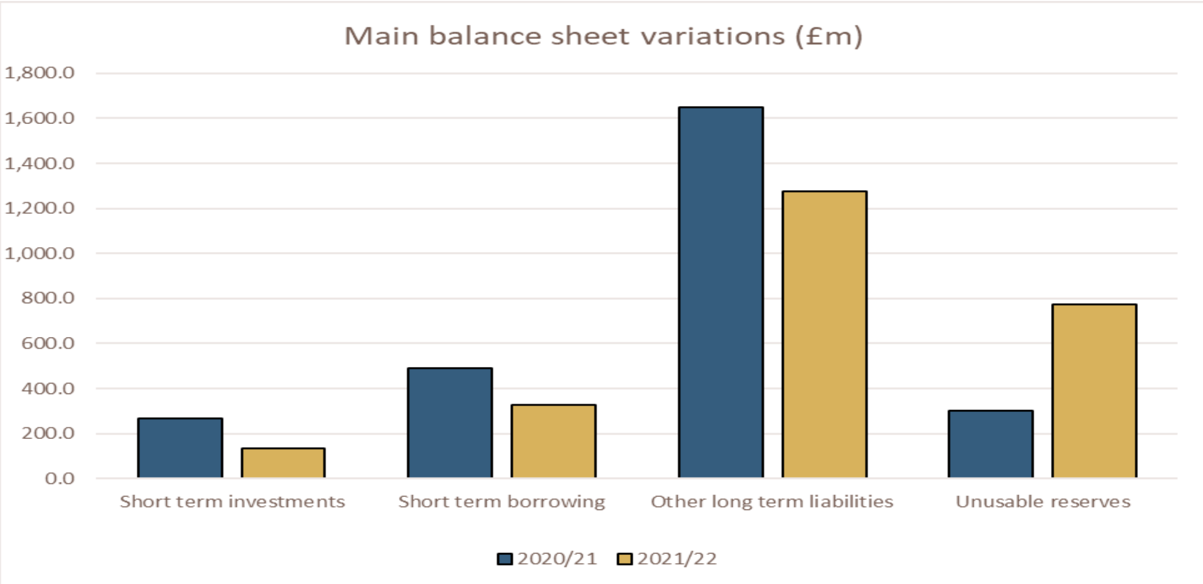



| | Revised budget<br>£m | Expenditure<br>£m | Variation<br>£m |
|---|---|---|---|
| Schools (excluding DFC) | 23.576 | 24.445 | 0.869 |
| Schools devolved formula capital | 2.380 | 2.654 | 0.274 |
| Highways | 53.933 | 59.794 | 5.861 |
| Transport | 15.958 | 14.856 | (1.102) |
| Externally funded schemes | 7.432 | 6.712 | (0.720) |
| Central systems and ICT | 12.656 | 7.952 | (4.704) |
| Adult social care | 17.313 | 16.773 | (0.540) |
| Corporate - property | 11.439 | 7.852 | (3.587) |
| Economic development | 11.989 | 13.900 | 1.911 |
| South Lancaster growth catalyst | 4.100 | 1.676 | (2.424) |
| Vehicles | 3.999 | 4.709 | 0.710 |
| Transforming cities fund | 5.788 | 2.801 | (2.987) |
| **Total expenditure** | **170.563** | **164.124** | **(6.439)** |

## 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 increased by £544.3 million from £943.6 million at 31 March 2021 to £1,487.9 million at 31 March 2022, with the main balance sheet variations shown in the following chart:

| Summary financial position | 31 March 2021 | 31 March 2022 | Movement |
|---|---|---|---|
| | £m | £m | £m |
| What we own (assets) | 4,436.1 | 4,450.1 | 14.0 |
| What we owe (liabilities) | (3,492.5) | (2,962.2) | 530.3 |
| **Net financial position (assets less liabilities)** | **943.6** | **1,487.9** | **544.3** |
| **The net financial position is held in reserves as follows:** | | | |
| General reserves available to the council (usable) | (643.4) | (713.8) | (70.4) |
| Other reserves held for statutory or specific purposes (unusable) | (300.2) | (774.1) | (473.9) |
| **Total reserves** | **(943.6)** | **(1,487.9)** | **(544.3)** |




### Borrowing and investments

A temporary loan of £150 million undertaken in March 2020 to ensure liquidity was not impacted by the Covid-19 lockdowns and this was re-classified as short term borrowing as at March 2021. This loan was repaid in June 2021 which reduced the short term borrowing level at 31 March 2022. The lower cash balance resulting from this repayment is reflected in the decrease in the short term investments.

### Other long term liabilities

The movement in long term liabilities results from a reduction 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 £1,148.2 million (£1,516.2 million as at 31 March 2021) 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.

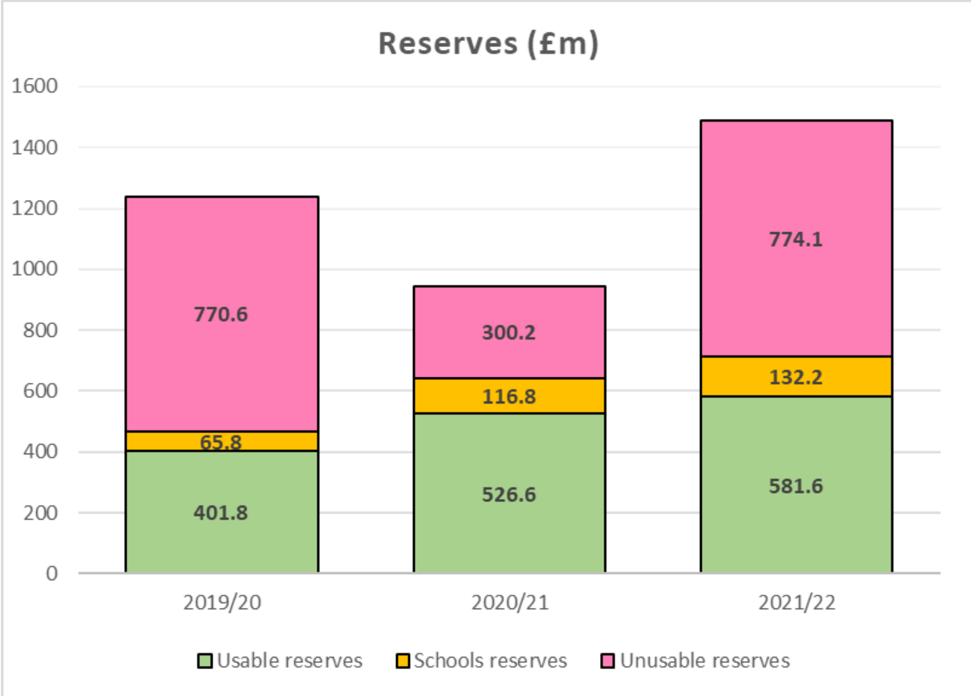
Whilst the pension liability figure is substantial, it should be noted that it does not need to be met immediately. The amount is an assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment 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 2021/22 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 2021/22, 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 2021 | 31 March 2022 | Movement |
|---|---|---|---|
| | £m | £m | £m |
| What we own (assets) | 4,504.8 | 4,534.8 | 30.0 |
| What we owe (liabilities) | (3,499.3) | (2,967.0) | 532.3 |
| **Net financial position (assets less liabilities)** | **1,005.5** | **1,567.8** | **562.3** |
| **The net financial position is held in reserves as follows:** | | | |
| General reserves available to the council (usable) | (643.4) | (713.8) | (70.4) |
| Other reserves held for statutory or specific purposes (unusable) | (300.2) | (774.1) | (473.9) |
| Subsidiary reserves | (61.9) | (79.9) | (18.0) |
| **Total reserves** | **(1,005.5)** | **(1,567.8)** | **(562.3)** |

# 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 2022.

Angie Ridgwell
Chief Executive and Director of Resources
30 January 2023

## Approval of accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 30 January 2023.

A Schofield
Chair of Audit, Risk and Governance Committee
30 January 2023

# Financial statements

Parlick

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| Gross expenditure | Gross income | Net expenditure | | Gross expenditure | Gross income | Net expenditure |
| £m | £m | £m | | £m | £m | £m |
| 583.0 | (216.9) | 366.1 | Adults | 657.4 | (255.2) | 402.2 |
| 8.8 | (0.3) | 8.5 | Policy, information, commissioning and safeguarding | 10.3 | (1.3) | 9.0 |
| 70.2 | (108.7) | (38.5) | Public health and wellbeing | 78.1 | (88.2) | (10.1) |
| 239.6 | (23.1) | 216.5 | Education and children's services | 251.4 | (27.4) | 224.0 |
| 16.6 | (9.9) | 6.7 | Growth, environment and planning | 25.7 | (9.7) | 16.0 |
| 134.2 | (32.2) | 102.0 | Highways and transport | 146.0 | (34.0) | 112.0 |
| 2.1 | 0 | 2.1 | Organisational development | 2.1 | 0 | 2.1 |
| 83.7 | (14.4) | 69.3 | Waste management | 87.9 | (17.8) | 70.1 |
| 72.8 | (29.9) | 42.9 | Finance | 28.7 | (10.5) | 18.2 |
| 27.4 | (6.1) | 21.3 | Corporate | 30.8 | (6.3) | 24.5 |
| 54.9 | (32.9) | 22.0 | Strategy and performance | 48.1 | (28.0) | 20.1 |
| 76.2 | (12.2) | 64.0 | Chief executive services | 48.6 | (24.9) | 23.7 |
| 979.7 | (979.5) | 0.2 | Schools | 1,097.8 | (1,029.4) | 68.4 |
| 0 | 0 | 0 | Digital services | 33.8 | (2.4) | 31.4 |
| **2,349.2** | **(1,466.1)** | **883.1** | **Cost of services** | **2,546.7** | **(1,535.1)** | **1,011.6** |
| 33.4 | (8.3) | 25.1 | Other operating income and expenditure (Note 6) | 23.8 | (6.0) | 17.8 |
| 64.4 | (62.0) | 2.4 | Financing and investment income and expenditure (Note 7) | 57.3 | (35.1) | 22.2 |
| 0 | (974.6) | (974.6) | Taxation and non-specific grant income and expenditure (Note 8) | 0 | (1,009.4) | (1,009.4) |
| **2,447.0** | **(2,511.0)** | **(64.0)** | **(Surplus)/deficit on provision of services** | **2,627.8** | **(2,585.6)** | **42.2** |
| | | (48.9) | (Surplus)/deficit on revaluation of non-current assets (Note 31) | | | (85.6) |
| | | 371.0 | Re-measurement of the net defined benefit pension liability/(asset) (Note 31) | | | (538.4) |
| | | 36.5 | (Surplus)/deficit on financial assets measured at fair value through other comprehensive income | | | 37.5 |
| | | **358.6** | **Other comprehensive (income) and expenditure** | | | **(586.5)** |
| | | **294.6** | **Total comprehensive (income) and expenditure** | | | **(544.3)** |

## 2021/22

| | 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 2021** | **(492.9)** | **(8.4)** | **(142.1)** | **(643.4)** | **(300.2)** | **(943.6)** |
| Movement in reserves during 2021/22 | | | | | | |
| Total comprehensive income and expenditure (Note 5) | 42.2 | 0 | 0 | 42.2 | (586.5) | (544.3) |
| Adjustment between accounting basis and funding basis under regulations (Note 14) | (112.5) | (1.9) | 1.8 | (112.6) | 112.6 | 0 |
| **(Increase)/decrease in year** | **(70.3)** | **(1.9)** | **1.8** | **(70.4)** | **(473.9)** | **(544.3)** |
| **Balance at 31 March 2022** | **(563.2)** | **(10.3)** | **(140.3)** | **(713.8)** | **(774.1)** | **(1,487.9)** |

## 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)** |

| 31 March 2021 | | Note | 31 March 2022 |
|---|---|---|---|
| **£m** | | | **£m** |
| 3,122.3 | Property, plant and equipment | 18 | 3,231.1 |
| 28.7 | Heritage assets | 20 | 28.7 |
| 12.5 | Intangible assets | | 17.4 |
| 586.6 | Long term investments | 26 | 605.4 |
| 41.2 | Long term debtors | 21 | 39.5 |
| **3,791.3** | **Long term assets** | | **3,922.1** |
| 266.3 | Short term investments | 26 | 132.4 |
| 3.2 | Inventories | | 4.0 |
| 154.0 | Short term debtors | 22 | 228.4 |
| 34.4 | Payments in advance | | 18.5 |
| 184.5 | Cash and cash equivalents | 23 | 144.7 |
| 2.4 | Assets held for sale | | 0 |
| **644.8** | **Current assets** | | **528.0** |
| (489.0) | Short term borrowing | 26 | (325.1) |
| (215.6) | Short term creditors | 24 | (291.7) |
| (30.9) | Receipts in advance | 24 | (66.3) |
| (13.3) | Short term provisions | 25 | (15.2) |
| (169.0) | Other current liabilities | 27 | (71.5) |
| **(917.8)** | **Current liabilities** | | **(769.8)** |
| (26.8) | Long term provisions | 25 | (35.6) |
| (897.3) | Long term borrowing | 26 | (881.0) |
| (1.3) | Long term creditors | 26 | (1.3) |
| (1,649.3) | Other long term liabilities | 28 | (1,274.5) |
| **(2,574.7)** | **Long term liabilities** | | **(2,192.4)** |
| **943.6** | **Net assets** | | **1,487.9** |
| (643.4) | Usable reserves | 31 | (713.8) |
| (300.2) | Unusable reserves | 31 | (774.1) |
| **(943.6)** | **Total reserves** | | **(1,487.9)** |

| 2020/21 | | Note | 2021/22 |
|---|---|---|---|
| **£m** | | | **£m** |
| 64.0 | Net surplus/(deficit) on the provision of services | | (42.2) |
| 74.6 | Adjustments to net surplus/deficit on the provision of services for non-cash movements | 32 | 351.8 |
| (140.6) | Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities | 32 | (130.4) |
| **(2.0)** | **Net cash flows from operating activities** | | **179.2** |
| (296.1) | Investing activities | 33 | (12.9) |
| (151.4) | Financing activities | 34 | (206.1) |
| **(449.5)** | **Net increase/(decrease) in cash or cash equivalents** | | **(39.8)** |
| 634.0 | Cash and cash equivalents at the beginning of the reporting period | | 184.5 |
| **184.5** | **Cash and cash equivalents at the end of the reporting period** | 23 | **144.7** |

# Explanatory notes to the financial statements

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## 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 2022/23 Code will introduce the following amendments:

### Annual Improvements to IFRS Standards 2018–2020

The amendments made during the 2018–2020 cycle are:

### IFRS 1 *First-time adoption*

The amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS and simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent.

### IAS 37 *Onerous contracts*

The amendment provides clarity on the costs of fulfilling a contract.

### 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 2024. 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 £172.7 million as at 31 March 2022 (31 March 2021: £155.7 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 £885.9 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 2022 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 31 March 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.<br><br>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.<br><br>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.<br><br>A variation of 10% in the value of the council's land and buildings would be approximately £210 million.<br><br>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.<br><br>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:<br><br>• For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;<br><br>• For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. | The fair values of 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. Additional information is provided in the financial instruments disclosure notes section.<br><br>The group investment properties are valued using level 3 inputs. Further information is provided in the group accounts section.<br><br>All valuations are undertaken by expert valuers in accordance with the methodologies and bases for estimation set out in the professional standards. |

| | | |
|---|---|---|
| | 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. | |

| 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.<br><br>There has been substantial volatility in financial markets since the start of the COVID-19 pandemic. Despite a period of relative stability, recently this volatility has increased again with the situation in Ukraine. The impact on asset values is reflected in the accounting figures.<br><br>Over the same period, the market volatility extended to bonds. As the assumptions for accounting purposes are based on bond yields, this will have an impact on accounting liabilities.<br><br>An increase in the discount rate assumption from last year and updated mortality rates has led to a decrease in pension liabilities. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance,<br><br>• A 0.1% increase in the discount rate assumption would reduce the value of the net pension liability by approximately £90 million;<br>• A 0.1% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £8 million;<br>• An increase of one year in assumed life expectancy would increase the net pension liability by approximately £159 million. |

# Note 4 – Events after the reporting period

The statement of accounts was authorised for issue by the Chief Executive and Director of Resources on 23 May 2022. Events taking place after this date are not reflected in the financial statements or notes. The statement of accounts has been adjusted to reflect events after 31 March 2022 where the events provide evidence of conditions that existed at 31 March.

## Transfers to academy status

Ormskirk high school converted to academy status on 1 April 2022. St Mary Magdalene's RC primary school transferred to academy status on 1 May 2022. Their values included in the balance sheet at 31 March 2022 are shown below. These are not reflected in the council's accounts.

| School | Value |
|---|---|
| | £m |
| Ormskirk high school | 23.3 |
| St Mary Magdalene's RC primary school | 1.9 |
| **Total** | **25.2** |

## Accounting for infrastructure assets

An accounting issue affecting all councils with highways responsibilities was raised by auditors in early 2022. This related to how the impairment of road surfaces was accounted for. The Department of Levelling Up, Housing and Communities (DLUHC) issued an amendment to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to change reporting requirements on infrastructure assets, which clarified the accounting approach that should be taken. This came into force with effect from 25 December 2022. The council has amended its presentation in the accounts to reflect the new guidance, however this has not changed the previously reported financial position.

## Property valuations

The council values its property assets at 1 April in line with its approach in previous years. As a result of recent market volatility the valuation of the council's land and buildings have increased in value from the point of valuation (1 April 2021) and the end of the financial year (31 March 2022). Where appropriate, land and buildings have been revalued at 31 March 2022, and the appropriate changes made to the council's accounts.

## 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 - 2021/22

| | 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 | 375.7 | 5.4 | 381.1 | 21.1 | 402.2 |
| Policy, information, commissioning and safeguarding | 7.9 | (0.5) | 7.4 | 1.6 | 9.0 |
| Public health and wellbeing | (5.0) | (7.1) | (12.1) | 2.0 | (10.1) |
| Education and children's services | 213.8 | (6.1) | 207.7 | 16.3 | 224.0 |
| Growth, environment and planning | 5.6 | (0.2) | 5.4 | 10.6 | 16.0 |
| Highways and transport | 79.3 | (6.3) | 73.0 | 39.0 | 112.0 |
| Organisational development | 1.7 | 0 | 1.7 | 0.4 | 2.1 |
| Waste management | 66.9 | 0 | 66.9 | 3.2 | 70.1 |
| Finance | 16.9 | 0.2 | 17.1 | 1.1 | 18.2 |
| Corporate | 20.9 | 0.7 | 21.6 | 2.9 | 24.5 |
| Strategy and performance | 39.1 | (24.8) | 14.3 | 5.8 | 20.1 |
| Chief executive services | 1.6 | 2.1 | 3.7 | 20.0 | 23.7 |
| Schools | (16.0) | 0 | (16.0) | 84.4 | 68.4 |
| Digital services | 27.1 | (2.4) | 24.7 | 6.7 | 31.4 |
| **Net cost of services** | **835.5** | **(39.0)** | **796.5** | **215.1** | **1,011.6** |
| Other income and expenditure | (881.4) | 14.6 | (866.8) | (102.6) | (969.4) |
| **(Surplus)/deficit** | **(45.9)** | **(24.4)** | **(70.3)** | **112.5** | **42.2** |
| **Opening general fund balance at 1 April** | | | **(492.9)** | | |
| (Surplus)/deficit | | | (70.3) | | |
| **Closing general fund balance at 31 March** | | | **(563.2)** | | |

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

## 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)** | | |

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

## 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.

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| 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 |
| 0.7 | 5.3 | 6.0 | Adults | 7.8 | (2.4) | 5.4 |
| 0 | (0.1) | (0.1) | Policy, information, commissioning and safeguarding | 0 | (0.5) | (0.5) |
| 0.1 | (34.5) | (34.4) | Public health and wellbeing | 0.4 | (7.5) | (7.1) |
| 1.9 | 1.6 | 3.5 | Education and children's services | 0.2 | (6.3) | (6.1) |
| (0.9) | (3.0) | (3.9) | Growth, environment and planning | (0.5) | 0.3 | (0.2) |
| (0.4) | (4.2) | (4.6) | Highways and transport | (0.2) | (6.1) | (6.3) |
| 0 | (0.1) | (0.1) | Organisational development | 0 | 0 | 0 |
| 0 | 2.3 | 2.3 | Waste management | 0 | 0 | 0 |
| 0 | (3.3) | (3.3) | Finance | 0 | 0.2 | 0.2 |
| 0 | (0.4) | (0.4) | Corporate | 0 | 0.7 | 0.7 |
| (14.9) | (9.5) | (24.4) | Strategy and performance | (13.3) | (11.5) | (24.8) |
| 34.9 | (14.5) | 20.4 | Chief executive services | 12.8 | (10.7) | 2.1 |
| 0 | 0 | 0 | Digital services | 0 | (2.4) | (2.4) |
| **21.4** | **(60.4)** | **(39.0)** | **Net cost of services** | **7.2** | **(46.2)** | **(39.0)** |
| (21.4) | (28.8) | (50.2) | Other income and expenditure | (7.2) | 21.8 | 14.6 |
| **0** | **(89.2)** | **(89.2)** | **(Surplus)/deficit** | **0** | **(24.4)** | **(24.4)** |

## 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 - 2021/22

| | Adjustments for capital purposes | Net change for the pensions adjustments | Other statutory differences | Total statutory adjustments |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Adults | 5.1 | 16.0 | 0 | 21.1 |
| Policy, information, commissioning and safeguarding | 0 | 1.6 | 0 | 1.6 |
| Public health and wellbeing | 0.2 | 1.8 | 0 | 2.0 |
| Education and children's services | 5.2 | 11.0 | 0.1 | 16.3 |
| Growth, environment and planning | 9.1 | 1.5 | 0 | 10.6 |
| Highways and transport | 29.0 | 10.0 | 0 | 39.0 |
| Organisational development | 0 | 0.4 | 0 | 0.4 |
| Waste management | 2.3 | 0.9 | 0 | 3.2 |
| Finance | 0 | 1.1 | 0 | 1.1 |
| Corporate | 0 | 2.9 | 0 | 2.9 |
| Strategy and performance | (0.5) | 6.3 | 0 | 5.8 |
| Chief executive services | 16.6 | 3.4 | 0 | 20.0 |
| Schools | 45.5 | 39.6 | (0.7) | 84.4 |
| Digital services | 3.3 | 3.5 | (0.1) | 6.7 |
| **Net cost of services** | **115.8** | **100.0** | **(0.7)** | **215.1** |
| Other income and expenditure from the expenditure and funding analysis | (108.6) | 30.3 | (24.3) | (102.6) |
| **Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services** | **7.2** | **130.3** | **(25.0)** | **112.5** |

## 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** |

## Expenditure and income analysed by nature

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

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| 845.1 | Employee expenses (excluding voluntary aided schools) | 922.9 |
| 249.5 | Employee expenses for voluntary aided schools | 265.8 |
| 1,179.0 | Other service expenses | 1,271.3 |
| 75.6 | Depreciation, amortisation and impairment | 86.7 |
| 41.1 | Interest payments | 26.8 |
| 1.6 | Precepts and levies | 1.1 |
| 23.3 | Net pension interest costs | 30.5 |
| 31.8 | Loss on disposal of non-current assets | 22.7 |
| **2,447.0** | **Total expenditure** | **2,627.8** |
| 0 | Gain on disposal of non-current assets | (6.0) |
| (265.9) | Fees, charges and other service income | (310.6) |
| (62.0) | Interest and investment income | (35.1) |
| (513.8) | Income from council tax precept | (550.1) |
| (17.2) | Income from business rates precept | (26.8) |
| (1,652.1) | Government grants and contributions | (1,657.0) |
| **(2,511.0)** | **Total income** | **(2,585.6)** |
| **(64.0)** | **(Surplus)/deficit on the provision of services** | **42.2** |

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## Note 6 - Other operating income and expenditure

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| 1.6 | Levies for flood defences and inshore fisheries and conservation authorities | 1.1 |
| 0.4 | (Gain) or loss on disposal of non-current assets | (1.7) |
| 23.1 | Loss on transfer of schools to academy status | 18.4 |
| **25.1** | **Total** | **17.8** |

## Note 7 - Financing and investment income and expenditure

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| 27.2 | Interest payable and other similar charges | 22.6 |
| 14.8 | Interest payable on PFI unitary payments | 13.7 |
| (0.9) | Impairment of financial instruments | (9.5) |
| 23.3 | Net interest of the net defined benefit liability | 30.5 |
| (62.0) | Interest receivable and similar income | (35.1) |
| **2.4** | **Total** | **22.2** |

## Note 8 - Taxation and non-specific grant income

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

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| (349.1) | Non-ringfenced Government grants | (336.6) |
| (94.5) | Capital grants and contributions | (95.9) |
| **(443.6)** | **Total non-specific grant income** | **(432.5)** |
| (513.8) | Council tax income | (550.1) |
| (17.2) | Non-domestic rates income | (26.8) |
| **(974.6)** | **Total** | **(1,009.4)** |

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

### Non-ringfenced government grants

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| (33.5) | Revenue support grant | (33.6) |
| (158.2) | Top-up grant (business rates retention scheme) | (158.2) |
| (30.5) | S31 grant | (17.5) |
| (2.1) | Education services grant | 0 |
| (45.5) | Improved better care | (45.5) |
| (33.4) | Adult social care | (41.9) |
| (3.5) | New homes bonus | (2.4) |
| (41.0) | COVID-19 grant | (26.0) |
| (1.4) | Other | (11.5) |
| **(349.1)** | **Total** | **(336.6)** |

## Capital grants and contributions

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (50.5) | Department for transport | (36.3) |
| (20.8) | Department of education | (33.8) |
| (16.7) | Ministry of housing, communities and local government | (16.7) |
| (2.0) | Other government grants | 0.9 |
| (0.9) | Other grants | (10.0) |
| (3.6) | Donated assets | 0 |
| **(94.5)** | **Total** | **(95.9)** |

# 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.

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (833.2) | Dedicated schools grant | (893.8) |
| (44.2) | Pupil premium grant | (44.3) |
| (78.8) | Other Government grants | (89.3) |
| (21.9) | PFI grant | (21.9) |
| (69.6) | Public health grant | (70.2) |
| (0.1) | Other grants | (1.1) |
| (24.1) | Teachers' pension employer contribution grant | (0.9) |
| (29.0) | Other contributions | (31.8) |
| (107.6) | Covid-19 grants | (71.2) |
| **(1,208.5)** | **Total** | **(1,224.5)** |

## Covid-19 grants

The government has provided a number of financial support packages in response to the Covid-19 pandemic including additional funding to support the cost of services or offset income loss.

As the council has some administrative control over the use or distribution of the grant funding, the transactions are reflected in the council's financial statements.

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| (31.1) | Infection control fund for adult social care | (15.6) |
| (24.2) | Contain outbreak management fund | (6.7) |
| (13.5) | Local government income compensation scheme for lost sales, fees and charges | 0 |
| (6.7) | Coronavirus (COVID-19) catch-up premium | (4.8) |
| (6.4) | Local authority test and trace service support grant | 0 |
| (4.1) | Adult social care rapid testing fund | (10.0) |
| (3.9) | COVID winter grant scheme | (1.4) |
| (3.5) | COVID-19 clinically extremely vulnerable | 0 |
| (2.8) | Workforce capacity fund for adult social care | (10.6) |
| (2.2) | School funding: exceptional costs associated with coronavirus (COVID-19) | 0 |
| (1.7) | Additional dedicated school and college transport | (0.4) |
| (1.6) | Local transport authority COVID-19 bus service support grant | (0.4) |
| (1.5) | Local authority emergency assistance grant for food and essential supplies | (0.1) |
| (1.5) | Coronavirus job retention scheme | 0 |
| (0.9) | Community testing | (2.6) |
| (0.9) | Community discharge grant (COVID) | (1.0) |
| (0.3) | COVID-19 self-isolation | (2.0) |
| (0.2) | Wellbeing for education return grant | (0.2) |
| (0.2) | Travel demand management | 0 |
| (0.2) | LRF COVID-19 | 0 |

| | | |
|---|---|---|
| (0.1) | Digital education platform | 0 |
| (0.1) | National tutoring programme academic mentors | (0.1) |
| 0 | COVID Local Support Grant | (4.2) |
| 0 | Recovery Premium funding | (2.6) |
| 0 | School-led tutoring grant | (2.4) |
| 0 | (COVID-19) mass testing funding for schools and colleges | (2.4) |
| 0 | Adult Social Care Omicron Support Fund | (1.4) |
| 0 | (COVID-19) summer schools programme funding | (1.2) |
| 0 | Vaccines grant | (0.7) |
| 0 | Kickstart Scheme grant | (0.3) |
| 0 | Coronavirus (COVID 19) workforce fund | (0.1) |
| **(107.6)** | **Total** | **(71.2)** |

## Note 10 - Dedicated schools grant

| | Central expenditure | Individual schools' budget | Total |
|---|---|---|---|
| | £m | £m | £m |
| Final DSG for 2021/22 before academy recoupment | | | (1,086.9) |
| Academy figure recouped for 2021/22 | | | 193.1 |
| **Total DSG after academy recoupment for 2021/22** | | | **(893.8)** |
| Brought forward from 2020/21 | | | (16.1) |
| Carry forward to 2022/23 agreed in advance | | | 16.1 |
| **Agreed initial budgeted distribution for 2021/22** | **(149.4)** | **(744.4)** | **(893.8)** |
| In-year adjustments | 0 | 0.5 | 0.5 |
| **Final budget distribution for 2021/22** | **(149.4)** | **(743.9)** | **(893.3)** |
| Actual central expenditure relating to DSG | 142.9 | | 142.9 |
| Actual ISB deployed to schools | | 743.9 | 743.9 |
| Local authority contribution for 2021/22 | (1.9) | 0 | (1.9) |
| **In-year carry forward to 2022/23** | **(8.4)** | **0** | **(8.4)** |
| Carry forward to 2022/23 agreed in advance | | | (16.1) |
| **Carry forward to 2022/23** | | | **(24.5)** |

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 has been utilised.

## Note 11 - Officers' remuneration

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

### 2021/22

| Post holder | Notes | Salary, fees and allowances | Benefits in kind | Pension contributions | Total |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| Chief Executive and Director of Resources (S151) - A Ridgwell | 1 | 228,019 | 0 | 0 | 228,019 |
| Executive Director of Adult Services and Health & Wellbeing | | 148,660 | 0 | 24,371 | 173,031 |
| Executive Director for Education and Children's Services - E Grant | | 175,925 | 0 | 0 | 175,925 |
| Executive Director of Growth, Environment and Transport | 2 & 3 | 148,810 | 0 | 24,371 | 173,181 |
| Director of Corporate Services | 4 | 107,558 | 8,103 | 17,928 | 133,589 |
| Director of Finance | | 105,459 | 7,979 | 17,928 | 131,366 |
| Director of Strategy and Performance | | 127,603 | 12,017 | 21,692 | 161,312 |
| Director of Public Health | | 132,903 | 0 | 18,349 | 151,252 |
| Head of Communications | 3 | 71,702 | 0 | 12,164 | 83,866 |

Notes
1 The remuneration of the Chief Executive and Director of Resources (S151) includes an allowance for acting as Returning Officer for the county council elections which took place during the year.
2 The Executive Director of Growth, Environment and Transport left the council on 31 March 2022.
3 The remuneration of the Executive Director of Growth, Environment and Transport and the Head of Communications include an election fee for assisting the Returning Officer during the county council elections which took place during the year
4 The remuneration of the Director of Corporate Services includes an allowance for acting as Deputy Returning Officer at the county council elections which took place during the year.

## 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 of Public Health | 130,708 | 0 | 18,034 | 148,742 |
| Head of Communications | 68,695 | 0 | 11,678 | 80,373 |

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

| | 2021/22 | | | | 2020/21 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 | 181 | 490 | 671 | 5 | 167 | 441 | 608 | 2 |
| 55,000 to 59,999 | 55 | 278 | 333 | 1 | 29 | 277 | 306 | 2 |
| 60,000 to 64,999 | 36 | 209 | 245 | 1 | 45 | 189 | 234 | 2 |
| 65,000 to 69,999 | 25 | 140 | 165 | 0 | 28 | 141 | 169 | 1 |
| 70,000 to 74,999 | 20 | 80 | 100 | 2 | 37 | 66 | 103 | 0 |
| 75,000 to 79,999 | 31 | 28 | 59 | 0 | 5 | 31 | 36 | 0 |
| 80,000 to 84,999 | 0 | 22 | 22 | 0 | 2 | 21 | 23 | 0 |
| 85,000 to 89,999 | 1 | 18 | 19 | 0 | 1 | 10 | 11 | 0 |
| 90,000 to 94,999 | 2 | 11 | 13 | 0 | 0 | 14 | 14 | 0 |
| 95,000 to 99,999 | 0 | 10 | 10 | 0 | 1 | 7 | 8 | 0 |
| 100,000 to 104,999 | 0 | 3 | 3 | 0 | 2 | 5 | 7 | 0 |
| 105,000 to 109,999 | 1 | 2 | 3 | 0 | 4 | 2 | 6 | 0 |
| 110,000 to 114,999 | 4 | 1 | 5 | 0 | 0 | 2 | 2 | 0 |
| 115,000 to 119,999 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 |
| 120,000 to 124,999 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 0 |
| 125,000 to 129,999 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 1 |
| 130,000 to 134,999 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 135,000 to 139,999 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 |
| 155,000 to 159,999 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 |
| **Total** | **359** | **1,293** | **1,652** | **9** | **324** | **1,208** | **1,532** | **8** |

[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 (£)** | **2021/22** | **2020/21** | **2021/22** | **2020/21** | **2021/22** | **2020/21** | **2021/22** | **2020/21** |
| 0 to 20,000 | 9 | 35 | 189 | 195 | 198 | 230 | 987 | 1,351 |
| 20,001 to 40,000 | 0 | 2 | 8 | 7 | 8 | 9 | 183 | 243 |
| 40,001 to 60,000 | 1 | 0 | 0 | 1 | 1 | 1 | 47 | 41 |
| 60,001 to 100,000 | 0 | 1 | 0 | 1 | 0 | 2 | 0 | 142 |
| **Total** | **10** | **38** | **197** | **204** | **207** | **242** | **1,217** | **1,777** |

* 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 the year the council terminated the contracts of a number of employees, incurring liabilities of £1.22 million (2020/21: £1.8 million). Of the £1.22 million, £0.06 million is enhanced pension benefits and £1.16 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

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£000** | | **£000** |
| 1,283.1 | Allowances payable to Members | 1,342.5 |
| 11.9 | Expenses payable to Members | 34.7 |
| **1,295.0** | **Total** | **1,377.2** |

## Note 13 - Fees payable to auditors

The council incurred the following fees relating to external audit.

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£000** | | **£000** |
| 87.0 | Fees incurred with regard to external audit services provided by Grant Thornton | 93.0 |
| 7.8 | Fees incurred for certification work undertaken by Grant Thornton | 7.0 |
| 5.0 | Fees payable in respect of other services provided by Grant Thornton | 10.0 |
| 33.9 | Fees payable in respect of additional prior year statutory audit work | 68.4 |
| 0 | Reimbursement from Public Sector Audit Appointment | (17.2) |
| **133.7** | **Total** | **161.2** |

# 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 - 2021/22

| | 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) | (130.3) | 0 | 0 | (130.3) | 130.3 |
| Financial instruments (transferred to the financial instruments adjustments account) | 3.4 | 0 | 0 | 3.4 | (3.4) |
| Council tax and NDR (transferred to or from the collection fund) | 20.9 | 0 | 0 | 20.9 | (20.9) |
| Holiday pay (transferred to the accumulated absences adjustment account) | 0.7 | 0 | 0 | 0.7 | (0.7) |
| 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) | (81.8) | 0 | 46.1 | (35.7) | 35.7 |
| **Total adjustments to revenue resources** | **(187.1)** | **0** | **46.1** | **(141.0)** | **141.0** |
| **Adjustments between revenue and capital resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 6.0 | (6.0) | 0 | 0 | 0 |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 28.3 | 0 | 0 | 28.3 | (28.3) |
| Use of the capital receipts reserve to finance new revenue expenditure | (4.0) | 4.0 | 0 | 0 | 0 |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 0 | 0.1 | 0 | 0.1 | (0.1) |
| **Total adjustments between revenue and capital resources** | **30.3** | **(1.9)** | **0** | **28.4** | **(28.4)** |
| **Adjustments to capital resources** | | | | | |
| Application of capital grants to finance capital expenditure | 44.3 | 0 | (44.3) | 0 | 0 |
| **Total adjustments to capital resources** | **44.3** | **0** | **(44.3)** | **0** | **0** |
| **Total adjustments** | **(112.5)** | **(1.9)** | **1.8** | **(112.6)** | **112.6** |

## 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** |

## Note 15 - Transfers to and from earmarked reserves

| | Balance at 31 March 2020 | Transfers out 2020/21 | Transfers in 2020/21 | Balance at 31 March 2021 | Transfers out 2021/22 | Transfers in 2021/22 | Balance at 31 March 2022 |
|---|---|---|---|---|---|---|---|
| | **£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 | (5.8) | 6.4 | (5.4) | (4.8) | 0.6 | 0 | (4.2) |
| **Reserves held to deliver organisational change** | | | | | | | |
| Downsizing reserve | (5.7) | 0 | 0 | (5.7) | 0.2 | 0 | (5.5) |
| Risk management reserve | (2.0) | 0 | (4.4) | (6.4) | 2.0 | 0 | (4.4) |
| Transitional reserve | (151.2) | 2.3 | (52.8) | (201.7) | 24.7 | (38.7) | (215.7) |
| **School reserves** | | | | | | | |
| Individual school reserves | (47.4) | 2.6 | (45.4) | (90.2) | 10.8 | (16.0) | (95.4) |
| Other school reserves | (12.9) | 5.3 | (13.2) | (20.8) | 0.8 | (11.6) | (31.6) |
| Centrally managed schools maintenance reserve | (5.5) | 5.5 | (5.8) | (5.8) | 5.8 | (5.2) | (5.2) |
| **Reserves held to meet service priorities** | | | | | | | |
| Treasury management reserve | (11.6) | 0.8 | (18.4) | (29.2) | 13.8 | (20.9) | (36.3) |
| Business rates volatility | 0 | 0 | (5.0) | (5.0) | 0 | 0 | (5.0) |
| Directorate reserves | (67.0) | 85.2 | (116.4) | (98.2) | 45.4 | (82.4) | (135.2) |
| Election reserve | (1.3) | 0 | (0.4) | (1.7) | 0.4 | 0 | (1.3) |
| **Total earmarked revenue and capital reserves** | **(333.8)** | **108.1** | **(267.2)** | **(492.9)** | **104.5** | **(174.8)** | **(563.2)** |

## 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

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| **1,091.7** | **Opening capital financing requirement** | **1,109.4** |
| | **Capital investment** | |
| 104.9 | Property, plant and equipment | 126.8 |
| 5.2 | Intangible assets | 8.1 |
| 21.3 | Revenue expenditure funded from capital under statute | 29.2 |
| **131.4** | **Total capital investment** | **164.1** |
| | **Sources of finance** | |
| 0 | Capital receipts | (0.1) |
| (86.2) | Government grants and other contributions | (97.7) |
| | **Sums set aside from revenue:** | |
| (2.7) | Direct revenue contributions | (5.2) |
| (7.1) | Write down of PFI liability | (6.5) |
| (17.7) | Minimum revenue provision (MRP) for debt repayment | (21.8) |
| **1,109.4** | **Closing capital financing requirement** | **1,142.2** |
| | **Explanation of movement in year** | |
| 24.8 | Increase in underlying need to borrow (unsupported by Government financial assistance) | 39.3 |
| (7.1) | Write down of PFI liability | (6.5) |
| **17.7** | **Total movement** | **32.8** |

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 2022, the council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2022/23 or future years. (2020/21: £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** | **0.7** | **67.6** | **1,323.6** | **13.9** | **0** | **1,405.8** |
| **Valued at current value as at:** | | | | | | |
| 31 March 2022 | 1,316.9 | | | | 27.0 | **1,343.9** |
| 31 March 2021 | 472.6 | | | | | **472.6** |
| 31 March 2020 | 371.6 | | | | | **371.6** |
| **Total cost or valuation** | **2,161.8** | **67.6** | **1,323.6** | **13.9** | **27.0** | **3,593.9** |

## Property, plant and equipment - movements in 2021/22

| | Land and buildings | Vehicles, plant, furniture, equipment | Assets under construction | Surplus assets | Total | PFI assets included in property |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Cost or valuation** | | | | | | |
| **At 1 April 2021** | **2,149.0** | **80.2** | **9.6** | **24.7** | **2,263.5** | **160.8** |
| Additions | 20.5 | 5.9 | 11.9 | 0.8 | **39.1** | 0 |
| De-recognition – disposals | (20.0) | (19.4) | 0 | (1.4) | **(40.8)** | 0 |
| Revaluation increases/(decreases) recognised in the revaluation reserve | 21.5 | 0 | 0 | 2.5 | **24.0** | 12.2 |
| Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services | (13.0) | 0 | 0 | (2.5) | **(15.5)** | 2.2 |
| Assets reclassified | 3.8 | 0.9 | (7.6) | 2.9 | 0 | 0 |
| **At 31 March 2022** | **2,161.8** | **67.6** | **13.9** | **27.0** | **2,270.3** | **175.2** |
| **At 1 April 2021** | **(122.9)** | **(53.1)** | **0** | **(0.3)** | **(176.3)** | **(5.1)** |
| Depreciation charge | (44.4) | (5.2) | 0 | (0.1) | **(49.7)** | (3.7) |
| Depreciation written out to revaluation reserve | 61.5 | 0 | 0 | 0.1 | **61.6** | 4.1 |
| Depreciation written out to the surplus/deficit on provision of services | 6.6 | 0 | 0 | 0 | **6.6** | 2.2 |
| De-recognition | 1.1 | 19.4 | 0 | 0 | **20.5** | 0 |
| **At 31 March 2022** | **(98.1)** | **(38.9)** | **0** | **(0.3)** | **(137.3)** | **(2.5)** |
| **Net book value at 1 April 2021** | **2,026.1** | **27.1** | **9.6** | **24.4** | **2,087.2** | **155.7** |
| **Net book value at 31 March 2022** | **2,063.7** | **28.7** | **13.9** | **26.7** | **2,133.0** | **172.7** |

## Property, plant and equipment - movements in 2020/21

| | Land and buildings | Vehicles, plant, furniture, equipment | Assets under construction | Surplus assets | Total | PFI assets included in property |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Cost or valuation** | | | | | | |
| **At 1 April 2020** | **2,128.5** | **79.0** | **2.5** | **26.8** | **2,236.8** | **173.3** |
| Additions * | 27.3 | 4.9 | 7.1 | 0.3 | **39.6** | 0.3 |
| De-recognition – disposals | (28.2) | (3.7) | 0 | (2.8) | **(34.7)** | (18.9) |
| Revaluation increases/(decreases) recognised in the revaluation reserve | 26.2 | 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 | 0.2 | **(4.5)** | 2.0 |
| Assets reclassified | (0.1) | 0 | 0 | 0.1 | 0 | 0 |
| **At 31 March 2021** | **2,149.0** | **80.2** | **9.6** | **24.7** | **2,263.5** | **160.8** |
| **At 1 April 2020** | **(106.3)** | **(50.7)** | **0** | **(0.2)** | **(157.2)** | **(4.8)** |
| Depreciation charge | (42.9) | (6.0) | 0 | (0.1) | **(49.0)** | (4.1) |
| Depreciation written out to revaluation reserve | 22.6 | 0 | 0 | 0 | **22.6** | 1.9 |
| Depreciation written out to the surplus/deficit on provision of services | 3.1 | 0 | 0 | 0 | **3.1** | 1.5 |
| De-recognition | 0.6 | 3.6 | 0 | 0 | **4.2** | 0.4 |
| **At 31 March 2021** | **(122.9)** | **(53.1)** | **0** | **(0.3)** | **(176.3)** | **(5.1)** |
| **Net book value at 1 April 2020** | **2,022.2** | **28.3** | **2.5** | **26.6** | **2,079.6** | **168.5** |
| **Net book value at 31 March 2021** | **2,026.1** | **27.1** | **9.6** | **24.4** | **2,087.2** | **155.7** |

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

## Reconciliation of property, plant and equipment

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| **£m** | | **£m** |
| 1,035.1 | Infrastructure assets | 1,098.1 |
| 2,087.2 | Other property, plant and equipment assets | 2,133.0 |
| **3,122.3** | **Total property, plant and equipment assets** | **3,231.1** |

## Infrastructure assets movements on balances

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| **£m** | | **£m** |
| **991.6** | **Net book value at 1 April** | **1,035.1** |
| 65.3 | Additions | 87.7 |
| (21.8) | Depreciation | (24.7) |
| **1,035.1** | **Net book value at 31 March** | **1,098.1** |

# Note 19 - School assets

## Schools included on the council's balance sheet

| 31 March 20201 | | | 31 March 2022 | |
|---|---|---|---|---|
| **Number of schools** | **Value of land and buildings** | | **Number of schools** | **Value of land and buildings** |
| | **£m** | | | **£m** |
| 247 | 780.5 | Community schools | 244 | 795.7 |
| 11 | 123.0 | Foundation schools | 11 | 127.5 |
| 260 | 621.5 | Voluntary aided schools | 257 | 637.5 |
| 50 | 120.0 | Voluntary controlled schools | 50 | 120.9 |
| **568** | **1,645.0** | **Total** | **562** | **1,681.6** |
| 13 | 155.7 | Schools subject to PFI contracts | 13 | 172.70 |

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 six schools chose to take up academy status in 2021/22.

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 2022** | 3.0 | 11.1 | 14.6 | 28.7 |
| **At 31 March 2021** | 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 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 13.1 | Transferred Debt [1] | 12.6 |
| 28.1 | Finance Lease Debtor [2] | 26.9 |
| **41.2** | **Total** | **39.5** |

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

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

# Note 22 - Short term debtors

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 21.7 | Council tax | 29.5 |
| 1.4 | Non-domestic rates | 1.3 |
| 32.3 | Other receivables | 43.0 |
| 116.3 | Trade receivables | 162.8 |
| (17.7) | Less impairment allowance | (8.2) |
| **154.0** | **Total** | **228.4** |

## Note 23 - Cash and cash equivalents

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

| 31 March 2021 restated | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 0.3 | Cash held by the council | 0.7 |
| 42.7 | Bank current accounts * | 49.2 |
| 141.5 | Short term deposits under 3 months * | 94.8 |
| **184.5** | **Total** | **144.7** |

* The analysis between bank current accounts and short term deposits has been amended.

## Note 24 - Short term creditors and receipts in advance

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| (115.1) | Trade payables | (198.2) |
| (29.7) | Council tax | (27.1) |
| (13.8) | Non-domestic rates | (5.6) |
| (57.0) | Other payables | (60.8) |
| **(215.6)** | **Total** | **(291.7)** |

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| (7.5) | Receipts in advance | (13.2) |
| (0.1) | Government grants receipts in advance (revenue) | (0.2) |
| (23.3) | Government grants receipts in advance (capital) | (52.9) |
| **(30.9)** | **Total** | **(66.3)** |

## 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 2021 | Additional provision made in 2021/22 | Spending met from the provision in 2021/22 | Unused amounts reversed in 2021/22 | Balance at 31 March 2022 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Insurance provision | (22.9) | (15.1) | 6.8 | 0 | (31.2) |
| MMI provision | (2.8) | 0 | 0 | 0 | (2.8) |
| Other long term provisions | (1.1) | (0.5) | 0 | 0 | (1.6) |
| **Total long term provisions** | **(26.8)** | **(15.6)** | **6.8** | **0** | **(35.6)** |
| Business rates appeals | (9.8) | (6.1) | 0 | 9.8 | (6.1) |
| Other short term provisions | (3.5) | (5.7) | 0 | 0.1 | (9.1) |
| **Total short term provisions** | **(13.3)** | **(11.8)** | **0** | **9.9** | **(15.2)** |
| **Total provisions** | **(40.1)** | **(27.4)** | **6.8** | **9.9** | **(50.8)** |

### 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).

The financial assets at fair value through profit and loss relate to LOBO loan investments with other local authorities. Further information is included in the forward contract agreement section of the technical annex.

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 2021 | | | Category | 31 March 2022 | | |
|---|---|---|---|---|---|---|
| **Long term** | **Short term** | **Total** | **Category** | **Long term** | **Short term** | **Total** |
| **£m** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| 32.5 | 57.1 | **89.6** | Amortised cost | 24.5 | 21.0 | **45.5** |
| 554.1 | 0 | **554.1** | Financial assets at fair value through other comprehensive income | 580.9 | 30.9 | **611.8** |
| 0 | 209.2 | **209.2** | Financial assets at fair value through profit and loss | 0 | 80.5 | **80.5** |
| **586.6** | **266.3** | **852.9** | **Total investments** | **605.4** | **132.4** | **737.8** |
| 0 | 184.5 | **184.5** | Cash and cash equivalents | 0 | 144.7 | **144.7** |
| 28.1 | 98.6 | **126.7** | Debtors # | 26.9 | 154.6 | **181.5** |
| **614.7** | **549.4** | **1,164.1** | **Total financial assets** | **632.3** | **431.7** | **1,064.0** |
| *# 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* | | | | | | |
| *13.1* | *55.4* | *68.5* | *Debtors which do not meet the definition of a financial instrument* | *12.6* | *73.8* | *86.4* |
| *41.2* | *154.0* | *195.2* | *Balance sheet total* | *39.5* | *228.4* | *267.9* |

## 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 at fair value through profit and loss relate to the UK government bonds that the council is committed to purchase at a future date. Further information is included in the forward contract agreement section of the technical annex.

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

| 31 March 2021 | | | Category | 31 March 2022 | | |
|---|---|---|---|---|---|---|
| **Long term** | **Short term** | **Total** | | **Long term** | **Short term** | **Total** |
| **£m** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| (897.3) | (489.0) | **(1,386.3)** | Financial liabilities at amortised cost | (881.0) | (325.1) | **(1,206.1)** |
| 0 | (162.5) | **(162.5)** | Financial liabilities at fair value through profit and loss | 0 | (64.7) | **(64.7)** |
| (1.3) | (144.6) | **(145.9)** | Creditors # | (1.3) | (227.0) | **(228.3)** |
| (133.0) | (6.5) | **(139.5)** | Other financial liabilities (PFI) at amortised cost | (126.2) | (6.8) | **(133.0)** |
| **(1,031.6)** | **(802.6)** | **(1,834.2)** | **Total financial liabilities** | **(1,008.5)** | **(623.6)** | **(1,632.1)** |
| *# 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* | *(71.0)* | *(71.0)* | *Creditors which do not meet the definition of a financial instrument* | *0* | (64.6) | (64.6) |
| *(1.3)* | *(215.6)* | *(216.9)* | *Balance sheet total* | (1.3) | (291.7) | (293.0) |

## Note 27 – Other current liabilities

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| **£m** | | **£m** |
| (6.5) | PFI Liability | (6.8) |
| (162.5) | Short positions in investments | (64.7) |
| **(169.0)** | **Total** | **(71.5)** |

## Note 28 – Other long term liabilities

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| **£m** | | **£m** |
| (1,516.2) | Pension liability | (1,148.2) |
| (133.0) | PFI liability | (126.2) |
| (0.1) | Other long term liabilities | (0.1) |
| **(1,649.3)** | **Total** | **(1,274.5)** |

## 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 8.34% 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 2022/23 | 0.4 | 0.7 | 1.0 | 2.1 |
| Payment within 2 to 5 years | 2.4 | 3.5 | 4.3 | 10.2 |
| Payment within 6 to 10 years | 0.2 | 0.5 | 0.6 | 1.3 |
| **Total** | **3.0** | **4.7** | **5.9** | **13.6** |

## Building schools for the future (BSF)

| | Payment for services | Repayment of liability | Interest charges | Total payments due |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payment in 2022/23 | 13.3 | 6.1 | 12.1 | 31.5 |
| Payment within 2 to 5 years | 59.9 | 32.3 | 48.5 | 140.7 |
| Payment within 6 to 10 years | 122.5 | 51.9 | 44.0 | 218.4 |
| Payment within 11 to 15 years | 63.9 | 38.0 | 25.0 | 126.9 |
| **Total** | **259.6** | **128.3** | **129.6** | **517.5** |

## Outstanding PFI liability

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| **(146.6)** | **Balance outstanding at start of year** | **(139.5)** |
| 7.1 | Payments during the year | 6.5 |
| **(139.5)** | **Balance outstanding at year end** | **(133.0)** |

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 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 1.1 | Current | 1.2 |
| 28.1 | Non-current | 26.9 |
| 12.4 | Unearned finance income | 11.3 |
| **41.6** | **Gross investment in the finance lease** | **39.4** |

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 2021 | | | 31 March 2022 | |
|---|---|---|---|---|
| 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 | 1.2 |
| 9.0 | 4.9 | Later than one year and not later than 5 years | 9.0 | 5.1 |
| 30.4 | 23.2 | Later than 5 years | 28.2 | 21.8 |
| **41.6** | **29.2** | **Total** | **39.4** | **28.1** |

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 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| (23.4) | General fund | (23.4) |
| (352.7) | Earmarked reserves | (407.6) |
| (116.8) | School reserves | (132.2) |
| **(492.9)** | **Total earmarked reserves** | **(563.2)** |
| (142.1) | Capital grants unapplied reserve | (140.3) |
| (8.4) | Capital receipts reserve | (10.3) |
| **(643.4)** | **Total usable reserves** | **(713.8)** |

## Unusable reserves

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 44.7 | Financial instruments adjustment account | 41.3 |
| 64.2 | Financial instruments revaluation reserve | 101.7 |
| (1,024.9) | Revaluation reserve | (1,075.4) |
| (1,031.6) | Capital adjustment account | (1,059.5) |
| 1,598.1 | Pensions reserve | 1,190.0 |
| 20.2 | Collection fund adjustment account | (0.6) |
| 29.1 | Accumulated absences adjustment account | 28.4 |
| **(300.2)** | **Total** | **(774.1)** |

## Financial instruments adjustment account

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **48.3** | **Balance at 1 April** | **44.7** |
| (3.6) | Proportion of premiums incurred in previous financial years to be charged against general fund balance | (3.4) |
| **44.7** | **Balance at 31 March** | **41.3** |

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

| 2020/21 £m | | 2021/22 £m |
|---|---|---|
| **27.7** | **Balance at 1 April** | **64.2** |
| (26.9) | Amounts recycled to the surplus/deficit on the provision of services | (45.7) |
| 63.4 | Downward revaluation of investments not charged to the surplus/deficit on the provision of services | 83.2 |
| **64.2** | **Balance at 31 March** | **101.7** |

The financial instruments revaluation reserve contains the gains or losses arising from changes in the value of investments that are measured at fair value through other comprehensive income.

## Revaluation reserve

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| **(1,004.9)** | **Balance at 1 April** | **(1,024.9)** |
| (65.8) | Upward revaluation of assets | (128.9) |
| 16.9 | Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services | 43.3 |
| **(48.9)** | **(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services** | **(85.6)** |
| 21.4 | Difference between fair value depreciation and historical cost depreciation | 22.6 |
| 7.5 | Accumulated gains on assets sold or scrapped | 12.5 |
| **28.9** | **Amount written off to the capital adjustment account** | **35.1** |
| **(1,024.9)** | **Balance at 31 March** | **(1,075.4)** |

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

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| **(1,017.8)** | **Balance at 1 April** | **(1,031.6)** |
| | **Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement** | |
| 70.8 | Charges for depreciation and impairment of non-current assets | 74.4 |
| 1.4 | Revaluation losses/(gains) on property, plant and equipment including assets held for sale | 8.9 |
| 3.5 | Amortisation of intangible assets | 3.3 |
| 21.3 | Revenue expenditure funded from capital under statute | 29.2 |
| 31.8 | 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 | 22.7 |
| (7.1) | Write down of PFI liability | (6.5) |
| (28.9) | Adjusting amount written out of the revaluation reserve | (35.1) |
| **(925.0)** | **Net written out amount of the cost of non-current assets consumed in the year** | **(934.7)** |
| | **Capital financing applied in the year** | |
| (77.8) | Capital grants and contributions credited to the comprehensive income and expenditure statement | (99.5) |
| (8.4) | Application of capital grants to capital financing from the capital grants unapplied account | 1.8 |
| 0 | Application of capital receipts to capital financing from the capital receipts reserve | (0.1) |
| (17.7) | Statutory provision for the financing of capital investment charged against the general fund | (21.8) |
| (2.7) | Capital expenditure charged against the general fund | (5.2) |
| **(106.6)** | | **(124.8)** |
| **(1,031.6)** | **Balance at 31 March** | **(1,059.5)** |

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

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| **1,152.9** | **Balance at 1 April** | **1,598.1** |
| 371.0 | Re-measurement of the net defined benefit liability/(asset) | (538.4) |
| 160.9 | 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 | 213.6 |
| (86.7) | Employer's pension contributions and direct payments to pensioners payable in the year | (83.3) |
| **1,598.1** | **Balance at 31 March** | **1,190.0** |

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.

The difference between the balance on the pensions reserve and the pensions liability is due to the payment in advance covering the future service and deficit recovery payments for the 3 years 2020/21 to 2022/23.

## Accumulated absences adjustment account

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| **29.7** | **Balance at 1 April** | **29.1** |
| (29.7) | Settlement or cancellation of accrual made at the end of the preceding year | (29.1) |
| 29.1 | Amounts accrued at the end of the current year | 28.4 |
| **(0.6)** | **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** | **(0.7)** |
| **29.1** | **Balance at 31 March** | **28.4** |

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:

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (61.5) | Interest received | (35.3) |
| 44.1 | Interest paid | 37.7 |

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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 70.8 | Depreciation | 74.4 |
| 1.4 | Impairment and downward/(upward) valuations | 8.9 |
| 3.5 | Amortisation of intangible assets | 3.3 |
| (2.3) | Increase/(decrease) in impairment for bad debts | (2.9) |
| 13.5 | Increase/(decrease) in creditors | 77.3 |
| (19.4) | (Increase)/decrease in debtors | (5.3) |
| 0.2 | (Increase)/decrease in inventories | (1.2) |
| (7.6) | Movement in pension liability | 170.5 |
| 31.8 | Carrying amount of non-current assets sold | 22.7 |
| (17.3) | Other non-cash items charged to the surplus or deficit on the provision of services | 4.1 |
| **74.6** | **Total** | **351.8** |

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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (37.8) | Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries) | (28.5) |
| (8.3) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (6.0) |
| (94.5) | Capital grants credited to the surplus on the provision of services | (95.9) |
| **(140.6)** | **Total** | **(130.4)** |

# Note 33 - Cash flows from investing activities

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (106.7) | Purchase of property, plant and equipment, investment property and intangible assets | (134.9) |
| (6,948.3) | Purchase of short term and long term investments | (5,885.8) |
| 8.3 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 6.0 |
| 6,654.2 | Proceeds from the sale of short term and long term investments | 5,900.0 |
| 96.4 | Other capital grants and receipts from investing activities | 101.8 |
| **(296.1)** | **Net cash flows from investing activities** | **(12.9)** |

## Note 34 - Cash flows from financing activities

| 2020/21 | | 2021/22 |
|---:|---|---:|
| £m | | £m |
| 1,078.8 | Cash receipts from short term and long term borrowing | 1,022.3 |
| 26.9 | Appropriate to/from Collection Fund Adjustment Account | (20.8) |
| (1,250.0) | Repayment of short term and long term borrowing | (1,201.1) |
| (7.1) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | (6.5) |
| **(151.4)** | **Net cash flows from financing activities** | **(206.1)** |

## Note 35 - Reconciliation of liabilities arising from financing activities

| | 1 April 2021 | Financing cash flows | | Non-cash changes | 31 March 2022 |
|---|---:|---:|---:|---:|---:|
| | | Acquisitions | Repayments | | |
| | £m | £m | £m | £m | £m |
| Long term borrowing | 897.3 | 249.6 | (260.7) | (5.2) | 881.0 |
| Short term borrowing * | 489.0 | 772.7 | (940.4) | 3.8 | 325.1 |
| PFI liabilities * | 139.5 | 0 | (6.5) | 0 | 133.0 |
| **Total** | **1,525.8** | **1,022.3** | **(1,207.6)** | **(1.4)** | **1,339.1** |

| | 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** |

* 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 37.

## 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 2021/22, 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.

For 2021/22, there are no material transactions for services to organisations in which Members have declared interests.

## Lancashire County Pension Fund

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

The council incurred costs of £1.0 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 £72.4 million to the fund in 2021/22.

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 | 87.5% | Subsidiary |
| Marketing Lancashire Limited | 100% | Subsidiary |
| Lancashire Enterprise Partnership Limited | 33% | 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.

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 28.6 | Payments made during the year to Lancashire Renewables Limited | 28.8 |
| (3.6) | Income received during the year from Lancashire Renewables Limited | (5.5) |
| 1.0 | Amounts owed at the year end from Lancashire Renewables Limited | 1.3 |
| (1.0) | Amounts owed at the year end to Lancashire Renewables Limited | (1.2) |

## 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.

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.7 | Payments made during the year to Marketing Lancashire Limited | 0.5 |

## Active Lancashire Limited

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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.1 | Payments made during the year to Active Lancashire Limited | 0 |

## 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.

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.2 | Payments made during the year to Local Pensions Partnership Limited | 0.1 |
| (0.1) | Income received during the year from Local Pensions Partnership Limited | (0.2) |
| 0.1 | Amounts owed at the year end from Local Pensions Partnership Limited | 0.5 |
| 0 | Amounts owed at the year end to Local Pensions Partnership Limited | (0.4) |

## Lancashire County Developments Limited

Lancashire County Developments Limited (LCDL) is an economic development agency for the County. It is classed as a subsidiary of the county council.

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.5 | Payments made during the year to LCDL | 7.8 |
| (4.2) | Income received during the year from LCDL | (2.8) |
| 0.6 | Amounts owed at the year end from LCDL | 0.1 |
| (0.2) | Amounts owed at the year end to LCDL | (0.3) |

# Note 37 - Pooled budgets

## Pooled budget for learning disabilities

| 2020/21 | | 2021/22 |
|---|---|---|
| **£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** | |
| 147.5 | Lancashire County Council | 148.2 |
| 1.6 | NHS Morecambe Bay CCG | 1.7 |
| 2.3 | NHS Fylde and Wyre CCG | 2.3 |
| 0.3 | NHS Blackpool CCG | 0.3 |
| 0.1 | NHS Greater Preston CCG | 0.1 |
| 3.1 | NHS Chorley and South Ribble CCG | 3.0 |
| 1.6 | NHS Greater Preston – central pool | 1.6 |
| 1.6 | NHS West Lancashire CCG | 1.6 |
| 1.6 | NHS East Lancashire CCG | 1.7 |
| **159.7** | **Total** | **160.5** |
| **36.3** | **Net (surplus)/deficit arising on the pooled budget during the year** | **37.1** |
| **33.4** | **Council share of the net (surplus)/deficit** | **34.1** |

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

| 2020/21 £m | Funding provided to the pooled budget | 2021/22 £m |
|---|---|---|
| (16.7) | Lancashire County Council (Disabled facilities grant) | (16.7) |
| (29.7) | NHS East Lancashire CCG | (31.2) |
| (14.7) | NHS Greater Preston CCG | (15.4) |
| (13.3) | NHS Chorley and South Ribble CCG | (14.0) |
| (14.5) | NHS Fylde and Wyre CCG | (15.2) |
| (11.3) | NHS Morecambe Bay CCG | (12.1) |
| (8.4) | NHS West Lancashire CCG | (8.8) |
| **(108.6)** | **Total** | **(113.4)** |
| | **Expenditure met from the pooled budget** | |
| 28.8 | Lancashire County Council (Social care) | 30.6 |
| 20.5 | NHS East Lancashire CCG | 21.5 |
| 10.0 | NHS Greater Preston CCG | 10.5 |
| 9.4 | NHS Chorley and South Ribble CCG | 9.9 |
| 9.8 | NHS Fylde and Wyre CCG | 10.1 |
| 7.8 | NHS Morecambe Bay CCG | 8.2 |
| 5.6 | NHS West Lancashire CCG | 5.9 |
| 16.7 | Lancashire County Council (Disabled facilities grant) | 16.7 |
| **108.6** | **Total** | **113.4** |
| **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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (38.6) | Growth deal | 0 |
| (78.6) | City deal * | (42.6) |
| (17.1) | Getting building fund | (17.0) |
| (0.9) | LEP core activity funding | (0.8) |
| (0.9) | LEP additional projects | (1.0) |
| (0.3) | Growth hub | (0.3) |
| **(136.4)** | **Total income** | **(61.7)** |

* The City deal total includes contributions of £3.8 million from Lancashire County Council in 2021/22. (2020/21: £3.8 million)

### Expenditure

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 84.5 | Growth deal | 26.3 |
| 59.4 | City deal | 62.3 |
| 0 | Get building fund | 13.8 |
| 1.5 | LEP core activity funding | 1.0 |
| 0.8 | LEP additional projects | 1.0 |
| 0.3 | Growth hub | 0.3 |
| **146.5** | **Total expenditure** | **104.7** |

In 2021/22, expenditure totalling £57.6 million was spent on LCC schemes. (2020/10: £56.2 million)

### Growing places

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 5.4 | Payments out | 4.1 |
| (5.6) | Repayments | (8.6) |
| (0.3) | Loan interest | (0.2) |
| **(0.5)** | **Total** | **(4.7)** |

### Reserves

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| **(92.1)** | **Balance at 1 April** | **(82.6)** |
| (136.4) | Income | (61.7) |
| 146.5 | Expenditure | 104.7 |
| (0.5) | Growing places | (4.7) |
| (0.1) | Employment liabilities | (0.1) |
| **(82.6)** | **Balance at 31 March** | **(44.4)** |

# Note 39 – Significant items of income and expense

## 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, six schools transferred to academy status. The value of the disposals totalled £18.4 million.

| School | Value |
|---|---:|
| | £m |
| St Joseph's Catholic Primary School | 1.6 |
| St Matthew's CE Primary School | 2.2 |
| Accrington Huncoat Primary School | 1.8 |
| Oswaldtwistle West End Primary School | 1.8 |
| St John with St Michael CE Primary School | 1.9 |
| The Hollins Technology College | 9.1 |
| **Total** | **18.4** |

# Technical annex

Bowland heather moorland
Photo: Graham Cooper

## Income, expense, gains and losses on financial instruments – 2021/22

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 | 35.8 | 0 | 0 | 0 | 0 | 35.8 |
| Loss on de-recognition | 0 | 6.5 | 0 | 0.1 | 10.9 | 17.5 |
| Impairment losses | 0 | 0 | (9.5) | 0 | 0 | (9.5) |
| Fees paid | 0.5 | 0 | 0 | 0 | 0 | 0.5 |
| **Interest payable and similar charges** | **36.3** | **6.5** | **(9.5)** | **0.1** | **10.9** | **44.3** |
| Interest income | 0 | 0 | (2.8) | (5.6) | (2.0) | (10.4) |
| (Increases)/decreases in fair value | 0 | (7.3) | 0 | 0 | 4.6 | (2.7) |
| Gain on de-recognition | 0 | 0 | (2.0) | (20.9) | (16.6) | (39.5) |
| **Interest and investment income** | **0** | **(7.3)** | **(4.8)** | **(26.5)** | **(14.0)** | **(52.6)** |
| **Net impact on the surplus or deficit on provision of services** | **36.3** | **(0.8)** | **(14.3)** | **(26.4)** | **(3.1)** | **(8.3)** |
| Amounts recycled to the surplus/deficit on the provision of services | 0 | 0 | 0 | (45.7) | 0 | (45.7) |
| Loss on revaluation | 0 | 0 | 0 | 83.2 | 0 | 83.2 |
| **Impact on other comprehensive income** | **0** | **0** | **0** | **37.5** | **0** | **37.5** |
| **Net gain/(loss) for the year** | **36.3** | **(0.8)** | **(14.3)** | **11.1** | **(3.1)** | **29.2** |

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

| | 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)** |
| Amounts recycled to the surplus/deficit on the provision of services | 0 | 0 | 0 | (26.9) | 0 | (26.9) |
| Loss on revaluation | 0 | 0 | 0 | 63.4 | 0 | 63.4 |
| **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** |

## 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 2021 | | | | 31 March 2022 | | |
|---|---|---|---|---|---|---|
| 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** | | | |
| 554.1 | 554.1 | 1 | Corporate, covered and government bonds | 1 | 580.9 | 580.9 |
| | | | **Financial assets held at fair value through profit and loss** | | | |
| 79.5 | 79.5 | 1 | Corporate bonds | 1 | 56.4 | 56.4 |
| 129.7 | 129.7 | 2 | LOBO loan investment | 2 | 24.1 | 24.1 |
| **209.2** | **209.2** | | **Total** | | **80.5** | **80.5** |
| | | | **Financial assets held at amortised cost** | | | |
| 10.2 | 11.0 | 2 | Local authority bonds | 2 | 10.2 | 10.2 |
| 15.2 | 17.4 | 2 | Long term bank deposits | 2 | 7.2 | 7.7 |
| 28.1 | 35.8 | 2 | Lease receivables | 2 | 26.9 | 31.2 |
| 7.1 | 8.6 | 2 | Long term loans to companies | 2 | 7.1 | 6.3 |
| **60.6** | **72.8** | | **Subtotal** | | **51.4** | **55.4** |
| **823.9** | **836.1** | | **Total** | | **712.8** | **716.8** |
| 340.2 | | | Assets for which fair value is not disclosed # | | 351.2 | |
| **1,164.1** | | | **Total financial assets** | | **1,064.0** | |
| | | | | | | |
| 28.1 | | | Long term debtors | | 26.9 | |
| 586.6 | | | Long term investments | | 605.4 | |
| 98.6 | | | Short term debtors | | 154.6 | |
| 266.3 | | | Short term investments | | 132.4 | |
| 184.5 | | | Cash and cash equivalents | | 144.7 | |
| **1,164.1** | | | **Total financial assets** | | **1,064.0** | |

# 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 2021 | | | | 31 March 2022 | | |
|---|---|---|---|---|---|---|
| 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** | | | |
| (284.6) | (341.4) | 2 | Long term PWLB loans | 2 | (279.6) | (294.5) |
| (1.3) | (1.2) | 2 | Long term creditors | 2 | (1.3) | (1.1) |
| (591.3) | (572.0) | 2 | Long term loans | 2 | (591.4) | (536.4) |
| (21.4) | (23.0) | 2 | Other long term loans | 2 | (10.0) | (10.2) |
| (139.5) | (220.2) | 2 | PFI liabilities | 2 | (126.2) | (171.4) |
| **(1,038.1)** | **(1,157.8)** | | **Total financial liabilities held at amortised cost** | | **(1,008.5)** | **(1,013.6)** |
| | | | **Financial liabilities held at fair value through profit and loss** | | | |
| (162.5) | (162.5) | 1 | Short term liabilities for short investments | 1 | (64.7) | (64.7) |
| **(162.5)** | **(162.5)** | | **Total financial liabilities held at fair value through profit and loss** | | **(64.7)** | **(64.7)** |
| (633.6) | | | Liabilities for which fair value is not disclosed # | | (558.9) | |
| **(1,834.2)** | **(1,320.2)** | | **Total financial liabilities** | | **(1,632.1)** | **(1,078.3)** |
| | | | **Recorded on balance sheet as:-** | | | |
| (144.6) | | | Short term creditors | | (227.0) | |
| (489.0) | | | Short term borrowings | | (325.1) | |
| (169.0) | | | Other current liabilities | | (71.5) | |
| (1.3) | | | Long term creditors | | (1.3) | |
| (897.3) | | | Long term borrowing | | (881.0) | |
| (133.0) | | | Other long term liabilities | | (126.2) | |
| **(1,834.2)** | | | **Total financial liabilities** | | **(1,632.1)** | |

# 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 2021/22 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 2021 | | Credit rating | 31 March 2022 | |
|---|---|---|---|---|
| **Long term** | **Short term** | | **Long term** | **Short term** |
| **£m** | **£m** | | **£m** | **£m** |
| 213.0 | 47.1 | AAA | 244.8 | 61.8 |
| 366.2 | 219.1 | AA | 261.9 | 70.6 |
| 0 | 0 | BAA1 | 91.5 | 0 |
| **579.2** | **266.2** | **Total** | **598.2** | **132.4** |
| 7.1 | 0 | Credit rating not applicable | 7.1 | 0 |
| **586.3** | **266.2** | **Total investments** | **605.3** | **132.4** |
| 0.3 | 0.1 | Accrued interest excluded | 0.1 | 0 |
| **586.6** | **266.3** | **Total investments** | **605.4** | **132.4** |

The maximum single commercial exposure is to GILT UKTI 0 ⅛ 03/22/2073 at £133 million, which is lower than individual counterparty limit of £500 million for cash deposits. Overall the portfolio is diversified by the use of 47 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 67% 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 are minimal non-material credit losses of less than £0.1 million due as at 31 March 2022.

This is as most of the investments held were not below Moody's Aa2 level apart from the EDF bonds showing as BAA1. In 2021/22 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 | Total |
|---|---|---|
| | £m | £m |
| **Balance at 1 April 2021** | **(17.7)** | **(17.7)** |
| Impairment allowance for trade debtors | 9.5 | **9.5** |
| **Balance at 31 March 2022** | **(8.2)** | **(8.2)** |

## 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 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 490.9 | Less than 1 year | 328.9 |
| **490.9** | **Total short term borrowing** | **328.9** |
| 47.9 | 1 to 2 years | 47.7 |
| 435.6 | 3 to 5 years | 435.7 |
| 90.7 | 6 to 10 years | 82.6 |
| 456.1 | More than 10 years | 441.2 |
| **1,030.3** | **Total long term borrowing** | **1,007.2** |
| **1,521.2** | **Total borrowing** | **1,336.1** |

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 2026 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.

| | **2021/22** |
|---|---|
| | **£m** |
| Increase in interest payable on variable rate borrowings | 2.3 |
| Increase in interest receivable on variable rate investments | (4.0) |
| Decrease in fair value of traded investments | 4.6 |
| Decrease in fair value of borrowings held for trading | (15.0) |
| **Impact on surplus on the provision of services** | **(12.1)** |
| Decrease in fair value of fixed rate other comprehensive income investment assets | 67.9 |
| **Impact on other comprehensive income and expenditure** | **55.8** |
| Decrease in fair value of fixed rate loans and investments | 3.4 |
| Decrease in fair value of fixed rate borrowings | (69.4) |

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 2022 | Contractual rates 2021/22 | Average rate paid 2021/22 | Years to maturity at 31 March 2022 |
|---|---|---|---|---|
| | £m | % | % | |
| **Long term borrowing** | | | | |
| **Fixed rate funding:** | | | | |
| Public works loan board | (279.6) | 1.57 to 4.625 | 3.399 | Over 1 year to 48 years |
| Long term bonds | (241.1) | 1.625 | 1.625 | 38 years |
| Other long term loans | (5.0) | 3.8 | 3.8 | 10 years |
| **Total fixed rate funding** | **(525.7)** | | | |
| **Variable rate funding:** | | | | |
| Long term bonds | (350.3) | 1.031 | 1.031 | 3 years |
| Salix funding | (5.0) | 0 | 0 | |
| **Total long term borrowing** | **(881.0)** | | | |
| **Short term borrowing** | | | | |
| **Fixed rate funding:** | | | | |
| Public works loan board | (5.0) | 4.500 | 4.500 | Less than 1 year |
| Other market loans | (242.0) | 0.05 to 3.15 | 0.286 | Less than 1 year |
| Accrued interest | (3.0) | | | |
| **Total fixed rate funding** | **(250.0)** | | | |
| **Variable rate funding:** | | | | |
| Shared investment scheme | (71.8) | 0.50 to 0.75 | 0.168 | Less than 1 year |
| Salix funding | (1.8) | 0 | 0 | Less than 1 year |
| Other variable funding | (1.5) | 0.5 | 0.122 | Less than 1 year |
| **Total variable funding** | **(75.1)** | | | |
| **Total short term borrowing** | **(325.1)** | | | |
| **Total borrowing** | **(1,206.1)** | | | |

## 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. During 2021/22 the council sold five out of these six local authority loans and also purchased £50 million of the UK government bonds to offset these sales. At 31 March 2022 the fair values represented in the comprehensive income and expenditure statement recognised an overall gain of £5.4 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 | (7.3) | 1.9 | (5.4) |

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 2022, using the Bermudian SWAP basis, in accordance with industry standards. This methodology resulted in a 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 fair value losses from the LOBO assets resulting in a net gain of £5.4 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 2021/22 £75.2 million was paid to the Department for Education for teachers' pension costs. This represents 23.7% of teachers' pensionable pay (2020/21 £73.3 million and 23.7%).
- In 2021/22, the council paid £0.3 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 17% of pensionable pay (2020/21: £0.3 million and 17%).
- The council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2021/22, these amounted to £7.4 million, representing 2.3% of pensionable pay (2020/21: £7.8 million and 2.5%).

In addition to the recognised gains and losses included in the comprehensive income and expenditure statement, a re-measurement of the net defined liability gain of £538.4 million (2020/21: £371.0 million loss) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a £122.8 million gain.

## Transactions relating to retirement benefits

| | Local Government Pension Scheme | | Teachers' Pension Scheme | |
|---|---|---|---|---|
| | **2021/22** | **2020/21** | **2021/22** | **2020/21** |
| | **£m** | **£m** | **£m** | **£m** |
| **Comprehensive income and expenditure statement** | | | | |
| **Cost of services** | | | | |
| Current service cost | 180.0 | 134.6 | 0 | 0 |
| Past service cost | 0 | 0 | 0 | 0 |
| (Gain)/loss from settlements and curtailments | 0.4 | 0.5 | 0 | 0 |
| Administration expenses | 2.7 | 2.5 | 0 | 0 |
| **Financing and investment income and expenditure** | | | | |
| Net Interest expense | 28.3 | 20.8 | 2.2 | 2.5 |
| **Total post-employment benefit charged to the surplus or deficit on the provision of services** | **211.4** | **158.4** | **2.2** | **2.5** |
| **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) | (464.0) | (299.7) | 0 | 0 |
| Experience (gains)/losses on liabilities | 56.9 | (96.7) | 0.4 | (1.7) |
| Actuarial (gains)/losses arising on changes in financial assumptions | (90.8) | 760.7 | 0.9 | 8.4 |
| Actuarial (gains)/losses arising on changes in demographic assumptions | (40.8) | 0 | (1.0) | 0 |
| **Total re-measurement recognised in other comprehensive income** | | | | |
| **Total post-employment benefit charged to the comprehensive income and expenditure statement** | **(327.3)** | **522.7** | **2.5** | **9.2** |
| **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 | 211.4 | 158.4 | 2.2 | 2.5 |
| **Actual amount charged against the general fund balance for pensions in the year** | | | | |
| **Employers' contributions payable to the scheme** | **73.3** | **76.8** | **10.0** | **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:

| 2020/21 | | | 2021/22 | |
|---|---|---|---|---|
| **Local government pension scheme** | **Teachers' pension scheme** | | **Local government pension scheme** | **Teachers' pension scheme** |
| **£m** | **£m** | | **£m** | **£m** |
| 3,795.0 | 0 | Fair value of plan assets | 4,310.9 | 0 |
| (5,201.6) | (109.6) | Present value of the defined benefit obligation | (5,317.1) | (101.9) |
| **(1,406.6)** | **(109.6)** | **Net liability arising from defined benefit obligation** | **(1,006.2)** | **(101.9)** |

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

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| **3,434.2** | **Opening balance as at 1 April** | **3,795.0** |
| 299.7 | Re-measurement (assets) | 464.0 |
| 84.5 | Interest on plan assets | 79.7 |
| (2.5) | Admin expenses | (2.7) |
| 76.8 | Employer contributions | 73.3 |
| 25.8 | Contributions from scheme participants | 27.2 |
| (123.5) | Benefits/transfers paid | (125.6) |
| **3,795.0** | **Closing balance as at 31 March** | **4,310.9** |

## Reconciliation of present value of the scheme liabilities

| 2020/21 | | | 2021/22 | |
|---|---|---|---|---|
| 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 |
| **(4,476.7)** | **(110.4)** | **Opening balance as at 1 April** | **(5,201.6)** | **(109.6)** |
| (134.5) | 0 | Current service cost | (180.0) | 0 |
| (105.3) | (2.5) | Interest on pension liabilities | (108.2) | (2.0) |
| (25.8) | 0 | Contributions from scheme participants | (27.2) | 0 |
| 123.5 | 9.9 | Benefits/transfers paid | 125.6 | 10.0 |
| (0.5) | 0 | Curtailment cost | (0.4) | 0 |
| | | | | |
| 96.7 | 1.7 | - Experience gains/(losses) on liabilities | (56.9) | (0.4) |
| (760.7) | (8.3) | - Actuarial gains/(losses) arising from changes in financial assumptions | 90.8 | (0.9) |
| 0 | 0 | - Actuarial gains/(losses) arising from changes in demographic assumptions | 40.8 | 1.0 |
| 81.7 | 0 | Lump sum early payment of contributions | 0 | 0 |
| **(5,201.6)** | **(109.6)** | **Closing balance as at 31 March** | **(5,317.1)** | **(101.9)** |

## Local Government Pension Scheme assets comprised:

| 31 March 2021 | Asset category | Quoted in active markets (Y/N) | 31 March 2022 |
|---|---|---|---|
| £m | | | £m |
| | **Equities:** | | |
| 0 | Financials | Y | 5.1 |
| | **Bonds:** | | |
| 0 | UK corporate | Y | 17.7 |
| 0 | Overseas corporate | N | 15.9 |
| | **Property:** | | |
| 1.7 | Offices * | N | 2.0 |
| 31.6 | Industrial/warehouse * | N | 32.1 |
| 3.7 | Shops | N | 3.8 |
| 28.0 | Multi let commercial building * | N | 30.9 |
| | **Alternatives:** | | |
| 0 | UK private equity | N | 95.3 |
| 304.5 | Overseas private equity | N | 259.9 |
| 455.1 | Infrastructure | N | 491.1 |
| 507.3 | Credit funds * | N | 576.9 |
| 126.5 | Pooled fixed income* | N | 187.4 |
| 475.4 | Indirect property funds | N | 375.9 |
| 38.8 | UK pooled equity * | N | 40.6 |
| 1,738.6 | Overseas pooled equity funds * | N | 2,067.6 |
| | **Cash:** | | |
| 93.7 | Cash accounts * | N | 119.6 |
| (9.9) | Net current assets/(liabilities) * | N | (11.0) |
| **3,795.0** | **Total assets** | | **4,310.9** |

* The 31 March 2021 figures have been disaggregated.

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates 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 following table.

| 2020/21 | | 2021/22 |
|---|---|---|
| **Mortality assumptions** | | |
| **Longevity at 65 for current pensioners** | | |
| 22.4 years | Male | 22.3 years |
| 25.1 years | Female | 25.0 years |
| **Longevity at 65 for future pensioners** | | |
| 23.9 years | Male | 23.7 years |
| 26.9 years | Female | 26.8 years |
| **Financial assumptions** | | |
| 2.7% | Rate of CPI inflation | 3.3% |
| 4.2% | Rate of increase in salaries | 4.8% |
| 2.8% | Rate of increase in pensions | 3.4% |
| 2.1% | Rate for discounting scheme liabilities | 2.8% |

## Sensitivity analysis

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 net defined benefit liability | Projected service cost for next year | Projected net interest cost for next year |
|---|---|---|---|
| | £m | £m | £m |
| Rate for discounting scheme liabilities (increase by 0.1%) | (90.0) | (4.5) | (1.6) |
| Rate of inflation (increase by 0.1%) | 91.6 | 4.7 | 2.6 |
| Rate of increase in pay growth (increase by 0.1%) | 8.0 | 0 | 0.3 |
| 1 year increase in life expectancy | 159.2 | 5.5 | 4.5 |
| Change in investment returns (increase by 1%) | (43.2) | 0 | (1.2) |
| Change in investment returns (decrease by 1%) | 43.2 | 0 | 1.2 |

## 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 £54.3 million. Expected contributions for the teachers and health workers in the year are £103.9 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 (GMP) – historic transfers

UK and European law require 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.

In December 2020 a further High Court ruling extended GMP equalisation costs to historic transfers, potentially creating a further liability for pension schemes. However, it is unclear at this point how this latest ruling may (or may not) be relevant in the LGPS. Given the uncertainty around whether this applies to public sector schemes, the difficulty in obtaining the necessary historic data and the low likelihood of a material impact for employers, no adjustment has been included in the pension figures.

# Significant accounting policies

# 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 purchase price 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.

Where a number of identical assets, e.g bonds, are held but the cost differs on de-recognition the gain or loss will be determined by the principal of first in/first out. There will an exception to this where there is a clearly linked transaction.

## 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.

## Highways network infrastructure

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

### Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably.

### Measurement

Highways network infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost.

## 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 |
|---|---|
| Community assets and 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 31 March 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 |
|---|---|
| Carriageways | 20-50 years |
| Footways and cycletracks | 40-50 years |
| Structures (e.g. bridges) | 120 years |
| Street lighting | 40 years |
| Street furniture | 20-50 years |
| Buildings | 5-50 years |
| Vehicles, plant and equipment | 10 years unless the life of the asset is considered to be less |
| IT equipment | 7-10 years |

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.

Where a part of the highways network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

## 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

Langden Valley Crop
Photo: Charlie Hedley

## 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.

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| Gross expenditure | Gross income | Net expenditure | | Gross expenditure | Gross income | Net expenditure |
| £m | £m | £m | | £m | £m | £m |
| 583.0 | (216.9) | 366.1 | Adults | 657.4 | (255.2) | 402.2 |
| 8.8 | (0.3) | 8.5 | Policy, information, commissioning and safeguarding | 10.3 | (1.3) | 9.0 |
| 70.2 | (108.7) | (38.5) | Public health and wellbeing | 78.1 | (88.2) | (10.1) |
| 239.6 | (23.1) | 216.5 | Education and children's services | 251.4 | (27.4) | 224.0 |
| 17.8 | (11.4) | 6.4 | Growth, environment and planning | 20.5 | (5.8) | 14.7 |
| 134.2 | (32.2) | 102.0 | Highways and transport | 146.0 | (34.0) | 112.0 |
| 2.1 | 0 | 2.1 | Organisational development | 2.1 | 0 | 2.1 |
| 83.7 | (14.4) | 69.3 | Waste management | 87.9 | (17.8) | 70.1 |
| 72.8 | (29.9) | 42.9 | Finance | 28.7 | (10.5) | 18.2 |
| 27.4 | (6.1) | 21.3 | Corporate | 30.8 | (6.3) | 24.5 |
| 54.9 | (32.9) | 22.0 | Strategy and performance | 48.1 | (28.0) | 20.1 |
| 76.2 | (12.2) | 64.0 | Chief executive services | 48.6 | (24.9) | 23.7 |
| 979.7 | (979.5) | 0.2 | Schools | 1,097.8 | (1,029.4) | 68.4 |
| 0 | 0 | 0 | Digital services | 33.8 | (2.4) | 31.4 |
| **2,350.4** | **(1,467.6)** | **882.8** | **Cost of services** | **2,541.5** | **(1,531.2)** | **1,010.3** |
| 33.4 | (8.3) | 25.1 | Other operating income and expenditure | 23.8 | (8.7) | 15.1 |
| 64.4 | (80.7) | (16.3) | Financing and investment income and expenditure | 57.3 | (47.5) | 9.8 |
| 0 | (974.6) | (974.6) | Taxation and non-specific grant income | 0 | (1,009.4) | (1,009.4) |
| **2,448.2** | **(2,531.2)** | **(83.0)** | **(Surplus)/deficit on provision of services** | **2,622.6** | **(2,596.8)** | **25.8** |
| 3.9 | 0 | 3.9 | Taxation on profit on ordinary activities | 5.4 | 0 | 5.4 |
| **2,452.1** | **(2,531.2)** | **(79.1)** | **Group (surplus)/deficit** | **2,628.0** | **(2,596.8)** | **31.2** |
| | | (48.9) | (Surplus)/deficit on revaluation of non-current assets | | | (85.6) |
| | | 371.0 | Remeasurement of the net defined benefit pension liability/(asset) | | | (538.4) |
| | | 36.5 | (Surplus)/deficit on financial assets measured at fair value through other comprehensive income | | | 37.5 |
| | | **358.6** | **Other comprehensive (income) and expenditure** | | | **(586.5)** |
| | | **279.5** | **Total comprehensive (income) and expenditure** | | | **(555.3)** |

## 2021/22

| | 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 2021** | **(492.9)** | **(8.4)** | **(142.1)** | **(643.4)** | **(300.2)** | **(943.6)** | **(61.9)** | **(1,005.5)** |
| Movement in reserves during 2021/22 | | | | | | | | |
| Total comprehensive income and expenditure | 49.2 | 0 | 0 | 49.2 | (586.5) | (537.3) | (18.0) | (555.3) |
| Adjustment between accounting basis and funding basis under regulations | (112.5) | (1.9) | 1.8 | (112.6) | 112.6 | 0 | 0 | 0 |
| Adjustments between the group accounts and the council accounts | (7.0) | 0 | 0 | (7.0) | 0 | (7.0) | 0 | (7.0) |
| **(Increase)/decrease in year** | **(70.3)** | **(1.9)** | **1.8** | **(70.4)** | **(473.9)** | **(544.3)** | **(18.0)** | **(562.3)** |
| **Balance at 31 March 2022** | **(563.2)** | **(10.3)** | **(140.3)** | **(713.8)** | **(774.1)** | **(1,487.9)** | **(79.9)** | **(1,567.8)** |

## 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)** |

| 31 March 2021 | | Note | 31 March 2022 |
|---|---|---|---|
| £m | | | £m |
| 3,122.4 | Property, plant and equipment | | 3,231.1 |
| 28.7 | Heritage assets | | 28.7 |
| 70.1 | Investment properties | 8 | 86.2 |
| 12.5 | Intangible assets | | 17.4 |
| 582.0 | Long term investments | | 600.3 |
| 41.2 | Long term debtors | | 39.5 |
| **3,856.9** | Long term assets | | **4,003.2** |
| 267.7 | Short term investments | | 133.5 |
| 3.2 | Inventories | | 4.0 |
| 155.0 | Short term debtors | | 229.5 |
| 35.1 | Payments in advance | | 19.9 |
| 184.5 | Cash and cash equivalents | | 144.7 |
| 2.4 | Assets held for sale | | 0 |
| **647.9** | Current assets | | **531.6** |
| (487.6) | Short term borrowing | | (315.6) |
| (215.2) | Short term creditors | | (292.1) |
| (33.0) | Receipts in advance | | (68.0) |
| (13.4) | Short term provisions | | (15.7) |
| (169.0) | Other current liabilities | | (71.4) |
| **(918.2)** | Current liabilities | | **(762.8)** |
| (26.8) | Long term provisions | | (35.6) |
| (6.4) | Deferred tax liability | 9 | (11.8) |
| (897.3) | Long term borrowing | | (881.0) |
| (1.3) | Other long term creditors | | (1.3) |
| (1,649.3) | Other long term liabilities | | (1,274.5) |
| **(2,581.1)** | Long term liabilities | | **(2,204.2)** |
| **1,005.5** | Net assets | | **1,567.8** |
| (643.4) | Usable reserves | 10 | (713.8) |
| (300.2) | Unusable reserves | 10 | (774.1) |
| (61.9) | Subsidiary reserves | 10 | (79.9) |
| **(1,005.5)** | Total reserves | | **(1,567.8)** |

| 2020/21 | | Note | 2021/22 |
|---|---|---|---|
| **£m** | | | **£m** |
| 79.1 | Net surplus/(deficit) on the provision of services | | (31.2) |
| 65.1 | Adjustments to net surplus/(deficit) on the provision of services for non-cash movements | 11 | 336.9 |
| (140.6) | Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities | 11 | (130.4) |
| **3.6** | **Net cash flows from operating activities** | | **175.3** |
| (301.4) | Investing activities | 12 | (15.7) |
| (151.7) | Financing activities | 13 | (199.4) |
| **(449.5)** | **Net increase/(decrease) in cash or cash equivalents** | | **(39.8)** |
| 634.0 | Cash and cash equivalents at the beginning of the reporting period | | 184.5 |
| **184.5** | **Cash and cash equivalents at the end of the reporting period** | | **144.7** |

## 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 2022 have been used for consolidation.

## Note 3 - Entities not consolidated

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

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

| Company | Interest | Relationship |
|---|---|---|
| Lancashire Renewables Limited | 87.5% | Subsidiary |
| Marketing Lancashire Limited | 100% | Subsidiary |
| Lancashire Enterprise Partnership Limited | 33% | 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

| 2020/21 | | 2021/22 |
|---|---|---|
| £000 | | £000 |
| | **Fees in respect of Lancashire County Council** | |
| 87.0 | Fees incurred with regard to external audit services provided by Grant Thornton | 93.0 |
| 7.8 | Fees incurred for certification work undertaken by Grant Thornton | 7.0 |
| 5.0 | Fees payable in respect of other services provided by Grant Thornton | 10.0 |
| 33.9 | Fees payable in respect of additional prior year statutory audit work | 68.4 |
| 0 | Reimbursement from Public Sector Audit Appointment | (17.2) |
| **133.7** | **Total fees for Lancashire County Council** | **161.2** |
| | **Fees in respect of Lancashire County Developments Limited** | |
| 24.8 | Fees incurred with regard to external audit services provided by Beever and Struthers | 25.2 |
| 4.0 | Fees payable in respect of other services provided by Beever and Struthers during the year | 13.9 |
| **28.8** | **Total fees for Lancashire County Developments Limited** | **39.1** |
| **162.5** | **Total** | **200.3** |

## Note 6 - Group taxation

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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.3 | Deferred tax: origination and reversal of timing differences | 0.4 |
| 3.6 | Capital gains | 5.0 |
| **3.9** | **Total deferred tax** | **5.4** |
| **3.9** | **Taxation on profit on ordinary activities** | **5.4** |

## Note 7 - Group transfers to and from earmarked reserves

| | Balance at 31 March 2020 | Transfers out 2020/21 | Transfers in 2020/21 | Balance at 31 March 2021 | Transfers out 2021/22 | Transfers in 2021/22 | Balance at 31 March 2022 |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Total earmarked reserves of the council** | **(333.8)** | **108.1** | **(267.2)** | **(492.9)** | **104.5** | **(174.8)** | **(563.2)** |
| Capital funding reserve | (8.7) | 0 | 0 | (8.7) | 0 | (7.0) | (15.7) |
| Profit and loss account | (18.9) | 0 | 0 | (18.9) | 0 | (3.6) | (22.5) |
| **Total revenue and capital reserves of the subsidiary** | **(27.6)** | **0** | **0** | **(27.6)** | **0** | **(10.6)** | **(38.2)** |
| **Total reserves** | **(361.4)** | **108.1** | **(267.2)** | **(520.5)** | **104.5** | **(185.4)** | **(601.4)** |

## Note 8 – Group investment properties

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| (4.2) | Rental Income from investment property | (4.5) |
| 1.0 | Direct operating expenses arising from investment property | 1.9 |
| **(3.2)** | **Total** | **(2.6)** |

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| **44.7** | **Balance as at 1 April** | **70.1** |
| 6.4 | Additions | 3.5 |
| 0 | Disposals | (0.1) |
| 19.0 | Net gains/(losses) from fair value adjustments | 12.7 |
| **70.1** | **Balance as at 31 March** | **86.2** |

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

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 as at 31 March.

The 2021/22 commercial unit valuations have been undertaken by Cushman and Wakefield, in accordance with the appropriate sections of the current edition of the RICS Valuation — Global Standards, which incorporate the International Valuation Standards and the RICS UK national supplement (RICS Red Book).

## Basis of valuation

The fair value of the 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 2021 | | | Property type | 31 March 2022 | | |
|---|---|---|---|---|---|---|
| **Balance sheet value** | **Fair value** | **Fair value level** | | **Fair value level** | **Balance sheet value** | **Fair value** |
| **£m** | **£m** | | | | **£m** | **£m** |
| 70.1 | 70.1 | 3 | Commercial units | 3 | 86.2 | 86.2 |
| **70.1** | **70.1** | | **Total** | | **86.2** | **86.2** |

## 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 2022 £m | Valuation technique | Unobservable inputs | % |
|---|---|---|---|---|
| Lancashire business park | 71.9 | Market rent | Net initial yield | 4.15 |
| | | | Reversionary yield | 6.76 |
| | | | Nominal equivalent yield | 5.77 |
| | | | True equivalent yield | 5.97 |
| White Cross business park | 15.2 | Market rent | Net initial yield | 5.91 |
| | | | Reversionary yield | 9.70 |
| | | | Nominal equivalent yield | 8.51 |
| | | | True equivalent yield | 8.93 |

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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| **(2.5)** | **Balance as at 1 April** | **(6.4)** |
| (3.9) | Charge for the year | (5.4) |
| **(6.4)** | **Balance as at 31 March** | **(11.8)** |

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 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| (23.4) | General fund | (23.4) |
| (352.7) | Earmarked reserves | (407.6) |
| (116.8) | School reserves | (132.2) |
| **(492.9)** | **Total earmarked reserves of the council** | **(563.2)** |
| (142.1) | Capital grants unapplied reserve | (140.3) |
| (8.4) | Usable capital receipts | (10.3) |
| **(643.4)** | **Total usable reserves of the council** | **(713.8)** |
| (27.6) | Usable reserves of the subsidiary | (38.3) |
| **(671.0)** | **Total usable reserves of the group** | **(752.1)** |

The table below shows the group's unusable reserves:

| 31 March 2021 | | 31 March 2022 |
|---:|---|---:|
| **£m** | | **£m** |
| 44.7 | Financial instruments adjustment account | 41.3 |
| 64.2 | Financial instruments revaluation reserve | 101.7 |
| (1,024.9) | Revaluation reserve | (1,075.4) |
| (1,031.6) | Capital adjustment account | (1,059.5) |
| 1,598.1 | Pensions reserve | 1,190.0 |
| 20.2 | Collection fund adjustment account | (0.6) |
| 29.1 | Accumulated absences adjustment account | 28.4 |
| **(300.2)** | **Total unusable reserves of the council** | **(774.1)** |
| (34.3) | Revaluation reserve for subsidiary | (41.6) |
| **(334.5)** | **Total unusable reserves of the group** | **(815.7)** |

The revaluation reserve for the subsidiary is detailed below.

| 31 March 2021 | | 31 March 2022 |
|---:|---|---:|
| **£m** | | **£m** |
| **(19.2)** | **Balance as at 1 April** | **(34.3)** |
| (19.0) | Upward revaluation of assets | (12.7) |
| 3.9 | Deferred taxation | 5.4 |
| **(15.1)** | **(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services** | **(7.3)** |
| **(34.3)** | **Balance as at 31 March** | **(41.6)** |

# Note 11 - Group cash flows from operating activities

## The cash flows for operating activities include the following items:

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| (61.2) | Interest received | (35.0) |
| 44.1 | Interest paid | 37.7 |

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

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| 70.8 | Depreciation | 74.4 |
| 1.4 | Impairment and downward/(upward) valuations | 8.9 |
| 3.5 | Amortisation of intangible assets | 3.3 |
| (2.3) | Increase/(decrease) in provision for bad debts | (2.4) |
| 13.6 | Increase/(decrease) in creditors | 77.2 |
| (19.4) | (Increase)/decrease in debtors | (5.7) |
| 0.2 | (Increase)/decrease in inventories | (1.2) |
| (7.6) | Movement in pension liability | 170.5 |
| 31.8 | Carrying amount of non-current assets sold | 22.7 |
| (26.9) | Other non-cash items charged to the surplus or deficit on the provision of services | (10.8) |
| **65.1** | **Total** | **336.9** |

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

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| (37.8) | Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries) | (28.5) |
| (8.3) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (6.0) |
| (94.5) | Capital grants credited to the (surplus)/deficit on the provision of services | (95.9) |
| **(140.6)** | **Total** | **(130.4)** |

# Note 12 - Group cash flows from investing activities

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| (106.7) | Purchase of property, plant and equipment, investment property and intangible assets | (134.9) |
| (6,955.5) | Purchase of short term and long term investments | (5,890.0) |
| 10.2 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 7.4 |
| 6,654.2 | Proceeds from the sale of short term and long term investments | 5,900.0 |
| 96.4 | Other capital grants and receipts from investing activities | 101.8 |
| **(301.4)** | **Net cash flows from investing activities** | **(15.7)** |

# Note 13 - Group cash flows from financing activities

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 1,078.5 | Cash receipts from short term and long term borrowing | 1,029.0 |
| 26.9 | Appropriate to/from collection fund adjustment account | (20.8) |
| (1,250.0) | Repayment of short term and long term borrowing | (1,201.1) |
| (7.1) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | (6.5) |
| **(151.7)** | **Net cash flows from financing activities** | **(199.4)** |

# Pension fund accounts and explanatory notes

Astley Hall, Chorley

## Lancashire County Pension Fund

### Fund account for year ended 31 March 2022

| 2020/21 | | Note | 2021/22 |
|---|---|---|---|
| **£m** | **Dealing with members, employers and others directly involved in the Fund** | | **£m** |
| 416.3 | Contributions * | 6 | 161.5 |
| 10.8 | Transfers in from other pension funds | 7 | 15.9 |
| **427.1** | **Additions from dealings with members** | | **177.4** |
| (291.8) | Benefits | 8 | (306.6) |
| (17.3) | Payments to and on account of leavers | 9 | (14.4) |
| **(309.1)** | **Withdrawals from dealing with members** | | **(321.0)** |
| **118.0** | **Net (withdrawals)/additions from dealings with members** | | **(143.6)** |
| (116.4) | Management expenses | 10 | (168.1) |
| **1.6** | **Net (withdrawals)/additions including fund management expenses** | | **(311.7)** |
| | **Returns on investments** | | |
| 143.8 | Investment income | 11 | 200.1 |
| 1,022.2 | Profit and losses on disposal of investments and changes in the value of investments | 13 | 1,217.8 |
| **1,166.0** | **Net return on investments** | | **1,417.9** |
| **1,167.6** | **Net increase in the net assets available for benefits during the year** | | **1,106.2** |
| **8,437.7** | **Opening net assets of the scheme** | | **9,605.3** |
| **9,605.3** | **Closing net assets of the scheme** | | **10,711.5** |

* Contributions for the year ended 31 March 2021 include employer contributions of £261.1m paid in respect of the 3-year period ending 31 March 2023 including £178.4m that was received in advance, of which £87.3m relates to the year ending 31 March 2022.

## Net assets statement as at 31 March 2022

| 31 March 2021 | | Note | 31 March 2022 |
|---|---|---|---|
| £m | | | £m |
| 9,490.9 | Investment assets | 13 | 10,644.0 |
| 108.4 | Cash deposits | 13 | 55.4 |
| **9,599.3** | **Total net investments** | | **10,699.4** |
| 12.6 | Current assets | 19 | 19.9 |
| (6.6) | Current liabilities | 20 | (7.8) |
| **9,605.3** | **Net assets of the fund available to fund benefits at the end of the reporting period** | | **10,711.5** |

**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 2022 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.

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 2021/22 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 Regulations 2013 as amended.
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 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 lancashirecountypensionfund.org.uk.

The investments of the Fund are managed by the Local Pensions Partnership Investments Ltd (LPPI) and the administration functions by Local Pensions Partnership Administration Ltd, which are wholly owned subsidiaries of Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA).

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 lancashirecountypensionfund.org.uk.

## 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 2022 is detailed in the following table:

| 31 March 2021 | Lancashire County Pension Fund | 31 March 2022 |
|---|---|---|
| 313 | Number of employers with active members[1] | 305 |
| 139 | Number of ceased employers (no active members but some outstanding liabilities) | 157 |
| | **Number of active scheme members[2]** | |
| 25,594 | County Council | 26,545 |
| 28,683 | Other employers | 29,142 |
| **54,277** | **Total** | **55,687** |
| | **Number of pensioners** | |
| 26,093 | County Council | 27,024 |
| 26,313 | Other employers | 27,412 |
| **52,406** | **Total** | **54,436** |
| | **Number of deferred pensioners[2]** | |
| 35,697 | County Council | 36,583 |
| 35,419 | Other employers | 36,992 |
| **71,116** | **Total** | **73,575** |
| **177,799** | **Total membership** | **183,698** |

[1] includes employers for whom admission to the Fund is in progress
[2] March 2021 membership numbers have been adjusted to transfer 3,157 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 3,914 pending leavers has been made at 31 March 2022.

## 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 2022. Employer contributions are set based on triennial actuarial funding valuations. The contributions in 2021/22 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 2021/22 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.<br><br>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.<br><br>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.<br><br>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 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2021/22* 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 2021/22,* 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 2022 but not yet adopted by the Code. There are no such accounting changes to be disclosed for 2021/22.

## Restatements

The fair value figures within Note 16 - Financial instruments – fair value hierarchy for the previous year have been restated for changes in the classification of assets, there is no impact on any of the main financial statements, this is a disclosure amendment only.

# 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 Fund 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 the appropriate legislation.

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)". Management expenses are broken down into the following categories:*

- 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 Fund 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 latest available market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2021/22, 16.8m of fees is based on such estimates (2020/21: £12.1m).

# 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 2022 by independent property valuers Avison Young in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards effective from 31 January 2022.

## 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.

## Financial assets at amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's financial assets 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 2022 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 statement's totals £2,318.3m (2020/21: £1,884.7m).<br><br>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 £1,416.7m (2020/21: £1,261.6m excluding investment in loans secured on real assets).<br><br>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 £944.6m (2020/21: £831.7m).<br><br>Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks. |
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex 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.<br><br>Areas of uncertainty highlighted by the actuary include Guaranteed Minimum Pension (GMP) equalisation, the impact of COVID19 / Ukraine 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 £608m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £132m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £355m.<br><br>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 Global Standards effective from 31 January 2022. | Investment properties held directly by the Fund are valued at £172.1m (2020/21: £159.7m). At 31 March 2022 this comprises property situated within the county boundary of Lancashire (£130.0m) and properties located in Wales (£35.6m) and Scotland (£6.5m). |

## Note 6 - Contributions receivable

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | **By category** | **£m** |
| 64.5 | Members | 67.7 |
| | Employers: | |
| 327.4 | Normal contributions[1] | 86.9 |
| 18.0 | Deficit recovery contributions[1] | 5.0 |
| 6.4 | Augmentation contributions [2] | 1.9 |
| 351.8 | Total employers contributions | 93.8 |
| **416.3** | **Total contributions receivable** | **161.5** |
| | **By type of employer** | |
| 175.8 | County Council [1] | 59.9 |
| 220.5 | Scheduled bodies [1] | 80.9 |
| 20.0 | Admitted bodies | 20.7 |
| **416.3** | | **161.5** |

[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.

## Note 7 - Transfers in from other pension funds

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | | **£m** |
| 10.8 | Individual transfers in from other schemes | 15.9 |
| **10.8** | | **15.9** |

## Note 8 - Benefits payable

| 2020/21 | | 2021/22 |
|---|---|---|
| **£m** | **By category** | **£m** |
| 246.9 | Pensions | 253.1 |
| 37.6 | Commutation and lump sum retirement benefits | 44.6 |
| 7.3 | Lump sum death benefits | 8.9 |
| **291.8** | **Total benefits payable** | **306.6** |
| | **By type of employer** | |
| 120.8 | County Council | 127.1 |
| 147.0 | Scheduled bodies | 153.8 |
| 24.0 | Admitted bodies | 25.7 |
| **291.8** | | **306.6** |

## Note 9 - Payments to and on account of leavers

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| 0.8 | Refunds to members leaving service | 1.0 |
| 16.5 | Individual transfers | 13.4 |
| **17.3** | | **14.4** |

## Note 10 - Management expenses

| 2020/21 | | 2021/22 |
|---:|---|---:|
| **£m** | | **£m** |
| 4.0 | Fund administrative costs | 4.1 |
| 111.3 | Investment management expenses[1] | 162.6 |
| 1.1 | Oversight and governance costs [2] | 1.4 |
| **116.4** | | **168.1** |

[1] The increase in investment management expenses in 21/22 is mainly due to a significant increase in the market value of the fund's assets.

[2] Oversight and governance costs above include external audit fees which amounted to £37,423 (2020/21: £39,300). Additional fees of £23,000 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime.

## Investment management expenses

### 31 March 2022

| | Total | Management fees | Performance related fees[2] | Transaction costs[1] |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Pooled investments | 148.1 | 84.7 | 61.8 | 1.6 |
| Pooled property investments | 9.8 | 6.4 | 0.3 | 3.1 |
| Property | 4.5 | 0.2 | 4.3 | - |
| Cash deposits | 0.1 | | | |
| | **162.5** | **91.3** | **66.4** | **4.7** |
| Custody fees | 0.1 | | | |
| | **162.6** | | | |

### 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 | - | - |
| Property | 0.7 | 0.2 | 0.5 | - |
| Cash deposits | - | | | |
| | **111.2** | **51.6** | **56.4** | **3.2** |
| Custody fees | 0.1 | | | |
| | **111.3** | | | |

[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

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.4 | Fixed interest securities | 0.9 |
| 120.3 | Pooled investment vehicles | 166.5 |
| 15.1 | Pooled property investments | 25.1 |
| 8.1 | Net rents from properties | 7.7 |
| (0.1) | Interest on cash deposits | (0.1) |
| **143.8** | **Total investment income** | **200.1** |

## Note 12 - Property income

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 9.9 | Rental income | 10.6 |
| (1.8) | Direct operating expenses | (2.9) |
| **8.1** | **Net income** | **7.7** |

## Note 13 - Reconciliation of movements in investments

| | Market value as at 1 April 2021 | Purchases at cost | Sales proceeds | Change in market value | Market value as at 31 March 2022 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Fixed interest securities | 44.5 | 118.1 | (85.1) | (1.1) | 76.4 |
| Index linked securities | - | - | - | - | - |
| Pooled investment vehicles | 8,056.7 | 832.9 | (572.9) | 1,070.9 | 9,387.5 |
| Pooled property investments | 1,161.8 | - | (353.7) | 136.5 | 944.6 |
| Private equity | 12.5 | - | | | 12.5 |
| Direct property | 159.7 | 0.9 | - | 11.5 | 172.1 |
| | **9,435.2** | **951.9** | **(1,011.7)** | **1,217.8** | **10,593.1** |
| Cash deposits | 108.4 | | | | 55.4 |
| Loan Investments | 55.0 | | | | 50.0 |
| Investment accruals | 0.7 | | | | 0.9 |
| **Net investment assets** | **9,599.3** | | | | **10,699.4** |

| | Market value as at 1 April 2020 | Purchases at cost | Sales proceeds | Change in value during the year[1] | 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) | - | - |
| 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** | **9,435.2** |
| Cash deposits | 108.8 | | | | 108.4 |
| Loan investments | 3.0 | | | | 55.0 |
| Investment income due | 8.8 | | | | 0.7 |
| **Net investment assets** | **8,429.4** | | | | **9,599.3** |

## Investments analysed by fund manager

| 31 March 2021 | | | 31 March 2022 | |
|---|---|---|---|---|
| £m | % of net investment assets | | £m | % of net investment assets |
| **Private equity investments** | | | | |
| 773.8 | 8.1% | LPPI Private Equity Fund | 907.7 | 8.5% |
| **Private equity investments managed outside of LPPI Private Equity Fund** | | | | |
| 12.4 | 0.1% | Trilantic Capital Partners | 12.1 | 0.1% |
| 12.5 | 0.1% | Local Pensions Partnership Limited | 12.5 | 0.1% |
| **798.7** | **8.3%** | **Total private equity investments** | **932.3** | **8.7%** |
| **Long term credit investments** | | | | |
| 1,167.9 | 12.2% | LPPI Credit Investments | 1,342.2 | 12.5% |
| **Credit investments managed outside of LPPI Credit Investments Fund** | | | | |
| 48.3 | 0.5% | CRC | 31.1 | 0.3% |
| 22.5 | 0.2% | Neuberger Berman | 26.6 | 0.3% |
| 14.5 | 0.2% | Pimco Bravo | 11.1 | 0.1% |
| 5.6 | 0.1% | EQT | 4.1 | - |
| 2.8 | - | Hayfin | 1.5 | - |
| **1,261.6** | **13.1%** | **Total long term credit investments** | **1,416.7** | **13.2%** |
| **Fixed income investments** | | | | |
| 309.6 | 3.2% | LPPI Fixed Income Fund | 398.6 | 3.7% |
| **Liquid credit investments managed outside of LPPI Fixed Income Fund** | | | | |
| 208.0 | 2.2% | LPPI internal and LCC Treasury Management | 182.6 | 1.7% |
| **517.6** | **5.4%** | **Total fixed income investments** | **581.2** | **5.4%** |
| **Global equity investments** | | | | |

| | | | | |
|---|---|---|---|---|
| 4,506.5 | 46.9% | LPPI Global Equities Fund | 5,164.5 | 48.3% |
| **4,506.5** | **46.9%** | **Total global equity investments** | **5,164.5** | **48.3%** |
| **Infrastructure investments** | | | | |
| 940.5 | 9.8% | LPPI Global Infrastructure Fund | 1,255.4 | 11.8% |
| **Infrastructure investments managed outside of LPPI Global Infrastructure Fund** | | | | |
| 68.7 | 0.7% | Arclight Energy | 66.9 | 0.6% |
| 59.8 | 0.6% | Icon Infrastructure Partners | 40.4 | 0.4% |
| 17.0 | 0.2% | Highstar Capital | 14.1 | 0.1% |
| 7.9 | 0.1% | Pike Petroleum Holdings LLC | 5.5 | 0.1% |
| 3.2 | - | Eastern Generation Holdings LLC | 3.7 | - |
| 1.5 | - | Capital Dynamics Red Rose | - | - |
| **158.1** | **1.6%** | | **130.6** | **1.2%** |
| **1,098.6** | **11.4%** | **Total infrastructure investments** | **1,386.0** | **13.0%** |
| **Diversifying strategy investments** | | | | |
| 94.8 | 1.0% | LPPI Diversifying Strategies Fund | 101.9 | 1.0% |
| **94.8** | **1.0%** | **Total diversifying strategies investments** | **101.9** | **1.0%** |
| **Property investments** | | | | |
| **Directly held properties** | | | | |
| 159.7 | 1.7% | Knight Frank | 172.1 | 1.6% |
| **Pooled property funds** | | | | |
| **Core property** | | | | |
| 831.3 | 8.7% | LPPI Real Estate Fund | 944.6 | 8.8% |
| **Non-core property** | | | | |
| 330.5 | 3.4% | HH No.1 Limited | - | - |
| **1,321.5** | **13.8%** | **Total property investments** | **1,116.7** | **10.4%** |
| **9,599.3** | **100.0%** | **Net investment assets** | **10,699.4** | **100.0%** |

The investments are primarily held in pooled funds as identified above. These represent more than 5% of the net assets of the Fund but the funds are made up of a range of investments, none of these individual investments represent more than 5% 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 Credit Investments | 1,167.1 | 12.2% |
| 947.4 | 11.3% | LPPI Global Infrastructure Fund | 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 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 18.3 | UK corporate bonds quoted | 42.8 |
| - | Overseas public sector | - |
| 26.1 | Overseas corporate bonds/supernational bonds quoted | 33.6 |
| **44.4** | | **76.4** |

## Pooled investment vehicles

| 31 March 2021 | | 31 March 2022 |
|---:|---|---:|
| **£m** | **UK funds:** | **£m** |
| 309.6 | Fixed income funds | 398.6 |
| 164.5 | Private equity | 185.6 |
| 942.0 | Infrastructure | 1,255.4 |
| 1,170.7 | Long term credit investments | 1,343.8 |
| 1,161.8 | Property funds | 944.6 |
| 94.8 | Diversifying strategies | 101.9 |
| | **Overseas funds:** | |
| 85.3 | Fixed income funds | 68.8 |
| 621.9 | Private equity | 734.2 |
| 156.6 | Infrastructure | 130.6 |
| 5.6 | Long term credit investments | 4.1 |
| 4,506.5 | Equity funds[1] | 5,164.5 |
| **9,219.3** | | **10,332.1** |

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

## Direct property investments

| 31 March 2021 | | 31 March 2022 |
|---:|---|---:|
| **£m** | | **£m** |
| 128.4 | UK – freehold | 134.4 |
| 31.3 | UK – long leasehold | 37.7 |
| **159.7** | | **172.1** |

## Property holdings

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

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

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| £m | | £m |
| **110.2** | **Opening balance** | **159.7** |
| | **Additions:** | |
| 52.8 | • Purchases | - |
| 1.3 | • New construction | 0.5 |
| 0.3 | • Subsequent expenditure | 0.4 |
| - | Disposals | - |
| (4.8) | Net increase/decrease in market value | 11.5 |
| **159.7** | **Closing balance** | **172.1** |

## 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). As at 31 March 2022, the Fund has the following future minimum lease payments due from tenants.

| 2020/21 | | 2021/22 |
|---|---|---|
| £m | | £m |
| 0.6 | Leases expiring within one year | 0.3 |
| 17.8 | Leases expiring between one and five years | 12.9 |
| 62.9 | Leases expiring later than five years | 69.2 |
| **81.3** | **Total future minimum lease payments receivable under existing non-cancellable leases** | **82.4** |

The above disclosures have been reduced by a credit loss allowance of 2.6% (2020/21: 2.5%) 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.

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 2021 | | 31 March 2022 |
|---|---|---|
| **£m** | | **£m** |
| 69.1 | Sterling | 33.2 |
| 39.3 | Foreign currency | 22.2 |
| **108.4** | | **55.4** |

# Note 14 - Financial instruments classification

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

## 31 March 2022

| | Fair value through profit or loss | Financial assets at amortised cost | Financial liabilities at amortised cost |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **Financial assets** | | | |
| Fixed interest securities | 76.4 | | |
| Loan investments | | 50.0 | |
| Pooled investment vehicles | 9,387.5 | | |
| Pooled property investments | 944.6 | | |
| Directly held private equity | 12.5 | | |
| Cash deposits | | 55.4 | |
| Investment accruals | 0.9 | | |
| Debtors | | 19.9 | |
| **Total financial assets** | **10,421.9** | **125.3** | |
| **Financial liabilities** | | | |
| Creditors | | | 7.8 |
| **Total financial liabilities** | | | **7.8** |

## 31 March 2021

| | Fair value through profit or loss | Financial assets 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 | 0.7 | | |
| Debtors | | 12.6 | |
| **Total financial assets** | **9,276.2** | **176.0** | |
| **Financial liabilities** | | | |
| Creditors | | | 6.6 |
| **Total financial liabilities** | | | **6.6** |

# Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £1,206.3m. Note 13 outlines the change in Market Value of Fund Asset's, of which, £841.0m relates to unrealised gains and £365.4m relates to realised gains on the disposal of assets. Direct property is not included within this figure. (2020/21: £1,022.2m gain)

# 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 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 2022

| | 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 | 5,240.3 | 398.6 | 4,783.0 | 10,421.9 |
| Financial assets at amortised cost | 55.4 | 50.0 | - | 105.4 |
| Non-financial assets at fair value through profit and loss (property holdings) | - | - | 172.1 | 172.1 |
| **Net investment assets** | **5,295.7** | **448.6** | **4,955.1** | **10,699.4** |

### 31 March 2021 (Restated)

| | 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 | 4,550.8 | 309.6 | 4,415.8 | 9,276.2 |
| Financial assets at amortised cost | 108.4 | 55.0 | - | 163.4 |
| Non-financial assets at fair value through profit and loss (property holdings) | - | - | 159.7 | 159.7 |
| **Net investment assets** | **4,659.2** | **364.6** | **4,575.5** | **9,599.3** |

The fair value figures for the previous year have been restated for changes in the classification of assets, there is no impact on any of the main financial statements, this is a disclosure amendment only.

## 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 2 | Unadjusted market values based on current yields. | Comparable recent arm's length transactions, reference to other instruments that are substantially the same. | 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 3 | Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition). | Equivalent yield and ERV (Estimated Rental Value). | Significant increases and decreases in any of those inputs in isolation could result in significantly lower or higher fair value measurements. |
| Pooled property investments - core property | Level 3 | Current open market value in accordance with RICS Appraisal and Valuation Standards. | Equivalent yield and ERV (Estimated Rental Value). | Ability to exit fund; market opinion; general market movements. Significant increases and decreases in any of those inputs in isolation could result in significantly lower or higher fair value measurements. |
| 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 2022.

| Description of asset | Assessed valuation range[1] | Value at 31 March 2022 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | (+/-) | £m | £m | £m |
| Private equity funds | 13.5% | 932.3 | 1,057.7 | 806.9 |
| Infrastructure funds | 5.6% | 1,386.5 | 1,464.3 | 1,308.7 |
| Long term credit | 5.6% | 1,348.8 | 1,424.5 | 1,273.1 |
| Fixed income funds | 5.6% | 68.8 | 72.6 | 64.9 |
| Diversifying strategies | 5.6% | 101.9 | 107.7 | 96.2 |
| Property/Property funds | 4.2% | 1,116.8 | 1,163.9 | 1,069.6 |
| **Level 3 investments** | | **4,955.1** | | |

[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 and property funds | Diversifying strategies | Total level 3 investments |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Market value 1 April 2021** | **85.3** | **798.8** | **1,098.6** | **1,176.4** | **1,321.5** | **94.8** | **4,575.5** |
| Purchases during the year and derivative payments | 0.1 | 130.8 | 257.8 | 100.4 | 0.9 | - | 490.0 |
| Sales during the year and derivative receipts | (17.9) | (378.3) | (62.0) | (41.1) | 353.7 | (3.2) | (856.2) |
| Unrealised gains / (losses) | (5.1) | 211.8 | 35.7 | 40.9 | 134.7 | 10.3 | 428.3 |
| Realised gains | 6.4 | 169.2 | 56.4 | 72.2 | 13.3 | - | 317.5 |
| **Market value 31 March 2022** | **68.8** | **932.3** | **1,386.5** | **1,348.8** | **1,116.7** [1] | **101.9** | **4,955.1** |

[1] Level 3 Property Funds consisted only of an investment in HH No.1 Limited, which was sold in 2021/22

# 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 2021/22 reporting period.

| Asset type | Potential market movements (+/-) |
|---|---|
| Total bonds (including index linked) | 5.8% |
| Total equities | 13.5% |
| Alternatives | 5.6% |
| Total property | 4.2% |

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 2022 | Potential market movements (+/-) [1] | Potential value on increase | Potential value on decrease |
|---|---|---|---|---|
| | £m | % | £m | £m |
| Investment portfolio assets: | | | | |
| Total equities | 6,097 | 13.5% | 6,917 | 5,277 |
| Alternatives | 3,303 | 5.6% | 3,489 | 3,118 |
| Total property | 1,117 | 4.2% | 1,164 | 1,070 |
| Total bonds (including index linked) | 76 | 5.8% | 81 | 72 |
| **Total assets available to pay benefits** | **10,593** | **6.4%** | **11,267** | **9,919** |

[1]The potential market movement has been separately assessed for each asset class including the total assets of the fund, as such, the sum of the potential change in individual assets may not equal the potential change of the total assets of the fund.

| 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** | **6.3%** | **10,028.4** | **8,843.3** |

## Direct Property – Price Risk

The fund invests in and holds a direct property portfolio to obtain a return on investment via rental income. The properties are valued in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition). The valuer considers the equivalent yield, which represents the return a property will produce, to value the properties.

The below table shows the market value of the portfolio after a potential movement in the equivalent yield being obtained by the properties.

| Asset type | Asset value as at 31 March 2022 | Potential movement in equivalent yield | | | |
|---|---|---|---|---|---|
| | | -0.5% | +0.5% | -1.0% | +1.0% |
| | £m | £m | £m | £m | £m |
| Direct property | 172.1 | 186.2 | 164.7 | 200.2 | 156.2 |

## 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 2021 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| 31 March 2021 | Asset type | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 108.4 | Cash and cash equivalents | 55.4 |
| **108.4** | **Total** | **55.4** |

## 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 2022 | 1% increase | 1% decrease |
| Asset type | £m | £m | £m |
| Cash and cash equivalents | 55.4 | 0.6 | (0.6) |
| **Total change in assets available** | | **0.6** | **(0.6)** |

| | | 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)** |

## 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 2022 and as at the previous year end.

| 31 March 2021 | Currency exposure – asset type | 31 March 2022 |
|---|---|---|
| £m | | £m |
| 5,128.3 | Overseas equities | 5,898.7 |
| 247.6 | Overseas alternatives | 203.5 |
| 26.2 | Overseas bonds (including index linked) | 33.6 |
| **5,402.1** | **Total overseas assets** | **6,135.8** |

## 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 5.5%. A 5.5% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2020/21: 6.1%).

A 5.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Currency exposure - asset type | Asset value at 31 March 2022 | Potential market movement +/- 5.5% | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Overseas equities | 5,898.7 | 323.1 | 6,221.8 | 5,575.6 |
| Overseas alternatives | 203.5 | 11.1 | 214.6 | 192.4 |
| Overseas bonds (including index linked) | 33.6 | 1.8 | 35.4 | 31.6 |
| **Total assets available to pay benefits** | **6,135.8** | **336.0** | **6,471.8** | **5,799.6** |

| 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** |

## 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 2022 was £55.4m (31 March 2021: £108.4m) and was held with the following institutions:

| 31 March 2021 | Summary | Rating | 31 March 2022 |
|---|---|---|---|
| £m | | | £m |
| | **Bank deposit accounts** | | |
| 72.0 | Northern Trust | A2 | 33.3 |
| - | Svenska Handelsbanken | AA2 | 21.0 |
| 36.0 | Natwest | A1 | 0.9 |
| | **Cash float with property manager** | | |
| 0.4 | Barclays Bank Plc | A1 | 0.2 |
| **108.4** | **Total** | | **55.4** |

## 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 £7.8m at 31 March 2022, 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 2020 to 31 March 2021 and the financial year 1 April 2021 to 31 March 2022 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.*

### 31 March 2022

| | Utmost Life and Pensions | Prudential | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Value at start of the year** | **0.6** | **34.6** | **35.2** |
| Income (incl. contributions, bonuses, interest and transfers in) | - | 9.7 | 9.7 |
| Expenditure (incl. benefits, transfers out and change in market value) | - | (6.6) | (6.6) |
| **Value at the end of the year** | **0.6** | **37.7** | **38.3** |

### 31 March 2021

| | Utmost Life and Pensions | Prudential | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Value at start of the year** | **0.6** | **31.1** | **31.7** |
| Income (incl. contributions, bonuses, interest and transfers in) | - | 7.8 | 7.8 |
| Expenditure (incl. benefits, transfers out and change in market value) | - | (4.3) | (4.3) |
| **Value at the end of the year** | **0.6** | **34.6** | **35.2** |

## Note 19 - Current assets

| 31 March 2021 | | 31 March 2022 |
|---:|---|---:|
| **£m** | | **£m** |
| 7.0 | Contributions due – employers | 10.5 |
| 5.4 | Contributions due – members | 6.4 |
| 0.2 | Sundry debtors | 3.0 |
| **12.6** | | **19.9** |

## Note 20 – Current liabilities

| 31 March 2021 | | 31 March 2022 |
|---:|---|---:|
| **£m** | | **£m** |
| 0.5 | Unpaid benefits | 1.5 |
| 6.1 | Accrued expenses | 6.3 |
| **6.6** | | **7.8** |

## Note 21 - Contractual commitments

As at 31 March 2022 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 £526.1m (2021: £657.1m). 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 £65.2m (2021: £79.9m). 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 (2021: £0m).

There are no outstanding commitments in relation to the Pooled real estate fund (2021: £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 £1.0m (2020/21: £0.8m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £32.5m to the Fund in 2021/22. A prepayment of contributions for the 3-year period starting 1 April 2020 totalling £120.5m, of which, £40.1m relates to 2021/22. Total employer contributions from the Council in 2020/21 amounted to £149.8m. 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 and liability modelling. Payments made for the year to 31 March 2022 amount to £4.9m (2020/21: £5.2m).

The Fund has a private equity investment of £12.5m in the Local Pensions Partnership as at 31 March 2022.

## 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 2022 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 2021/22 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2022.

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:

### 2021/22

| | Employment period | Salary[1] | Employer Pension contributions[1] | Total including pension contributions[1] |
|---|---|---|---|---|
| | | £ | £ | £ |
| Head of Fund | 01/04/21 – 31/03/22 | 74,932 | 12,738 | 87,670 |
| Director of Finance | 01/04/21 – 31/03/22 | 2,269 | 359 | 2,627 |
| Chief Executive and Director of Resources | 01/04/21 – 31/03/22 | 4,560 | - | 4,560 |

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

### 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 HoF was covered on an interim basis by an agency member of staff from 20/10/20 – 01/03/21, the total cost of this appointment was £58,500 and is in addition to the costs outlined above.

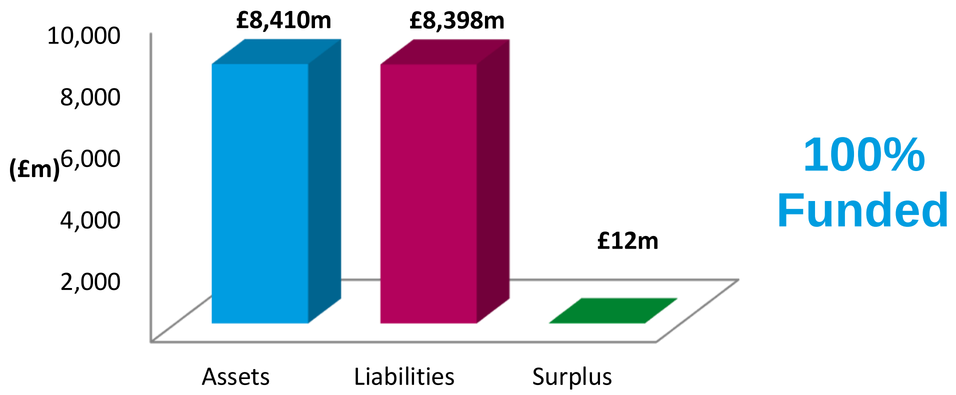
# Note 24 - Funding arrangements

## Accounts for the year ended 31 March 2022 - 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 the last actuarial valuation the average recovery period adopted was 16 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) was 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 was 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 at 31 March 2019.

## Impact of Covid 19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine. 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 has the power to review contributions between valuations where there is a material change in employer circumstances, 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 2022 (the 31 March 2021 assumptions are included for comparison):

| | 31 March 2021 | 31 March 2022 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.1% per annum | 2.8% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.7% per annum | 3.3% per annum |
| Rate of pay increases | 4.2% per annum | 4.8% per annum |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 2.8% per annum | 3.4% per annum |

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). 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 increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was largely offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £13,126 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£273 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£207 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £301 million due to "actuarial gains" (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 2022 pension increase award was more 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 2022 is therefore £13,305 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<br>Fellow of the Institute and Faculty of Actuaries | Mark Wilson<br>Fellow of the Institute and Faculty of Actuaries |

Mercer Limited
May 2022

# Governance statements

Lancaster Castle

The Leader of the County Council (County Councillor Phillippa Williamson) and the 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 initially respond to the pandemic. However, as we have moved from response to recovery we have reverted to business-as-usual in most areas and our attention is turning to active surveillance and monitoring. We will maintain a state of readiness so that we can respond if we see any new variants emerging.

To ensure the AGS reflects the impact of the Covid-19 pandemic on governance, we have included a second conclusion on the adequacy of governance arrangements during this period.

On the 25 April 2022, 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 the 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 they 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:**<br>***Our Improvement Journey*** | Chief Executive & Director of Resources supported by the Director of Organisational Development & Change | March 2023 |
| ***Financial Sustainability*** | Director of Finance | Ongoing |
| **Family Safeguarding** | Executive Director of Education & Children's Services | March 2023 |
| **Integration and Innovation - Health and Social Care** | Executive Director of Adult Services & Health & Wellbeing | March 2023 |
| **Provision of ICT** | Director of Strategy & Performance | March 2023 |
| **Demand impact on Community and Services** | Executive Director of Education & Children's Services | March 2023 |
| | Executive Director of Adult Services & Health & Wellbeing | |
| **Covid – 19 Impact on Services & Communities** | Chief Executive & Director of Resources supported by 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.

*P Williamson*

County Councillor Phillippa Williamson
Leader of the Council

*A Ridgwell*

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<br>• Cabinet develops and sets policy<br>• Full Council agrees the annual budget, sets council tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework) | • Meetings were virtual (because of Covid-19 rules) but are now face to face.<br>• Meetings are webcast<br>• Decisions are recorded on the Council's website<br>• Scheme of delegation | • Risk registers identify both operational and strategic risks<br>• Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee<br>• Processes are in place for managing and reporting performance to CMT and members (CCPI)<br>• 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<br>• Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs<br>• 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<br>• Work to deliver local public sector accountability | • External audit provides an opinion on the Council's annual statement of accounts and commentary on the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources<br>• Internal audit provides regular assurance on the governance, risk management and internal control framework<br>• External inspections provide an accountability mechanism<br>• 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; and
- 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 any further governance arrangements that have been put in place to manage the impact of Covid-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.

During the year, service risk & opportunity registers were reintroduced following their suspension and the introduction of service level situation reports as a response to Covid-19. The directorate level registers are 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 & Governance Committee.

The Audit, Risk & Governance Committee also monitor the effectiveness of risk management arrangements across the organisation. A review of this is undertaken annually by Internal Audit and reported to this committee. Internal Audit have recently completed a review of Risk Management and have provided **substantial assurance** that the council's corporate risk management framework is operating effectively.

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 meets quarterly. 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. The board monitors against service level and corporate indicators and also co-ordinates the reporting of performance information to the cabinet Committee on Performance Improvement.

In their annual report 2021/22, the external auditors commented that reporting of performance information within the council is good and the LGA Peer Review stated that the Council has well established mechanisms for performance monitoring and can demonstrate a good understanding of service performance against similar councils elsewhere.

## Managing Our Resources (value for money)

The Council's external auditors, in their assessment of 2020/21, concluded that the authority had demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

The auditors commented that despite uncertainty, and the challenges posed by covid-19 the Council had maintained a good financial position and that it placed the council in a strong financial position having planned its budgets for future years well in advance. The external auditors were satisfied that the council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. Their work did not identify any significant weaknesses but identified a small number of improvement recommendations. These recommendations have been taken forward.

Throughout 2021/22 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 current budget strategy remains to use budget savings with the use of reserves and capital receipts to ensure funding requirements are met. However, this will be impacted by our response to Covid-19 and the forecast will need to be reviewed considering any central government funding proposals for local government.

The external auditors also focussed on developing a detailed understanding of the governance arrangements in place at the authority and the changes instigated as a response to the pandemic. Their work on business as usual and adapted structures did not highlight any significant governance issues but identified a small number of improvement recommendations. These recommendations have been taken forward.

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 significant 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.

Whilst satisfactory progress has been made to date in addressing the forecast financial shortfall over the strategy period due to significant savings programmes and the improved funding envelope for social care, further work is required to ensure the council can achieve a financially sustainable position over the medium term.

During the second year of the pandemic, originally planned savings have further been delayed particularly around social care. Timescales for savings plans have been revisited and reprofiled and now will be delivered in 2022/23 and beyond. Due to significant amounts of National Government support during 2021/22, and mitigating savings delivered on a one-off basis, the forecast 2021/22 year-end position is positive, alongside a more favourable financial settlement for 2022/23 than had originally been anticipated which has resulted in an improved MTFS position over the next three years. However, there are inherent risks, the impact of latent demand for services due to the pandemic, inflationary pressures due to the changing economic environment and savings delivery which are largely linked to reducing the future demand for services. There has been a strong track record of delivery of previous savings plans, with some being overachieved and arrangements are in place to track delivery of financial savings and take corrective actions when required.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, by the end of the financial year including the 2021/22 forecast underspend is sufficient to meet the forecast funding gap within the current MTFS covering the period 2022/23 to 2024/25.

Given the pressures arising from the ongoing pandemic, a formal service challenge process was not adopted in 2021/22 for delivery in 2022/23. Existing savings plans were reviewed and reprofiled where necessary and some service areas were able to identify additional income generation and efficiency plans which have been factored into the Medium-Term Financial Strategy (MTFS) and 2022/23 budget.

It should be noted that a further targeted service challenge review process will be undertaken as part of the 2023/24 budget process, as it is necessary that additional savings are identified to be delivered to ensure the council has a financially sustainable position going forward. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

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.

## How do we know our governance arrangements are working?

There are several 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 2021/22 that reports on service compliance and they produced regular directorate risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available, improvement plans are in place.

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

### The Role of the Audit, Risk and Governance Committee

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

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

In addition to the standard items on the agenda, the committee considered reports on the following:

- 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 asked the Political Governance Working Group to review the proposals and report back their recommendations.
- Code of Conduct – Summary of Complaints.
- An update on the Overpayment of Salaries – a further report on this was requested by the committee.
- Assurance over the Pension Fund.

In July 2021, the Chairman presented his 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

For 2021/22 the Head of Internal Auditor provided moderate assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.

In forming his opinion, he considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements. Audit work covered the full range of the council's services. The Council is in a much stronger financial position than many Local Authorities, however, the financial projections show that it still faces financial challenges. The county council has adapted well to the changing risk environment and appears to be operating as would be expected.

## External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance.

*External Auditor's Annual Report of Lancashire County Council 2020/21*

The External Auditor's work did not identify any significant weaknesses in the county council's arrangements. Several improvement recommendations were identified and have been responded to appropriately.

*Special Educational Needs & Disability Partnership Implementation Plan*

The council received feedback from the DfE and NHSE on the SEND Progress Review that took place on 29 September 2021. Action had now been taken to address the outstanding five areas that were identified as requiring progress, and therefore Lancashire no longer required formal external monitoring and intervention.

*LGA Peer Review*

A team of experienced senior council officers and members from across the country spent a week carrying out a peer review. They looked at how we go about our business and spoke to a range of our colleagues as well as people from key partnerships. Following the review, they published a report making several improvement suggestions. An action plan has been produced and actions to address the recommendations made by the report are being progressed. Areas of focus include enhanced partnership working, decision making, new ways of working and corporate transformation.

### 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. Services from Adult and Children's Social Care and Growth, Environment and Transport are now represented on the group. The annual review of policies took place in January 2022 and amendments were made to reflect our new ways of working and highlighting individual responsibility for keeping council information confidential and secure whilst working from home or agilely, and that any personal, confidential, or sensitive information must continue to be handled in accordance with IG Policies.

Services across the council have continued to be delivered during the public health crisis and whilst some resourcing issues have been experienced across the authority the council have been able to deliver all services during this period, and it has not been necessary to re-divert resources to critical areas or reinstate a Corporate Internal Resource Pool to meet demand.

Routine FOI reporting was resumed in November 2021, and these are shared with Heads of Service on a regular basis. Information Governance Quarterly performance statistics are provided to Business Intelligence and shared at Directorate Management Team and CMT.

## Local Government & Social Care Ombudsman

During 2021/22 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 2021/22 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

The Council continues to operate with four scrutiny committees: Health, Education & Children's Services, Internal and External. These committees have developed and delivered workplans for the year and continue to meet regularly. There is regular attendance from Cabinet Members, Senior officers, and key partners, including NHS bodies, utility companies and government departments.

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 "Member Development Working Group" is another cross-party working group which reports into the Internal Committee, and is responsible for overseeing training, development, and support activities for councillors.

The Peer Review identified several areas for consideration in relation to scrutiny. An Internal Audit review of scrutiny administration was also undertaken and provided moderate assurance. The outcome of both the Peer Review and the Internal Audit review are being taken forward to consider improvements to the function.

## Independent Remuneration Panel

The Independent Remuneration Panel met shortly after the election and made several recommendations to enhance the accountability of Special Responsibility Allowance holders, which have been adopted, for example with Champions reporting annually to Full Council as well as Cabinet.

## County Council Elections 2021

Given the postponement of the elections in 2020 there were County, Police & Crime Commissioner, and district elections (7 districts) that took place across Lancashire on the 6 May 2021. Having combined elections is complex but given the added dimension of the pandemic this heightened the complexity and risk. As a result, the Returning Officer in conjunction with the Police Area Returning Officer published detailed directions and officers from all councils within Lancashire met monthly to ensure a consistent and collaborative approach across the county. Officers also maintained regular dialogue with the Electoral Commission throughout the preparations and delivery of the polls and worked with Lancashire Constabulary to maintain the integrity of the electoral process. No election petitions were submitted.

Officers and members were briefed on pre-election rules on local authority publicity.

Following the election, a full induction programme for new members was delivered that included guidance and training on personal safety.

## Our New Deal for a Greater Lancashire

During 2021, Council leaders across Lancashire made a pledge to work together to deliver a bold vision for a County Deal to benefit the people of Lancashire. For months, all fifteen of the council leaders who make up Greater Lancashire worked in close collaboration to develop a set of ambitious and forward-thinking proposals.

In February 2022, a report about 'Our New Deal for a Greater Lancashire' completed its journey through all fifteen of Lancashire's councils. Leaders will now consider the implications of the government's levelling Up White Paper for our devolution ambitions before agreeing next steps.

## EU Exit: Lancashire County Council preparedness

When the UK formally left the EU on the 31 January 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. 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 updates to Corporate Management Team.

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. In 2022 our focus remains Children Looked After/Care Leavers with no immigration status and those with pre-settled status, subsidy control regime, regulatory change resulting the Freedoms Bill and levelling up.

## Lancashire County Pension Fund

### Introduction

Lancashire County Pension Fund (LCPF) is a Pension Fund within the Local Government Pension Scheme (LGPS England & Wales) which is a funded pension scheme (not paid through taxation such as other public sector schemes). LCC is the body appointed under statute to act as the Administering Authority for LCPF. While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within LCC's overall governance framework.

### Governance documentation

LCPF produces its own Governance Compliance statement which has been prepared in accordance with the requirements of the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013. This statement sets out the Fund's Governance Structure, scheme of delegation, and the terms of reference for its Governing Bodies, the Pensions Committee, and the Local Pensions Board. It is reviewed on an ongoing basis.

In addition, there are a number of strategy statements and policies which together ensure suitable governance of LCPF.

### Governance Structure

- The Pension Fund Committee fulfils the role of 'Scheme Manager', as set out in regulations, for LCPF which includes the administration of benefits and strategic management of Fund investments and liabilities. It is responsible for establishing and monitoring the progress on the strategic objectives of LCPF through a rolling three-year Strategic Plan.

The Council has established two bodies to assist and support the Pension Fund Committee oversee LCPF:

- Pension Fund Investment Panel; and

- Lancashire Local Pension Board

The Pension Fund's Investment Panel provides expert professional advice to the Pension Fund Committee in relation to investment strategy. The Panel also supports the Head of Fund with the specialist advice required by the Pension Fund Committee.

The Local Pension Board's role is to assist Lancashire County Council as the Administering Authority in its role as Scheme Manager (as delegated to the Pension Fund Committee). This includes the following roles:

  - to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS.
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
  - in such other matters as the LGPS regulations may specify.

The Council is also responsible for the financial arrangements of the Lancashire County Pension Fund and a separate assessment of the adequacy of these arrangements is also required.

## Risk Management

The management of risk is central to the activities of LCPF, and it has established its own risk management arrangements which include the following:

- Risks are monitored and assessed on a quarterly basis;
- Risk reporting and risk register are presented to the Pension Fund Committee and the Local Pension Board on a regular basis;
- Additional oversight is provided by the council's Audit, Risk & Governance Committee; and
- LCPF has a 'Risk Management Framework' policy document which is reviewed periodically and sets out all the risk management arrangements for managing all risks for the Fund.

The risk register is broken down into the following key risk areas:

- Investment and Funding Risk – all financial risks associated with LCPF, 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 - evolving, new risk that is difficult to characterise or assess at this point in time, as the cause and / or how the risk will impact the organisation is unclear.

## Investment and Administration Services

Pensions administration and investment functions have since 2016 been delivered on behalf of LCPF by the Local Pension Partnership Ltd. (LPPL) a company group owned by Lancashire County Council and the London Pensions Fund Authority (LPFA). Pension administration services are provided by the administration arm of the Local Pensions Partnership Ltd., which is called Local Pensions Partnership Administration Ltd. (LPPA), with investment services being undertaken by the investment arm, Local Pensions Partnership Investments Ltd. (LPPI).

The Pension Fund Committee monitors the performance of these functions. For all arrangements where there is a relationship between the Fund and another organisation LCPF 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.

## Internal audit assurance

The table below details the work undertaken by the County Council's Internal Audit Service and the assurance it provides for 2021/22.

| Audit work | Assurance |
|---|---|
| **Assurance provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service** | |
| Admission of employers to the fund | Substantial |
| Recovery of pension overpayments | Moderate |
| Accounting through the council's general ledger | Substantial |
| Employers' contributions- follow up | |
| **Assurance relating to LPPA's administration of benefits** | |
| Compliance Effectiveness - Deloitte | Effective with Scope for Improvement |
| Finance system implementation - Deloitte | Effective with Scope for Improvement |
| Annual Events and Aggregation - Deloitte | Effective with Scope for Improvement |
| **Assurance relating to Local Pensions Partnership Investments (LPPI)** | |
| Type 1 Service auditor's assurance - KPMG | Unqualified opinion |

## Activities

The key activities of LCPF undertaken during 2021/22 were:

- Development of an employer risk framework and effective transition to an in-house employer risk service;
- Planning and preparation work for the 2022 valuation, including initial engagement with employers; and
- Review on investment services provided by LPPI to LCPF.

Specific actions are proposed for during 2022/23 including:

- Review the governance arrangements of LCPF in light of the implementation of a single code of practice by the Pensions Regulator;
- Review of shareholder governance arrangements in respect of LPP Group as documented within the shareholder agreement;
- Actuarial Valuation to assess financial health of LCPF and determine local employer contribution rates; and
- LCPF commence development of a communication strategy to meet the needs of all its stakeholder.

## Strategic oversight of actions to address the Council's governance challenges in 2021/22

This section provides a concise high-level summary of strategic actions taken to address the Council's governance challenges for the 2021/22 financial year, and what arrangements are in place for oversight of delivery. These challenges were set out at the end of last year's AGS.

| What action was to be addressed? | Governance actions taken |
|---|---|
| **Reshaping the County Council: Our Improvement Journey**<br>• Risk that the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond<br><br>• Inability to secure sufficient resource (capacity) across the organisation to deliver on some areas of the Improvement Journey due to competing priorities and the need to prioritise capacity towards ongoing COVID-19 response and recovery.<br><br>• Risk of not having a joined up, cohesive, corporate wide LCC change programme with CMT oversight and appropriately allocated resources.<br><br>• Risk of multiple front doors with multiple gatekeepers to initiate change – Digital Services, Customer Access, operational services etc. This leads to: | **Capacity**<br>• "Front Door to Change" designed and implemented to support prioritisation & allocation of resource for change across organisation.<br>• Core roles appointed to lead on the major elements (Staff Experience Lead, Customer Experience Lead, Analysis & Design Lead & PM Lead) who will drive and monitor progress against critical elements.<br><br>**Change Programme**<br>• Detailed Programme Management Office roadmaps developed with Adults, ECS and Public Health, and resourcing issues resolved.<br>• Director of OD & Change involvement in change programme.<br><br>**Our ways of working**<br>• Improvement Journey priorities aligned with corporate priorities, subject to regular review by Strategic Improvement Board<br>  ○ Staff Experience Board established, with plan in place for priority outcomes & deliverables for the next 12 months<br>• Values & Behaviours developed and disseminated<br>• Customer Experience:<br>  ○ Customer Experience SRO appointed and funding in place to recruit customer experience lead<br>• Programme governance:<br>  ○ Head of Improvement appointed to drive Improvement Journey programme<br>  ○ Corporate Programme Office transferred to Director of OD & Change to support alignment of capacity & focus with agreed strategic & Improvement Journey priorities<br>• Data & Insight: |

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| <ul><li>A lack of strategic prioritisation, sequencing and link to organisational objectives</li><li>Too many completing asks</li><li>Silo working approach</li><li>Inconsistent approach to prioritisation and delivery of change projects</li></ul><ul><li>Inability to deliver a balanced budget post 2023/24</li></ul> | <ul><li>Adoption of Power Business Intelligence and agreement that it will become our core business analytics tool</li></ul><ul><li>Microsoft 365 landed – new tools and technology allowing flexible working</li><li>Significant programme of review of HR policy and procedures influencing flexible working and supporting desired new ways of working</li><li>Leadership and management development offer in place and evolving to meet needs of new ways of working</li><li>Recruitment of core team to develop & monitor Improvement Journey programme</li><li>Development of framework to create "Front Door to Change" to agree priorities, allocate appropriate resources</li><li>The council has in place several work streams that support the corporate strategy and our ways of working e.g., digital connectivity: inequalities workshops etc</li></ul>**Improved Partnership Working**<ul><li>Through the refreshed corporate strategy, we have set out the county council's vision and approach, but we will also acknowledge that we cannot achieve this on our own. We have adopted a flexible approach to partnerships that will allow us and the people and businesses of Lancashire to respond to the needs of the county, in a way that benefits everyone.</li><li>We are maintaining several the joint/strategic decision-making groups e.g., Adult Social care and Health Partnership (Formerly ASC cell), OOH cell to build on the collaborative ways of working</li><li>These joint boards have decision making ability and will feed into the new Strategic Commissioning Board</li></ul>**A New County Council**<ul><li>All administrative procedures relating to county councillor appointments completed.</li><li>Induction programme completed</li><li>All councillors supplied with appropriate IT/telephony equipment</li><li>Communications Strategy published</li></ul>**Financial Sustainability**<ul><li>Updates provided to Cabinet through the Money Matters reports covering in-year financial position and medium-term financial strategy on a quarterly basis</li><li>Directorate Leadership Teams (DLT's) meet regularly and have a monthly focus on financial position and savings delivery chaired by the relevant Executive Director</li></ul> |

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| | • Programme Office is supporting the overall programme of savings activity<br>• Financial Benchmarking information (with other County Councils) produced and reviewed annually as a basis for identifying those service areas with most scope for further efficiencies<br>• Continue to monitor the impacts of price changes via our regular monitoring activity updating our forecast outturn and the MTFS<br>• Continue to work with staff to develop new options savings options and revisit options<br>• Continue to seek out, learn from and adapt services to follow best practice |
| **Family Safeguarding Model**<br>The Hertfordshire Family safeguarding approach does not deliver the expected outcomes | • High level implementation plan developed and being implemented<br>• Appointed to Head of Service lead and practice/systems roles<br>• Family safeguarding Group provides oversight, reporting to Keeping Children Safe Board<br>• Whole system transformation to implement a new operating model for family safeguarding and early help delivery within the council.<br>• Worked with key partners to establish the Team around the School and Settings approach across Lancashire, dedicating discrete early help staffing resources to support schools to respond more effectively to the early help needs of their children's families identified within the universal setting.<br>• Implemented the Pan Lancashire Working Well with Families approach within the Lancashire Front Door.<br>• Developed an Extra Familial Harm Team to support and manage the risks related to vulnerable adolescents. |
| **SEND Partnership Implementation Plan**<br>Insufficient progress in delivering against the targeted action plan to address the five areas which continue to require improvement leading to ongoing intervention. | • The council received feedback from the DfE and NHSE on the SEND Progress Review that took place on 29 September 2021. Action had now been taken to address the outstanding five areas that were identified as requiring progress, and therefore Lancashire no longer required formal external monitoring and intervention. |
| **Integration & Innovation**<br>In 2021, 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. These include:<br>• Making Integrated Care Systems (ICS) statutory bodies<br>• Transferring the functions of Clinical Commissioning Groups to the ICS | • We are maintaining several joint/strategic decision-making groups e.g., Adult Social Care & Health Partnership, OOH cell, to build on the collaborative ways of working<br>• Adult Social Care and Health Partnership Board has agreed a joint work programme and work is progressing<br>• At a senior level, the County Council is involved in the ICP Development Advisory Group (Exec Director) and at the ICS Development Oversight Group (Chief Executive). This is pivotal to ensuing local government context and opportunity is understood and reflected in all plans and priorities<br>• Regular Internal health integration meetings (cross directorate) chaired by the Chief Executive to ensure clear and consistent approach to all meetings with NHS<br>• Briefings for county councillors involved in NHS meetings has been reinstated. Weekly meetings with lead cabinet members are taking place. |

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| • Removing competition and changing procurement rules<br>• Seeking to strengthen the voice/influence of local government<br>• Introducing measures to enhance assurance of social care by CQC<br>• Creating a standalone power for Better Care Fund<br>• Encouraging joint appointments of executive directors to support integrated care/working<br>• Strengthening the role of Health and Wellbeing Boards<br><br>As mentioned above, several themes are particularly relevant to the future working relationship between health and local government, and these have been developed through 21/22. | |
| **ICT Provision**<br>***Oracle R12 to Fusion***<br>Oracle vR12 supports the heart of the council's people and financial resources. R12 is now end of life and is approaching the end of the final extended support period. LCC have embarked on a programme to replace R12 with Oracle Fusion and associated new processes for managing our money and our people information for 45,000 users.<br><br>Failure to assign resources to the Oracle Fusion Programme will leave LCC without the ability to complete the project on time | **Oracle Fusion**<br>• Fusion Project Board established, SRO identified, programme under active management of the Chief Digital Officer.<br>• Appointed Systems Integrator to deliver technical implementation<br>• Appointed Change Partner and with them to adopt new processes for all Fusion capabilities<br>• Appointed Data migration partner and secured LCC resource to ensure data is R12 is cleaned and migrated in a timely manner to Fusion<br>**Data**<br>• Management information is provided through appropriate Service Management Line of Business Systems. These systems are supported through best practice reporting and through the contribution of the Business Intelligence Team.<br>• New head of data has been recruited and is in post. The post supports the needs of the organisations data requirements and to ensure they are designed and architected in optimal ways to support service delivery and customer experience.<br>• Next phase of planned work is to develop DaaS (Data as a Service) for Business Intelligence and the creation of Data Catalogues alongside a Master Data Management System which provides a single view of multiple systems |

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| ***Data***<br>The organisation fails to use its data resource to good effect for the benefit of Lancashire residents<br><br>***Core Systems***<br>Lancashire has built up a 'technology debt' with regards to its major systems which help the organisation function in a modern, efficient, effective way | **Core Systems**<br>• The appointment of the Chief Digital Officer, the insourcing of the IT function and the creation of a Head of Architecture are helping to support the development of improved ways of working. The Head of Architecture is responsible for having agreed roadmaps for maintained products either via a SaaS (Software as a Service) route or regular updates products to enable business department to have LOB systems that provide the support for their respective function. The top SaaS product is the migration to Oracle Fusion which is the subject of a separate risk. A Head of Digital Business Engagement post has also been filled to ensure that digital services understand and help to deliver service needs. |
| **CV-19 Impact on Services & Communities**<br>Inability to adequately respond to the demands placed on Services because of increasing demands, capacity issues, and reduced resilience of staff.<br><br>Staff across all services have worked in crisis response mode from the outset of the pandemic. Alongside this business-as-usual work is being undertaken across many services. | • Corporate Emergency Response Team (CERT) continued to meet at least fortnightly and considered current situation reports<br>• Contingency plans are available to be activated as needed which would primarily stand down business as usual/non-critical work and where possible, redeploy staff to support priority work areas<br>• Ongoing situation monitored at leadership team meetings<br>• Increase capacity through sourcing additional resource<br>• Ensure all staff take their annual leave entitlements<br>• Team managers keep the focus on staff wellbeing in 1:1s and team meetings<br>• Mitigating actions for loss of staff encapsulated for each individual service within the business continuity arrangements found in the Service Resilience Plans (SRPs); this includes identification of critical posts/functions, alternative arrangements for critical posts/functions, critical function analysis, specific responses in relation to Pandemic flu<br>• These arrangements need to be viewed in line with the Corporate Emergency Response Plan (CERP) which provides the incident management and wider support structures in place.<br>• Continue to monitor capacity and demand levels<br>• Chief Executive, Executive Directors, Directors and Heads of Service to continue to share messages of thanks and appreciation<br>• Raised issues at CERT if corporate guidance/action required<br>• Consider the need to stand down business as usual to focus on the pandemic response or seek financial support to increase resources to maintain overall continuity of services<br>• Covid- 19 incident management in place<br>• Vaccination programme implemented<br>• Local contact tracing implemented |

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| | • Community Testing/workplace testing in place<br>• Monthly staff webinars led by Directors to continue to share messages of thanks, appreciation and enable staff to showcase their best practice and fantastic response to the pandemic<br>• Staffing issues and in particular staff welfare is a constant feature in leadership meetings |
| **Demand Impact on Community & Services**<br>Demand for client-based services continues to increase resulting in increased budget pressures and poor outcomes for those people in receipt of our services | **Adult Social Care**<br>• Financial support package agreed by CMT for residential and day service providers<br>• Residential and day service providers have been called every day to monitor their 'stability' on a range of issues and pathways in place to address e.g. workforce, financial issues, PPE etc<br>• Contracts team have dedicated resource to support providers on a day-to-day basis. Also have 'stand by' arrangements in place in case of provider failure<br>• LSCFT have put in place a team to support people while they await a mental health bed<br>• Commissioning team worked with Contracts team, NHS and the care sector market to review the Market Position Statement - this will better inform the current state of the market and enable more confident joint planning for future need<br>• Adults' leadership team strong links with NWADASS and national work being done on wider market viability/reshaping<br>• Position closely monitored by Adult Social Care & Health Partnership Board in form of ongoing reporting and jointly agreed action plans<br>• Relationship with CQC maintained/safeguarding assessments being stepped back up (high risk safeguarding issues were monitored/actioned during Covid)<br>• Service users and their families are being offered support and alternatives being offered/developed including links to community-based support<br><br>**Children's Social Care**<br>• Clear governance and accountability arrangements in place via the Keeping Children Safe Board<br>• MASH / Demand Management group and Permanence and Children in Our Care group providing oversight of service improvements<br>• Family Safeguarding Board providing leadership and oversight of Family Safeguarding Programme<br>• Range of further activity to manage demand including Family Group Conferencing evaluation funded through a pan Lancashire bid, VCFS led model of support pilot in Preston to be extended<br>• Where Our Children Live Strategy together with Sufficiency Strategy to ensure most effective use of provision and to help identify and address gaps in service<br>• Delivery of Early Help Strategy |

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| | • Delivery of Family Safeguarding<br>• Evaluation of targeted interventions including Family Group Conferencing at pre proceedings, and VCFS model<br>• Where Our Children Live Strategy and Sufficiency Strategy agreed by Cabinet<br>• Review of Placement Costs<br>• Ongoing consideration of Covid impact<br>• Provide input into the developing NHS operational plan for CAMHS service developments and be sighted on / support ICS discussions on CAMHS related NHS investment proposals<br><br>**SEND**<br>• Alternative Provision Strategy agreed by Cabinet October 2021<br>• Delivery plans established<br>• Delivery of priorities within the SEND sufficiency strategy<br>• Consulted on Strategy<br>• Ongoing consideration of Covid impact |

# Governance Challenges for 2022/23 and onwards

The review of governance arrangements has identified the main areas where the Council will need to focus its efforts during 2022/23, to address changing circumstances and challenges. These are set out below. Completion or substantial progress against these objectives is due by the end of the financial year, in March 2023.

## Reshaping the Council:

***Our Improvement Journey***

We are well on with making improvements and changes across the organisation and this work will continue to grow and develop over the next twelve months.

**Our ways of working** – we want to further develop our 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 and establish 'change influencers' to help shape emerging proposals and develop new approaches.

**Improved Partnership working** – We will continue to build better alliances with our partners to deliver improved outcomes for the people of Lancashire. Discussions with partners continue to focus on more joined up approaches and opportunities to improve outcomes and save money. A key focus will be working towards the development of strengthened partnership working through our joint long term strategic plan 'A New Deal for a Greater Lancashire'. We will support Lancashire Leaders to strengthen governance and engage with Government with a unified voice.

**A New County Council** – Aspects of the governance framework/decision-making process will be addressed as part of the LGA Peer Review Action plan and response to the Internal Audit review of scrutiny. Discissions will continue to take place with political groups to improve communications with members on key issues and a member survey to take place in Spring.

**Financial Sustainability** – Overall, the Council has an appropriate level of reserves available to manage the financial risks it is facing from 2022/23 to 2024/25. However, on current forecasts it will be necessary that additional savings will be required to bring the council to a financially sustainable position. Therefore, a further targeted service challenge review process will be undertaken as part of the 2023/24 budget process.

## Family Safeguarding

We have begun to develop 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 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.

## Integration and Innovation

We will continue to work with health partners on our joint work programme and ensure continued senior County Council representation at the Integrated Care Provider Development Advisory Group (Exec Director) and at the Integrated Care System Development Oversight Group (Chief Executive). This is pivotal to ensuing local government context and opportunity is understood and reflected in all plans and priorities. We will also continue to hold regular Internal health integration meetings (cross directorate) that are chaired by the Chief Executive to ensure clear and consistent approach to all meetings with NHS colleagues. Briefings for county councillors involved in NHS meetings will continue as will weekly meetings with lead cabinet members.

## ICT Provision

The Oracle Fusion programme will replace the existing system for managing our money and people resources, this will go live during 2022/23. To ensure smooth transition End User engagement sessions are being rolled out and we are identifying 'Hard to Reach' users in service areas. Business Readiness surveys and Business Readiness Assessments are to be completed for each service area. Work will continue to ensure our core systems are fit for purpose and that the organisation's data requirements are met.

## Demand impact on Community and Services

Demand for client-based services continues to increase resulting in increased budget pressures that may lead to poor outcomes for those people in receipt of our services. Therefore, for Adult Social Care we will continue to work with a range of partners regarding social care reforms and look to strengthen the adult social care market capacity through fee adjustments and active engagement to identify creative solutions. In relation to Children's social care, we will implement what we have set out above and for SEND we will continue to invest in the service and deliver the priorities in our strategy.

## Covid-19 Impact on Services and Communities

Since the onset of the pandemic in March 2020, covid-19 has had a significant impact on both the people of Lancashire and how we have delivered our services in the face of increasing demands. We will continue to 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. Recently, the Government announced its plan for Living with Covid and will publish guidance in due course. We will assess the guidance when published and use it to help make difficult judgements based on the evidence regarding the impact on public health.

# Monitoring Implementation

The key governance challenges facing the Council in 2022/23 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 several 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.

## Covid-19 Arrangements

Throughout the second year of the pandemic, there continued to be a tremendous amount of work done by staff and our partners to ensure that our response has been effective. The coronavirus pandemic has had, and will continue to have for some time, a significant impact on the operations of the Council. Over the period of review this has involved a move from response to recovery (and at one point a move back to response as infection rates increased), reverting to business-as-usual arrangements, the introduction of new activities and continued new ways of working. Over the longer term it will have an impact on changes to priorities, programmes, strategies, and plans. The Council has also learnt from new ways of working introduced in response to the pandemic and the response to the pandemic has continued to speed up some areas of change.

**Financial Sustainability**

The council's financial challenge has been exacerbated by two years of the Covid-19 pandemic, and, like all councils, we are facing financial pressures across the period of our medium-term financial strategy. During the second year of the pandemic, originally planned savings have further been delayed particularly around social care services. Timescales for some savings plans have been revisited and reprofiled to be delivered in 2022/23 and beyond. Due to significant amounts of National Government support during 2021/22, and mitigating savings delivered on a one-off basis, the forecast 2021/22 year-end position is positive, alongside a more favourable financial settlement for 2022/23 than had originally been anticipated which has resulted in an improved MTFS position over the next three years. However, there are inherent risks, the impact of latent demand for services due to the pandemic, inflationary pressures due to the changing economic environment and savings delivery which are largely linked to reducing the future demand for services. There has been a strong track record of delivery of previous savings plans, with some being overachieved and arrangements are in place to track delivery of financial savings and take corrective actions when required.

The External Auditors' most recent Annual Report commented that the Council had maintained a good oversight of its Covid-19 related costs and income losses for the first year of the pandemic. These were identified early on and subject to detailed monitoring and scrutiny. The MTFS was reviewed and updated during the year and quarterly reporting against the budget to cabinet was maintained. This approach has been mirrored throughout 2021/22.

The recent LGA Peer Review also stated that the Council had managed the cost pressures of Covid-19 particularly well.

**Governance**

At the start of the pandemic, we aligned our response to the Local Resilience Forum (LRF) structures to ensure clarity and continuity between our internal work and the wider partnership activity. This meant that we have a clear understanding of our essential role and could move and adapt to changing circumstances. However, during the year we reviewed our structures and some of the groups stood down.

At the last Corporate Emergency Response Team meeting on the 8 March 2022, it was agreed that we would follow suit of the LRF group and the meeting on the 5 April was our last. This does not mean that we think Covid has gone away but that we are standing down the top tier level of coordination and it will be for each directorate to coordinate themselves within their own service area.

The Incident Management Hub has also stood down, but the Health Protection Board will continue and will closely monitor the Covid-19 situation. We have also switched off special arrangements for dealing with covid i.e., setting outbreak management teams for Schools, Workplaces etc. Attention is turning to active surveillance and monitoring a state of readiness if we see any new variants emerging.

As we moved from response to recovery many of the internal governance arrangements, we had put in place during the first year of the pandemic were reviewed and reversed. Formal on-line meetings have reverted to face to face and the delegation of all Cabinet powers to officers at Head of Service or above has been removed. Directorate risk and opportunity registers were reintroduced, and the Corporate Risk & Opportunity register recommenced reporting to committee in September 2021.

Homebased working continued for most staff with the gradual return to the office from September 2021 as we introduced new accommodation and flexible working arrangements.

**Improving economy, efficiency, and effectiveness**

Many staff have been working so hard to look after others through this pandemic, but it is also 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 our wellbeing information is updated regularly. In aiming to support staff wellbeing, we have been able to maintain the efficient and effective delivery of statutory services.

Partnership working remains key and we continued to work with community partners throughout the year. The LGA peer review feedback stated that our response to covid-19 has been 'exemplary', and we continue to engage with the Lancashire and Cumbria Health & Care Partnership to ensure a joined up response.

**Outbreak Management**

Throughout the year controls were in place and functioned well. The testing strategy was refreshed to prioritise care homes and care sector vaccination levels were tracked. The 5-step community testing plan was revised and a local policy to encourage testing and isolation for those who tested positive was implemented. We continued to support schools, vaccination in care settings and developed a system for members of the public who do not have access to transport to access a 'drive thru' vaccination service. Children's social workers undertook twice weekly testing, and we ran a programme of awareness raising. We have started to collect data and archiving in relation to the Government announced Independent Inquiry.

The Corporate Emergency Response Plan has been reviewed, considering learning from Covid-19 as well as all the other responses to date. Service Response Plans are also being updated. A request for volunteers to support the NHS with administration roles was well received with thirty-six members of staff supporting the vaccination programme.

**Vaccination & Testing**

Work supporting the national vaccination programme continued throughout the year. This included the booster vaccination and vaccinations for school aged children. In terms of the testing programme, we continued to link with district councils to deliver their local strategies and provided support for testing people on the Afghan refugee settlement programme. We also continued to support district councils with out of hours contact tracing. Libraries were continually restocked with test kits.

**Support Safe Return to Buildings**

The Safer Working Group continued to meet throughout the year and co-ordinated the phased reopening of offices, some of which had been remodelled as part of the Our Ways of Working programme to support flexible and collaborative working. Risk assessments were undertaken, and key messages shared with staff.

**Recovery Co-ordination**

Throughout the year the focus was on business continuity and the potential impact that high staff absences may have on local public services including NHS, social care, emergency services and utilities. Modelling was undertaken because of the Omicron variant and services drew up plans to deal with up to 40% staff absences. Considering this the Recovery Plan was reviewed and updated.

## Conclusion

The current coronavirus pandemic has tested the Council’s governance arrangements for a second year, and we are pleased to note that the governance framework continues to provide 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 have and we will continue to use this knowledge to ensure that the Council’s governance arrangements continue to provide effective foundations for the Council to achieve its objectives.

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# Lancashire County Pension Fund - independent auditor's report

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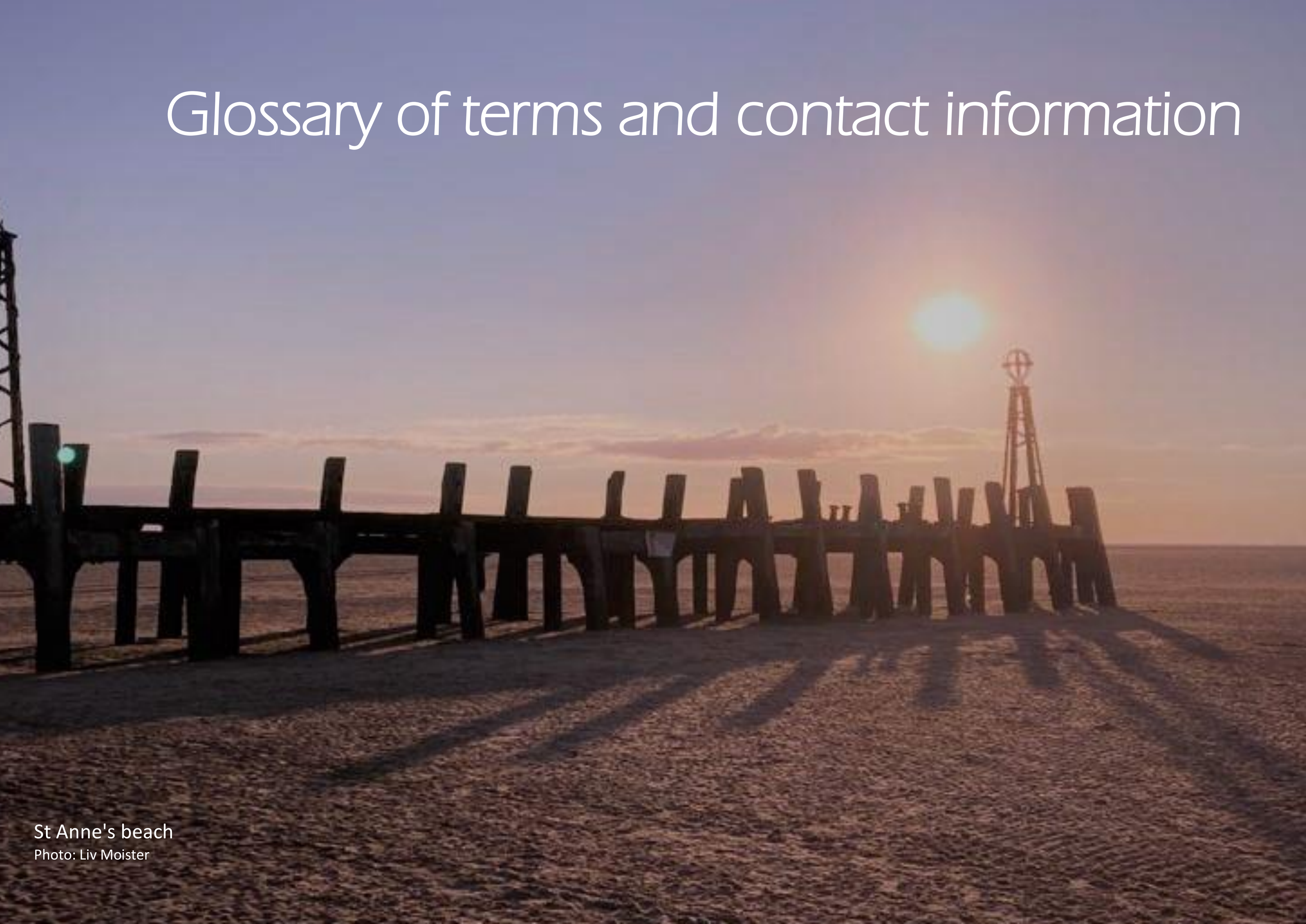
# Glossary of terms and contact information



St Anne's beach
Photo: Liv Moister

# 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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Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ