Statement of Accounts

2013-14

Lancashire County Council

Lancashire County Council
Statement of Accounts 2013/14

Contents

Introduction to the statement of accounts

Purpose of the statement of accounts

This statement forms the formal audited accounts of the county council for the financial year 1 April 2013 to 31 March 2014. The production of the statement is prescribed by statute; it is prepared in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The statement gives the reader an overall impression of the finances of the county council for the financial year 2013/14. It is one of a series of reports and publications on the council's finances and financial position.

Contents of the statement of accounts

The main parts of the statement of accounts are:

- **The Independent Auditor's Report** – the external auditor's opinion on our 2013/14 accounts.
- **The Annual Governance Statement** – assurances on our governance arrangements and the way we manage our affairs.
- **The Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting purposes. The net increase/ decrease before transfer to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.
- **The Comprehensive Income and Expenditure Statement** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **The Balance Sheet** – shows the value as at the balance sheet date of the assets and liabilities recognised by the council. The net assets of the county council are matched by the reserves held. Reserves are reported in two categories, usable and unusable.
- **The Cashflow Statement** – shows the changes in cash and cash equivalents of the council during the reporting period.
- **The Notes to the Accounts** – supporting information which sets out further details and explanations of many entries within the financial statements listed above
- **The Pension Fund Accounts** – a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the county council, and are included in this statement for information only. A Pension Fund annual report will be published for members of the fund, which will include these accounts.

Revenue spending in 2013/14

The overall financial health of the county council at the end of the 2013/14 financial year continues to be strong. However, over 2014/15 to 2017/18 the county council is facing a considerable financial challenge including reducing resources, as well as cost pressures from the continuing increase in demand for council services, in particular those services delivering social care to older people and children as well as increases in contract prices, pay and related costs.

Despite the difficult environment the council has continued to demonstrate:

- Strong financial management, through managing the costs of demand led services within budget and demonstrating the ability to bring forecast service overspends back within budget.
- Strong delivery arrangements through achieving the delivery of savings early throughout the three year budget.
- Innovation through the successful implementation of the treasury management strategy, and
- Flexibility through redeploying resources to address the county council's priorities.

All of these are characteristic of organisations with well managed finances. At the same time the county council is maintaining a strong balance sheet and has set resources aside to mitigate identified risks.

The final position in respect of spending on the revenue budget was an underspend of £3.1m largely arising in the following areas:

a) An underspend of £3.75m in the Environment directorate mainly due to efficiencies achieved within the waste disposal budget, the retendering of subsidised bus services as contracts came up for review and the reduced usage of concessionary travel.

b) Corporate spending was £3.11m less than budget, the majority of which relates to £2.09m underspend on the Care and Urgent Needs Support Scheme.

c) Lancashire County Commercial Group (LCCG) has delivered an underspend of £1.43m due to ongoing operational efficiencies within the services, the implementation of restructures within services and a small increase in external income.

d) Work has been ongoing to ensure that the various control and suspense accounts within the council's balance sheet are fully reconciled in line with good practice. This work has enabled £3.97m to be released into the revenue account in 2013/14.

e) The 2013/14 capital financing outturn is £1.53m under budget reflecting the continuation of the successful approach to maintaining a low risk of default within the investment portfolio together with keeping borrowing periods relatively short, taking advantage of current market conditions.

f) There was a negative variance of £10.42m in relation to the various budgets for Strategic Partnership Services. The most significant cause of this was a shortfall in the targeted procurement saving of £6.4m.

The basis of the county council's strategic partnership arrangement has now been renegotiated and these issues are reflected within the financial strategy going forward.

This position on service spending together with the availability of one off government grant resources of £8.6m has allowed the council to end the year with the County Fund balance unchanged at £36m to set aside resources of £1m to address priority issues around welfare reform and to provide £99.2m in the Downsizing Reserve to meet the costs of reshaping the organisation to meet the financial challenges ahead. Setting the Downsizing Reserve at this level ensures that the council has sufficient resource set aside to meet the costs of the Voluntary Severance programme, currently identified "invest to save" proposals; with some capacity to finance further such proposals and/or kick start elements of the organisational reshaping process which is fundamental to the delivery of the financial strategy going forward.

Capital spending in 2013/14

The total of the county councils capital spending in 2013/14 was £139.4 million. This reflects the county council's investment in assets which gives a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included:

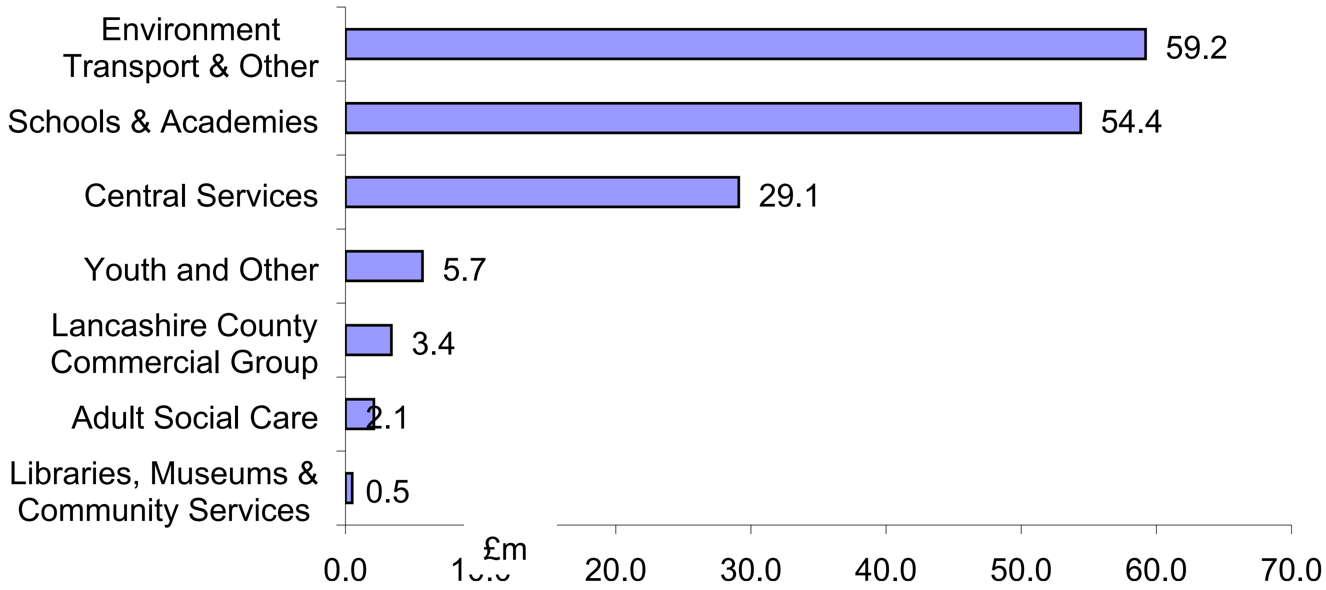
- The major refurbishment of Crossways and Whiteledge day centres were completed.
- Completion of two minor regeneration of libraries and commencement of design work on the next phase of the Libraries Regeneration Programme.
- The completion of the Fleetwood Primary Capital Programme.
- Delivery of the Secondary Schools Investment Programme at ten schools.
- The completion of major work at Lancaster, Bowerham, Lytham Hall Primary and Chorley Trinity CE/Methodist School to meet basic need requirements.
- Conclusion of the phase 1 and 2 programmes of condition projects at over 70 schools.
- Near completion of the major extension scheme at Windermere Tower Wood Outdoor Education Centre.
- Completion of Burnley Youth Zone and various Youth Satellite projects throughout the county.
- Of the new transport projects approved in 2013/14, 343 transport schemes were completed.
- Over 61,000 potholes were identified by Highway Safety Inspections during 2013/14, of which 97% were repaired within 30 days.
- The Heysham to M6 link road was approved by the Secretary of State and construction work started in January 2014, with £17.5m being spent in year.
- The construction work to restore Crook O'Lune Bridge was completed in 2013/14.
- £25.3m was spent during 2013/14 on maintenance of highways.
- Expenditure on the Growing Places Fund which promotes economic development initiatives within the county

- Continuation of work to replace ISSIS and develop the Resolution Service
- Continued implementation of the Office Accommodation Strategy principally with work carried out on the County Hall Christ Church complex
- Expenditure on economic development activities including the implementation of Superfast Broadband

The expenditure was funded from government grants, capital receipts, other income and revenue contributions.

The total loan debt built up over the years to finance capital expenditure and still outstanding at the end of 2013/14 was £814.8million, excluding debt on PFI projects. A large share of this debt is with the Public Works Loan Board (PWLB). The average rate of interest paid on all this debt in 2013/14 was 2.48% compared with an average rate for 2012/13 of 2.45%.

The graph below shows our major areas of capital spending during the year.



Full details of spending, income and budget variances are set out in the county council's end of year report 2013/14 to Cabinet on 5 June 2014. This is available on our website: http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=3457

Schools Spending

Collectively, the schools funded via the county council increased their accumulated individual reserves by £4.38m.

The implementation of the previously agreed claw back policy in relation to schools with excessive balances which will affect 41 schools and result in £0.24m being recycled within the schools budget.

The overall picture on individual schools balances is shown below:

	Balance at 1 April 2013	Net change in balances	Balances at 31 March 2014
	£m	£m	£m
Nursery	1.5	(0.5)	1.0
Primary	33.6	(1.5)	32.1
Secondary	11.1	4.5	15.6
Special	5.3	0.7	6.0
Short stay Primary	-	0.3	0.3
Short stay Secondary	-	0.9	0.9
Total	**51.5**	**4.4**	**55.9**

The most significant movement has been in the secondary sector, although in terms of scale relative to budget the movements for short stay schools are more significant, although this is the first year that these schools have had fully delegated budgets and a degree of caution in the management of spending was to be expected.

Outlook for the future

The overall financial health of the county council at the end of the 2013/14 financial year continues to be strong. However, over 2014/15 to 2017/18 the county council is facing a considerable financial challenge, including cost pressures from the continuing increase in demand for council services, in particular those services delivering social care to older people and children as well as increases in contract prices, pay and related costs.

The council is meeting the significant financial challenge it faces by setting a balanced budget for 2014/15 and developing a further three year budget for 2015/16 to 2017/18, including proposals that will deliver a reshaped organisation that will be reduced in size and operate within a significantly reduced resource level.

Taking into account proposals agreed by full council on 20 February 2014, the council still needs to identify further savings of £161m during the period 2015/16 to 2017/18. The following areas present further significant challenges to the council:

- In order to deliver further savings of £161m in 2015/16 to 2017/18 the council will need to set aside resources to fund the costs of downsizing and reshaping the organisation. This will include the payment of severance costs and ensuring that an adequate level of reserves is maintained to ensure services to the most vulnerable members of the community are protected from unforeseen risks.

- Over the period 2014/15 to 2017/18, a significant level of resource (£45m) has been provided for the increased demand for adult social care. The developing relationship with clinical commissioning groups and the interaction between the integration and tightening of health and local authority resources presents added risks to this area of the budget. There are further net additional costs for between 20 and 30 clients with very substantial needs due to the implementation of the Winterbourne Concordat with the requirement to have full plans in place by 1 June 2014. In addition the council faces further pressures due to the increasing numbers and complexity of learning disability service users' needs. A lot of work has been undertaken to estimate the level of demand but it is still possible that demand could exceed the budget. The council needs to retain sufficient reserves to manage the level of pressure in demand over the period to 2017/18.

- Despite the low levels of inflation the council has still to make a provision over the period 2014/15 to 2017/18 for £79.2m to cover the costs of increased prices due to contractual terms, where the council has no choice but to pay the additional costs due to inflation.

- The new system of local government finance passes responsibility for the management of a number of risks concerned with resource volatility from central government to councils. The localisation of council tax support in addition to other welfare reform changes will have an impact on the council tax base. The impact of business rates appeals presents a continuing risk to income from business rates.

Strong financial management will be maintained across the county council in 2014/15 and beyond in order to ensure that the county council can maintain an effective approach to the financial challenge ahead.

Changes in Accounting Policies

International Accounting Standard IAS19 (Employee Benefits) has been revised (IAS19R) with effect from 1 April 2013; with the most significant impact being around Post-Employment Benefits (Pensions). The changes have impacted on some terminology and resulted in some minor measurement changes. The amendments have meant that a net interest cost has been calculated using one interest rate. Previously two separate interest rates were used; one for costs and one for expected returns on asset. The changes also require an increase in the number of disclosure notes to the accounts. More detail around these changes can be found in Note 1 Accounting Policies (p) and Note 41 (Defined benefits Pension Scheme).

Events after the Balance Sheet Date

The event below occurred after the balance sheet date:

- BT Lancashire Services Limited:

From 1 April 2014 the strategic partnership between BT and Lancashire County Council changed, becoming a wholly owned BT company and renamed as BT Lancashire Services Limited (BTLS).

BTLS will focus on utilising BT's technological capabilities to improve the efficiency and quality of; information and communication technology (ICT), revenue, benefits and payroll services. The formation of BTLS has led to a number of services previously delivered by OCL to come back in-house to the county council.

Gill Kilpatrick CPFA

County Treasurer

29th September 2014

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

Statement of responsibilities for the statement of accounts

The county council's responsibilities

We must:

- make arrangements for the proper administration of our financial affairs and ensure that one of our officers has the responsibility for the administration of those affairs. In the county council, that officer is the county treasurer;
- manage our affairs to secure economic, efficient and effective use of resources and safeguard our assets;
- approve the statement of accounts.

The county treasurer's responsibilities

The county treasurer is responsible for preparing our statement of accounts in line with the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom. This means presenting a true and fair view of our financial position on the accounting date and our income and expenditure for the year ending 31 March 2014.

In preparing this statement of accounts, the county treasurer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the local authority code.

The county treasurer also:

- kept proper, up-to-date accounting records; and
- taken responsible steps to prevent and detect fraud and other risks.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the county council at 31 March 2014 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

County Treasurer

29th September 2014

Annual Governance Statement – Financial Year 2013/14

The council's responsibilities

Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Council will review this code during 2014/15.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Lancashire County Council for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

The council's governance framework

The following paragraphs highlight some of the key elements of the council's governance framework, and areas where work is being undertaken to improve this.

Leadership and management

The council has, as required by statute, a head of paid service (the Chief Executive), a monitoring officer (the County Secretary and Solicitor), and a 'section 151 officer' (the County Treasurer). Each role operates in accordance with the relevant statutory and professional guidance.

On 5 August 2013 the former Chief Executive was suspended in order to facilitate a disciplinary investigation in relation to conduct issues including the process for letting a contract. Arrangements were immediately put in place to ensure that the council was effectively managed in his absence. The former Chief Executive's contract of employment was subsequently terminated by mutual consent and arrangements were then put in place to appoint a new Chief Executive, the appointment taking effect from 20 February 2014.

The Council has, over the past twelve months, experienced exceptional challenges which have absorbed and diverted a considerable amount of senior leadership time, circumstances which have impacted upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor's Annual Report. Along with the issue referred to above, these challenges include:

Organisational/Service challenges and Budgetary Pressures

- A change of political leadership in May 2013, resulting in a minority Administration and changes of operational policy and direction.
- Significantly increased demand for both adults' and children's services continues to impose strains on resources and service delivery. New legislation around adult social care and special educational needs will exacerbate these problems.
- The need for the Council to achieve reductions in funding of £300 million by 2017/18, requiring a wholesale transformation of the Council's operating model, which can be best summed up as creating a 'new' Lancashire County Council. The development and implementation of this council wide new structure has been led by Management Team and has involved, and will continue to involve, extensive consultation with staff and trade unions.
- A key element of the 'new' council structure is a voluntary redundancy offer to secure necessary savings on staff costs, with the intention of losing up to 2,500 staff on a voluntary basis. Whilst applications from staff in key service areas such as safeguarding are generally not being approved, the unprecedented number of voluntary redundancies across the council at all officer grades has resulted in an overall reduction in capacity which does not yet reflect the "new", council structure.

Issues relating to the former Strategic Partnership

- Both Cabinet and the Audit and Governance Committee have received detailed reports concerning the failure of One Connect Limited ("OCL") to deliver services to a satisfactory standard and to achieve procurement savings. This has resulted in the successful renegotiation of the council's strategic partnership and contract with BT plc to form a new company wholly owned by BT: BT Lancashire Services Ltd, and the return to the Council of the majority of services formerly provided by OCL.
- An ongoing police enquiry into a number of issues referred by the Council including the process for letting a contract for the council's fleet services and payments made to the former Chief Executive Officer of OCL.
- The development of a new overarching procurement strategy to replace the procurement arrangements previously undertaken by OCL.

Successes

- The introduction of a new core IT system for both adult and children's social care services.
- The renegotiation of the Council's major waste treatment PFI contract, providing for the future delivery of the service by a company owned by the County Council and Blackpool Council and achieving significant cost savings.
- The successful delivery of major economic development initiatives for the County including the Preston, South Ribble and Lancashire City Deal; the Lancashire Growth Deal; and the progressing of the Lancashire Enterprise Zones.

These exceptional challenges and demands, particularly those involving the County Council's former arrangements with OCL, have had a major impact on the work of Executive Directors and Senior Managers and have diverted significant senior management time away from core tasks.

The issues that have emerged over recent months, resulting in the fundamental re-negotiation of the Council's strategic partnership with BT, suggest that the Chief Internal Auditor's opinion for 2012/13, that the Council's system of internal controls was substantial, must now be regarded as debatable in view of the adequacy of controls for which OCL were responsible, as demonstrated in the current Annual Report.

Meanwhile a number of key aspects of the report for 2013/14 which relate to high risk areas of operation can be attributed to failures in the delivery of services by OCL. These have now been addressed by the renegotiation of the Strategic Partnership arrangement with BT and the consequent return of many key services to the Council. The actions taken will result in improved performance and an improved control environment whilst at the same time delivering savings. As the Chief Internal Auditor's Annual Report notes, these issues alone, which correctly identify weaknesses in the Council's control environment that inevitably lead to the conclusion that only limited assurance can be provided in the 2013/14 report.

Other issues identified in the Annual Report for 2013/14 have already been addressed, Executive Directors having reported remedial actions to the Audit and Governance Committee. However, it is important to note that these remedial actions do not form part of the current assurance judgement as whilst action plans have been agreed with Internal Audit, the implementation of them has yet to be audited to enable the Chief Internal Auditor to satisfy herself that her concerns have been addressed. It is intended that this work will now form part of the Chief Internal Auditor's Audit Plan for 2014/15 and that there will be regular reports to Management Team to ensure that the Council's control environment is sound and applied consistently to ensure the successful delivery of corporate objectives.

Decision-making and conduct

The council operates a leader and cabinet model of executive government with a Cabinet of eight members including the Leader and Deputy Leader of the Council. The responsibilities of the individual Cabinet Members are outlined in the council's constitution. However, Full Council has agreed that a fundamental review be undertaken of the Council's current political governance arrangements to consider whether there is a justifiable case for the adoption of a committee system or a form of "hybrid" model, which has started to be seen in some local authorities, or the retention of the Cabinet model. For that purpose Full Council agreed to establish a cross party member/officer working group which will report back to Full Council in December, identifying possible options tested against a number of design principles and in particular taking into account the impact of the implementation of the Council's new operating structure.

The scheme of delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level. The Scheme of Delegation, along with the council's Financial Regulations, are to be reviewed to ensure that they remain effective. However, Full Council has approved in principle changes to the current Scheme such that chief officers would have delegated authority to take all decisions within their area of responsibility, other than matters reserved to Cabinet/Cabinet Members/committees. This significant change in approach will be one of the issues looked at in the context of the possible introduction of a new governance model and the Council's new operating structure.

The Council operates a decision making protocol, which is regularly reviewed to ensure the legal and financial probity of decisions of the Council, the executive and committees. New software has been introduced to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

The code of conduct for members and the terms of reference of some of the council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee. Councillors and staff are reminded of the requirements on a regular basis. The council also has a protocol for councillor/officer relations.

Arrangements for scrutiny

The council has four scrutiny committees. The Scrutiny Committee, whose coverage includes the council's crime and disorder partnership and flood risk management. The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial changes in health service delivery and scrutinising the work of the NHS more generally. The Education Scrutiny Committee scrutinises any issues around education.

Since May 2013 the council has also operated an Executive Scrutiny Committee which considers in advance any key decisions to be taken by Cabinet and Cabinet Members, and all other reports (non-key decisions) to be considered by Cabinet. As part of the arrangements for this latter Committee a Budget Scrutiny Working Group has also been established to have oversight of the budget setting process.

Financial arrangements

The council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010).

The County Council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the County Council to significantly reduce the level of its annual revenue expenditure. The Council's financial planning and management arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

Communicating and reviewing the Council's vision for communities and service users

The Council's new Administration have developed a Strategic Direction document with the intention that this is an interim statement of Policy, the intention being to develop a Corporate Strategy to sit alongside its budget for the period 2014-2017.

To measure the effectiveness and delivery of the council's ambitions, the Council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the Chief Executive and Executive Directors. The council's Management Team is currently working to embed more effective performance measures across a wide range of its services.

The council engages with the communities of Lancashire in a number of ways:

- high profile communication campaigns to encourage communities to take up our services or help change behaviours;

- use of traditional and new media channels to keep residents informed of our activities;
- encouraging elected members to use social media;
- webcasting of council and committee meetings;
- member representation on neighbourhood management boards across Lancashire;
- using our residents' panel Living in Lancashire to inform priorities and measure service experience;
- talking regularly with service users and communities to understand their service needs; and
- consulting on changes we are planning to make.

Whistle-blowing and counter fraud arrangements

The council has a whistle-blowing procedure in place, which has been publicised to staff. Reports on its use and outcomes are presented to the Audit and Governance Committee. The Internal Audit Service undertakes data analysis in areas likely to be susceptible to fraud, supports the biennial National Fraud Initiative data matching exercise, and provides support to managers in investigating allegations of fraud, theft or impropriety.

Audit arrangements

The council has an Audit and Governance Committee which operates in accordance with professional guidance and receives appropriate training. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process.

The council has a well-regarded Internal Audit Service that operates in accordance with professional standards and is a key element of the corporate governance framework.

Risk management

The council seeks to manage its risks well, and Management Teams across the council identify, assess and manage risks effectively. There is good general awareness of risk and the need to demonstrate risk management.

Internal control

During 2013/14, the Chief Internal Auditor provided reports to the Management Team and their senior Management Teams on progress on strengthening the County Council's internal control framework. The Chief Internal Auditor has also regularly reported key areas of audit work to the Audit and Governance Committee which has taken an active role in reviewing the Council's internal control effectiveness.

In her Annual Report for 2012/13 the Chief Internal Auditor provided a substantial assurance overall that there was a generally sound system of internal control. In reaching this conclusion she highlighted a number of weaknesses, and the Management Team committed itself to address those

areas and ensure the Council was well governed. In her Annual Report of 2013/14 the Chief Internal Auditor has provided limited assurance overall on the Council's control framework. In reaching this conclusion she has pointed to a gradual deterioration over recent years of the level of assurance she has been able to provide. She has pointed to the previous even spread between substantial/full assurance and limited/nil assurance and that the balance has now tipped to only limited/nil assurance now being provided over the majority of control systems for 2013/14. This change of balance is primarily accounted for by reduced assurance in lower risk areas. In summary:

- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
- The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.

The Chief Internal Auditor has recognised that after a number of years in which management and staff resources have been reduced, services restructured, and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

The Chief Internal Auditor has emphasised the exceptional context and circumstances for 2013/14 in her Annual Report. Members of the senior management team, and the council's statutory officers in particular, together with the Chief Internal Auditor, were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed; the remuneration of the Chief Executive Officer of its joint venture company was discovered; the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation; and the relationship with its strategic partner was renegotiated. The Chief Internal Auditor has concluded that these matters alone indicate fundamental weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. The Chief Internal Auditor notes that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.

Each of the issues raised by the Chief Internal Auditor during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed where required and will be followed up by the Audit Service.

The Audit Service undertook work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Whilst some progress has been made to implement the action plans as agreed, the Council's major restructuring; the work associated with making significant cost savings, and the loss of management capacity, has meant that not all remedial actions have completed within the timescales intended. The Audit and Governance Committee has noted a number of these delays and received direct feedback from the relevant Executive Directors.

Key Issues

Set out below are key issues that have arisen from internal audit work. The Chief Internal Auditor has acknowledged that the council's Management Team is taking these issues very seriously.

The Audit and Governance Committee is aware of issues around information governance and that these have been fundamentally affected by the council's relationship with OCL. Significant progress has however been made during 2013/14 to strengthen the council's information governance arrangements and control framework, with the information governance function now being managed within Democratic Services. The Council has designated a Senior Information Risk Owner (the County Secretary & Solicitor) and a Head of Information Governance has recently been appointed. Action is being taken corporately to raise awareness amongst the council's staff of their responsibilities in relation to information governance (IG) and work is ongoing to ensure that the Council's Information Assets are properly protected and managed. Over the next 12 months a major review of the Council's IG policy framework will be undertaken to ensure it remains fit for purpose particularly in the light developing structural changes.

The Council continues to demonstrate ambition in developing its services, notwithstanding the fact that major reductions in government funding require the council to make significant cost savings. It is recognised that there is a strong drive for improvement and, whilst some developments are be subject to delay, other key developments have taken place during the year that will improve the council's controls, including the ongoing replacement of the Integrated Social Services Information System with a system provided by Liquidlogic.

The Chief Internal Auditor has highlighted that the Council's control framework is seen to be reliant upon considerable management effort to remedy gaps as they are identified. Follow-up work on a number of areas indicates that action is not generally being taken as management intended, and that there is a need to improve a number of areas of control as highlighted below:

- A number of in built control and operational weaknesses have been highlighted with the Council's Oracle human resources/ payroll system. These have resulted in a number of issues including inaccurate recording of a number of over payments to staff. There are limitations to the reports available to managers from the Oracle human resources/payroll system which impede managers' access to useful, accurate and timely management information. Managers across the council generally lack proficiency and understanding in using the system. In view of these issues Management Team have established a Project Group to address these issues so that the system provides accurate management information and is operationally effective.
- Compliance with operational policy in a number of areas is not currently being achieved in practice. In particular, targets for the review of children's social care case files and the Independent Reviewing Officers' caseloads in CYP, and targets for the professional supervision of staff in ASHW are not currently being met. Work is however already under way to develop a new supervision policy framework for both ASHW and CYP.

Compliance with legislation, regulations, policies and procedures

In an organisation of the size and complexity of Lancashire County Council, it will be never be possible to provide absolute assurance that compliance with all applicable laws and regulations is achieved. However, processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

Training and development

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. Officer training is overseen through a corporate performance and development review process.

Review of Effectiveness and a Programme of improvement

The council's Management Team has given serious and careful consideration to the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The Management Team continues to give a very strong commitment to ensure that basic controls are maintained and, particularly in those cases highlighted by the Annual Report of the Chief Internal Auditor, significantly improved. All outstanding actions will now form part of the Chief Internal Auditor's Audit Plan for the current year with the intention that all areas of high and moderate risk currently assessed as limited or nil assurance will achieve at least a substantial assurance assessment in the Chief Internal Auditor's report for the year ending 31 March 2015.

The council's Leadership and Management Team acknowledge that the exceptional events of 2013/14 as highlighted above, particularly those set out above, have been a diversion that has had an impact on the Council's control environment. However, they are committed to ensuring that robust governance remains at the heart if the Council's business and will ensure that areas of concern highlighted by the Annual Report will be rectified.

Signed:

Jennifer Mein	Jo Turton
Leader of Lancashire County Council	Chief Executive of Lancashire County Council
Date 29th September 2014	Date 29th September 2014

Financial statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The surplus or deficit on provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting and dwellings rent setting purposes.

The Net Increase/Decrease before transfers to earmarked reserves line shows the statutory County Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

2013/14

	County Fund £m	Earmarked Revenue Reserves £m	Trading Operations Reserve £m	Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Total Unusable Reserves £m	Total Reserves £m
Balance at 1st April 2013	**(36.0)**	**(255.4)**	**(3.1)**	**(43.7)**	**(26.6)**	**(92.1)**	**(456.9)**	**(406.8)**	**(863.7)**
Movement in Reserves During 2013/14									
(Surplus) or deficit on provision of services	19.9	-	-	-	-	-	19.9	-	19.9
Other Comprehensive Income and Expenditure	-	-	-	-	-	4.4	4.4	(263.8)	(259.4)
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**24.3**	**(263.8)**	**(239.5)**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 6)	(27.5)	-	-	-	(4.7)	39.9	7.7	**(7.7)**	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(7.6)**	**-**	**-**	**-**	**(4.7)**	**44.3**	**32.0**	**(271.5)**	**(239.5)**
Transfers(to)/from Earmarked Reserves (note 7)	7.6	(37.9)	(0.2)	30.5	-	-	-	-	-
(Increase)/Decrease in Year	**-**	**(37.9)**	**(0.2)**	**30.5**	**(4.7)**	**44.3**	**32.0**	**(271.5)**	**(239.5)**
Balance at 31st March 2014 carried forward	**(36.0)**	**(293.3)**	**(3.3)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**

The presentation of the Movement in Reserves Statement has been amended to include other movements within Other Comprehensive Income and Expenditure

2012/13 Comparative Year

	County Fund £m	Earmarked Revenue Reserves £m	Trading Operations Reserve £m	Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Total Unusable Reserves £m	Total Reserves £m
Balance at 1st April 2012	**(36.5)**	**(248.1)**	**(2.9)**	**(13.1)**	**(22.9)**	**(121.3)**	**(444.8)**	**(592.8)**	**(1,037.6)**
Movement in Reserves During 2012/13									
(Surplus) or deficit on provision of services	(33.0)	-	-	-	-	-	(33.0)	-	(33.0)
Other Comprehensive Income and Expenditure	0.2	-	-	-	-	0.3	0.5	206.4	206.9
Total Comprehensive Income and Expenditure	**(32.8)**	**-**	**-**	**-**	**-**	**0.3**	**(32.5)**	**206.4**	**173.9**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 6)	(4.8)	-	-	-	(3.7)	28.9	20.4	(20.4)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(37.6)**	**-**	**-**	**-**	**(3.7)**	**29.2**	**(12.1)**	**186.0**	**173.9**
Transfers (to)/from Earmarked Reserves (note 7)	38.1	(7.3)	(0.2)	(30.6)	-	-	-	-	-
(Increase)/Decrease in Year	**0.5**	**(7.3)**	**(0.2)**	**(30.6)**	**(3.7)**	**29.2**	**(12.1)**	**186.0**	**173.9**
Balance at 31st March 2013 carried forward	**(36.0)**	**(255.4)**	**(3.1)**	**(43.7)**	**(26.6)**	**(92.1)**	**(456.9)**	**(406.8)**	**(863.7)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in year of providing services in accordance with generally accepted practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from accounting costs.

	2013/14			2012/13		
	Gross expenditure £m	Gross income £m	Net expenditure £m	Gross expenditure £m	Gross income £m	Net expenditure £m
Cultural and Related Services	28.3	(4.3)	24.0	26.6	(4.9)	21.7
Environmental and Regulatory Services	99.9	(23.6)	76.3	110.0	(23.1)	86.9
Planning Services	18.8	(3.0)	15.8	15.8	(2.9)	12.9
Education Services	1,016.2	(946.7)	69.5	979.8	(894.1)	85.7
Children's Social Care	137.8	(9.7)	128.1	117.6	(5.6)	112.0
Highways and Transport Services	140.6	(40.7)	99.9	122.9	(30.9)	92.0
Adult Social Care	459.5	(108.5)	351.0	460.3	(155.3)	305.0
Central Services to the Public	9.1	(5.2)	3.9	6.8	(2.2)	4.6
Corporate and Democratic core	14.2	(10.6)	3.6	15.2	(8.8)	6.4
Non Distributed Costs**	87.8	(70.9)	16.9	69.4	(65.9)	3.5
Travellers' Sites	0.2	-	0.2	0.2	-	0.2
Cost of services for continued operations	**2012.4**	**(1,223.2)**	**789.2**	**1,924.6**	**(1,193.7)**	**730.9**
Public Health*	57.8	(59.8)	(2.0)	-	-	-

Cost of services for acquired operations	**57.8**	**(59.8)**	**(2.0)**	**-**	**-**	**-**
Total cost of services	**2070.2**	**(1283.0)**	**787.2**	**1,924.6**	**(1,193.7)**	**730.9**
Other Operating Income and Expenditure (note 9)	36.8	(4.7)	32.1	50.0	(3.7)	46.3
Financing and Investment Income & Expenditure (note 10)***	119.5	(28.9)	90.6	115.3	(40.3)	75.0
Taxation and Non Specific Grant Income (note 11)	-	(890.0)	(890.0)	-	(885.2)	(885.2)
(Surplus) or Deficit	**2,226.5**	**(2,206.6)**	**19.9**	**2,089.9**	**(2,122.9)**	**(33.0)**
Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services						
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services (note 33)			(14.7)			23.7
Remeasurement of the net defined liability (note33)			(273.8)			173.3
Other Adjustments			2.8			9.3
Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services						
Surplus or deficit on revaluation of available for sale assets (note 33)			26.3			0.6
Other Comprehensive Income and Expenditure			**(259.4)**			**206.9**
Total Comprehensive Income and Expenditure			**(239.5)**			**173.9**

*Under the Health and Social Care Act 2012, responsibility for local health improvement transferred to local authorities with effect from 1 April 2013 (previously the responsibility of NHS Primary Care Trusts)

**Non Distributed comparatives have been restated as a result of improvement made to reporting systems

***Comparatives relating to pension interest have been restated to reflect the changes to the IAS19 accounting standard.

The presentation of the Comprehensive Income and Expenditure Statement has been amended to include other adjustments within Other Comprehensive Income and Expenditure.

Balance sheet

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the county council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Reserves are reported in two categories. The first category of reserves are usable reserves (i.e. those reserves that the county council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use) An example of this is the Capital Receipts Reserve, that may only be used to fund capital expenditure or repay debt.

The second category of reserves is those that the council is not able to use to provide services (unusable reserves). This category of reserves includes reserves that hold unrealised gains and losses, for example the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2014 £m	31 March 2013 £m
Property Plant and Equipment	22	2,640.0	2,612.4
Heritage Assets		28.4	28.4
Investment Property		2.7	5.3
Intangible Assets		23.2	17.5
Assets Held for Sale		0.1	0.0
Long Term Investment	23	487.9	268.2
Long Term Debtors	34	41.1	43.1
Long Term Assets		**3,223.4**	**2,974.9**
Short Term Investments	23	24.7	258.9
Inventories		3.1	2.6
Short term Debtors	28	109.9	128.9
Payments in Advance		16.0	7.1
Cash and Cash Equivalents	30	91.4	65.6
Assets Held for Sale		9.3	4.0
Current Assets		**254.4**	**467.1**
Short Term Borrowing	23	384.0	264.7
Short Term Creditors	29	211.1	260.8
Receipts in Advance		8.3	8.3
Short Term Provisions		8.1	4.7
Other Current Liabilities	23	7.5	7.6
Current Liabilities		**619.0**	**546.1**
Long Term Provisions	31	18.8	21.2
Long term Borrowing	23	436.1	480.6
Other Long Term Liabilities	23, 40	1,300.7	1,530.4
Long Term Liabilities		**1,755.6**	**2,032.2**
Net Assets		**1,103.2**	**863.7**
Usable Reserves		424.9	456.9
Unusable Reserves	33	678.3	406.8
Total Reserves		**1,103.2**	**863.7**

Cash flow statement

This statement shows the changes in cash and cash equivalents of the council during the reporting period

	Notes	31/03/2014	31/03/2013
		£m	**£m**
Net (surplus) or deficit on the provision of services	35	19.9	(33.0)
Adjustment to surplus or deficit on the provision of services for non cash movements	35	(178.3)	(111.3)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	103.6	95.9
Net Cash flows from Operating activities	35	**(54.8)**	**(48.4)**
Net Cash flows from Investing Activities	37	93.9	(52.7)
Net Cash flows from Financing Activities	38	(64.9)	83.4
Net increase or decrease in cash and cash equivalents		**(25.8)**	**(17.7)**
Cash and cash equivalents at the beginning of the reporting period		(65.6)	(47.9)
Cash and cash equivalents at the end of the reporting period		**(91.4)**	**(65.6)**

Gill Kilpatrick CPFA
County Treasurer
29th September 2014

County Councillor Terry Brown
Chair of the Audit and Governance Committee
29th September 2014

Notes to the financial statements

General notes

1. Accounting policies

a) General

The Statement of Accounts summarises the council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

The balance sheet does not include the balances of the Lancashire County Pension Fund and several small trust funds, which are presented in separate statements. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at particular schools, colleges, homes or in specific areas.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Revenue relating to such things as council tax, general rates, etc shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for 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 and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept. Estimated debtors and creditors have only been included if they are material, which is defined as:
    - £1,000 or more for primary schools, nursery schools and pupil referral units; and

  - £5,000 or more for secondary schools and all other council services.

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

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when services are received, rather than when payment is made.

c) Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

d) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category will include cash on call and three months or less term deposit and also instant access money market funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

e) Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the County Fund balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.
Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

f) Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

g) Intangible Assets

Expenditure on assets that do not have physical substance but are controlled by the council is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market.

In practice, no intangible asset held by the council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

h) Property, Plant and Equipment

Physical assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided the benefits accruing from the expenditure is for more than one year. This expenditure is accounted for 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.

Measurement

For assets that are purchased, they are initially recognised at cost. The cost comprises of:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be operational.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the council will initially be recognised at cost. Only costs that can be directly attributable to bringing the asset into operation will be capitalised.

The council does not capitalise borrowing costs incurred whilst assets are under construction.

Alternative ways of acquiring assets are either via an exchange or an asset being donated. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

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 line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.

Where gains are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the County 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:

- Infrastructure, community assets and assets under construction – depreciated historical cost.

Certain community assets which were acquired years ago are included at a notional amount of £1. All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets, principally furniture and equipment, that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. 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. In such circumstances the gain up to the amount of the loss will be credited to the Comprehensive Income and Expenditure Statement.

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(s) 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.

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer. Where there is a change in the value or asset life this is taken into account in calculating the depreciation charge immediately.
- Vehicles, plant, furniture and equipment – on a straight line generally over 10 years unless it is considered the life of the asset is less than 10 years.
- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 20 to 50 years depending upon the nature of the asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the Provision of Services. 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, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) 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 (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or be set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the County Fund balance in the Movement in Reserves Statement.
The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the County Fund balance in the Movement in Reserves Statement.

i) Heritage Assets

The CIPFA Code of Practice defines Heritage assets as any asset that is held for their contribution to the knowledge or culture. The council has a number of assets which are held and maintained principally for its contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage assets. These assets have been valued at fair value in accordance with the policy on Property, Plant and Equipment. Any acquisitions have initially been valued at cost if purchased or at a valuation if donated.

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

The county council has a detailed acquisitions and disposal policy further information on which can be obtained from the county council. In broad terms any acquisition by the county council must relate to the county palatine of Lancaster. Consideration is also given to the ability of the county council to ensure the long term care of the acquisition and that the acquisition does not conflict with the acquisitions policy of other museums in the region.

With respect to disposals it is considered that the collection has a long term purpose and therefore there is a strong presumption against disposal. Disposals will not be made with the principal aim of generating funds.

j) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the County Fund balance (minimum revenue provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

k) Fixed Assets not owned by the Council

Some voluntary aided and controlled schools are owned by the school governors. However these schools are included in our fixed assets as we receive the benefit from using the properties in terms of delivery of services and also meet their costs of service provision, using the assets and the costs of maintaining them.

In total, £589m (2012/13 £489m) of fixed assets not owned by us are included in the balance sheet.

l) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the County Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

m) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the County Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Accounts and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) 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 value of works and services received under the contract during the financial year.

o) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP).

The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional, democratic organisation.

- Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

p) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- The council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County 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.

q) Employee Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the surplus or deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the continuing operations costs in the Comprehensive Income and Expenditure Statement, at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring, in accordance with IAS 19 Employment Benefits,

Where termination benefits involve the enhancement of pensions, statutory provisions require the County Fund balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Pension Arrangements

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)

- The Local Government Pensions Scheme, administered by Lancashire County Council.

- The NHS Pension Scheme administered by NHS Business Services Authority on behalf of Secretary of State for Health.

All these schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council.

The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

Lancashire County Pension Fund

The Lancashire County Pension Fund is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method, (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, etc, and projected earnings for current employees).
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5%; this was based on a weighted average of "spot yields" on AA rated corporate bonds.
- The assets of the Local Government Pension Fund attributable to the council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price;
  - Unquoted securities – professional estimate;
  - Unitised securities – current bid price; and
  - Property – market value.

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

- **Current service cost**: represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is now included within the service cost -allocated in the CIES across activity areas, in line with the CIPFA SeRCOP;

- **Past service and curtailments costs**: these are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **Administrative expenses**:
  these are the costs of running the fund, attributable to the employer, and does not include any investment management expenses which are allowed for under "Remeasurements". These costs are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **Net interest on the net defined benefit liability (asset)**:
  net interest expense for LGPS – the change during the period in the net defined benefit liability (asset) that arises from the passage of time, charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- **Remeasurements (assets)**:
  these are set out in IAS19 as being the return on assets net of interest on assets, so this is a reflection of the extent to which the investment returns achieved are different from the interest rate used at the start of the year. However, for multi-employer schemes such as LGPS, which do not have asset values which are formally segregated between employers, additional adjustments can arise in the year in which a new set of actuarial valuation results is brought into account for IAS19 purposes. In particular, the approach to calculating the IAS19 assets and liabilities in between full actuarial valuations is approximate in nature. At each valuation, the position is reassessed, with the assets (and liabilities) attributable to each employer being fully recalculated. Following each full actuarial valuation it can therefore be necessary to put through some adjustments to reflect this recalculation. The adjustment is not explicitly catered for under IAS19 and it has been presented as part of the re-measurement on assets and referred to as "Experience gain/loss on assets";

- **Remeasurements (liabilities)**
  these are subdivided into:

  Gain/loss on financial assumptions and gain/loss on demographic assumptions
  under the accounting standards the assumptions will normally differ between the start and end of the employer's financial year. Changes in actuarial assumptions show the effect of this difference, calculated at the end of the financial year;

  Experience gains/losses on liabilities:-
  as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "Experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations.

In relation to retirement benefits, statutory provisions require the County Fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the County Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

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

r) Private Finance Initiatives (PFI)

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operation to pay for the capital investment. For the BSF Schemes the liability was written down by an initial capital contribution of £10.5 million and £1.6 million.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge which varies for each scheme but lies in the range of 8.0% to 11.2% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Recognition of assets and liabilities

Properties used in the PFI schemes are now recognised as fixed assets of the council. A related liability is also recognised. The asset and liability are recognised when the asset is made available for use.

Separate assets are recognised in respect of land and buildings where appropriate. The related liability is initially measured at the value of the related asset and subsequently calculated using the same actuarial method used for finance leases.

Once on the balance sheet the PFI assets will be treated in the same way as all other non-current assets of the same type including depreciation, impairment and revaluation.

Prepayments

Where the PFI contract requires payments to be made as a lump sum contribution before the related property is recognised as an asset on the balance sheet, such payments are recognised as prepayments. At the point that the property is recognised as an asset, the related liability is also recognised. The prepayment is then applied to reduce the outstanding liability.

Minimum Revenue Provision (MRP)

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. MRP is calculated in accordance with the appropriate regulations and statutory guidance, and is equal to that element of the unitary charge which is applied to repay the outstanding liability.

Development Costs

The council's internal and external development costs associated with the procurement of PFI projects are charged to revenue as they are incurred.

Deductions from the Unitary Payment

The PFI contract provides for deductions from the unitary payment in the case of sub-standard performance or when the facilities are unavailable.

Deductions for sub-standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

- a reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then finance costs if contingent rents are insufficient; and
- a reduction in the price paid for services whilst services are not being provided accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the council's entitlement has been established and it is probable that the council will be able to make the deduction.

s) Financial Liabilities

Financial liabilities are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.
For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

t) Financial Assets

Financial assets are classified into three types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. This includes, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.
- fair value through profit and loss – this classification is for assets which are held primarily for trading or have a recent history of being traded

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains or losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the assets have fixed or determinable payments, annual credits to the financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the sale or bid market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value (other than impairment losses) are balanced by an entry in the available-for-sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed and determinable payments) or fair value falls below cost (for equity instruments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Fair Value through Profit and Loss

Fair value through profit and loss assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially and subsequently measured and carried at fair value. Investments are accounted for under this category if they are either:

- acquired principally for the purpose of selling in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Any gains or losses that arise on the de-recognition of the assets are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Any unrealised gains and losses are also credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Unrealised gains and losses are the amounts that arise through the change in market value of financial instruments before they mature or are sold.

u) Events after the Balance Sheet Date

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. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes to the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

v) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts (see note 40).

w) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

x) Council Tax Agency Arrangements

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The fund's key features relevant to accounting for council tax and NNDR in core financial statements are:

- In its capacity as a billing authority a council acts as an agent; it collects and distributes council tax income on behalf of the major preceptors and itself.

- While the council tax income for the year credited to the billing authority's Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the County Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their County Fund).

Lancashire County Council is a major preceptor with 12 districts.

From the year commencing 1 April 2009, for both billing authorities and major preceptors the council tax income included in the Comprehensive Income and Expenditure Statement for the year is required to be the accrued income for the year.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the County Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement on the County Fund Balance to ensure that there is no impact from this change on the taxpayer.

Since the collection of council tax is, in substance, an agency arrangement, the cash collected by the billing authorities from council taxpayers belongs proportionately to the billing authority and the major preceptors (e.g. Lancashire County Council).

There will therefore be a debtor/creditor position between the billing authorities and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

In addition, the balance sheet of both billing and precepting authorities will include:

- an attributable share of council tax debtors, net of impairment allowances for doubtful debts;
- an attributable share of creditors for overpaid council tax;

  and

- a debtor for the billing authorities for cash collected from council tax payers but not paid across, or a creditor for cash paid in advance from council tax payers.

y) Acquired Operations

The results of businesses acquired in the year are consolidated from the effective date of acquisition. The net assets of businesses acquired are incorporated in the consolidated accounts at their fair values at the date of acquisition.

2. Critical judgements in applying accounting policies

The Statement of Accounting Policies is set out in note 1. In applying the accounting policies, the council has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The county council is deemed to control the services provided under the Private Finance Initiative (PFI) agreement for 12 schools, one library, a faith centre and waste treatment facilities and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings have been recognised as Property, Plant and Equipment on the council's balance sheet. The buildings have been valued at £467.4million as at 31 March 2014 (£474.9 as at 31 March 2013)

- The council has to decide whether land and buildings owned by the council are investment properties, whereby they are held solely for rental income or capital appreciation purposes or both. It has been determined that the county council does hold investment properties which have been valued at £2.8 million as at 31 March 2014.

- These judgements are made on the professional opinion of the council's accountants, valuers and procurement managers based on contract procedure rules and the strict criteria set out in International Accounting Standard 17 (IAS 17) relating to leases. In addition the International Financial Reporting Interpretations Committees 4 and 12 (IFRIC 4 and IFRIC 12) contain specific criteria relating to whether contractual arrangements have the substance of a lease. The relevant accounting policy has been applied based on the outcome of the assessment.

- The council has to determine whether there is a group relationship between the council and other entities. The accountants have assessed each relationship that exists between the council and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The county council's relationships with other entities can been found in note 39. We have reviewed the position for the 2013/14 accounts and again, this year's statement of accounts does not include a set of group accounts due to the following factors:

- The relative lack of materiality of the financial size of the group members compared with that of the council.
- The low level of financial risk to the county council from its involvement with the group members: for example many group members are companies limited by guarantee, the county council's guarantee sum being £1.
- The very low level of involvement of the group members in delivering the council's statutory or significant core services.

- The Valuation and Estates department are required to exercise judgement in determining the carrying value of land and, buildings on the council's Balance Sheet. The valuations are undertaken by in-house qualified staff that follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2013. After consideration no requirement had arisen in 2013/14

- The fixed assets figure includes properties valued at some £589million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. The decision to include these assets within the county council's Balance Sheet is a critical judgment which enables the county council's Balance Sheet to fairly reflect the value of the assets used in providing the service.

3. Accounting Standards that have been issued but have not yet been adopted

The amendments to accounting standards that have been issued on or before 1 January 2013 but not yet adopted by the Code have been considered and won't have a material impact on the accounts.

4. 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 county 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 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Arrears

- Uncertainties

  The average balance of sundry debtors during the year was £44.3million. A review of significant balances suggested an appropriate impairment of doubtful debt as at 31st March 2014 was £11.2m.

  The balance of council tax arrears as at 31st March 2014 was £33.4m. An appropriate impairment as at 31st March 2014 was £18.7m.
  The balance of non domestic business rate arrears as at 31st March 2014 was £1.6m. An appropriate impairment as at 31st March was £0.9m.

  However in the current economic climate it is not certain that such an allowance would be sufficient.

- Effect if results differ from assumptions

  If collection rates were to deteriorate, a doubling of the amount of impairment of doubtful debts would require an additional £30.8million to be set aside as an allowance.

Pensions Liability

- Uncertainties:

  Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the council with expert advice about the assumptions to be applied.

  (see note 41)

- Effect if actual results differ from assumptions:

  The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £254 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £130m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £56m.

Property, Plant and Equipment (PPE)

- Uncertainties:

  The value of the PPE is dependent upon professional judgement based on information available at the time of valuation. Due to changes in Economic conditions, a valuation taken on a different date could potentially result in a different valuation

(see note 22)

- Effect if actual results differ from assumptions:

  Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE. However the overall valuation is considered to ensure that PPE is not materially misstated at 31 March 2014

5. Statutory charge for the repayment of debt

Our accounts must include a charge for the repayment of debt. This charge must be at least 4% of our adjusted capital financing requirements at the start of the year. For 2013/14 this charge is £27.6m (£28.9m in 2012/13).

£27.5m of this is shown within the Comprehensive Income and Expenditure Statement. Blackpool Council pay a contribution towards the capital financing charges related to the Waste PFI site, which in 2013/14 was £0.1m (also £0.1m in 2012/13). This is deducted from the Minimum Revenue Provision figure in the Comprehensive Income and Expenditure Statement.

As shown in note 6 below, capital charges in the Comprehensive Income and Expenditure Statement (depreciation, impairment, amortisation and revenue expenditure funded from capital under statute) are reversed or cancelled out and replaced by this statutory charge.

In addition the PFI liability has been written down by £7.6m in 2013/14 (2012/13 £7.9m).

Notes to the Movement in Reserves Statement

6. Adjustments between Accounting Basis & Funding Basis Under Regulations

This note details the adjustments that are made to the total 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.

2013/14 Adjustments

	Usable Reserves £m			Unusable Reserves £m
	County Fund	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Unusable Reserves**
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
-Charges for depreciation of non current assets	(47.2)	-	-	47.2
-Revaluation losses on Property Plant and Equipment (charged to surplus or deficit on the provision of services)	(37.6)	-	-	37.6
-Revaluation losses on Assets held for sale	(0.8)			0.8
- Amortisation of intangible assets	(2.8)	-	-	2.8
-Movements in the fair value of Investment Properties	(1.5)	-	-	1.5
-Revenue expenditure funded from capital under statute	(8.7)	-	-	8.7
-Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(36.0)	-	-	36.0
-Revenue Contribution to Finance Capital Expenditure	16.4	-	-	(16.4)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				

-Statutory provision for the financing of capital investment (MRP)	27.6	-	-	(27.6)
-Statutory provision for the financing of capital investment (MRP PFI)	7.6	-	-	(7.6)
Adjustments involving the Capital Grants Unapplied Account				
-Capital grants and contributions unapplied credited to CIES	19.6	-	(19.6)	-
-Application of grants to capital financing transferred to the Capital Adjustment Account	78.6	-	59.5	(138.1)
Adjustments involving the Capital Receipts Reserve:				
-Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	4.7	(4.7)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
-Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	2.5	-	-	(2.5)
Adjustments involving the Pensions Reserve:				
-Employer's pensions contributions and direct payments to pensioners payable in the year	83.1	-	-	(83.1)
-Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(134.9)	-	-	134.9
Adjustments involving the Collection Fund Adjustment Account:				
-Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	2.5	-	-	(2.5)
Adjustment involving the Accumulated Absences Account				
-Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.6)	-	-	0.6
Total adjustments	**(27.5)**	**(4.7)**	**39.9**	**(7.7)**

2012/13 Comparative Year Adjustments

	Usable Reserves £m			Unusable Reserves £m
	County Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Unusable Reserves
Adjustments involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
-Charges for depreciation of non current assets	(53.2)	-	-	53.2
-Revaluation losses on Property Plant and Equipment (charged to surplus or deficit on the provision of services)	(13.3)	-	-	13.3
- Amortisation of intangible assets	(1.8)			1.8
-Movements in the fair value of Investment Properties	(0.2)	-	-	0.2
-Revenue expenditure funded from capital under statute	(16.9)	-	-	16.9
-Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(49.2)	-	-	49.2
-Revenue Contribution to Finance Capital Expenditure	28.1	-	-	(28.1)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
-Statutory provision for the financing of capital investment (MRP)	28.9	-	-	(28.9)
-Statutory provision for the financing of capital investment (MRP PFI)	7.9	-	-	(7.9)
Adjustments involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to CIES	52.1	-	(52.1)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	30.3	-	81.0	(111.3)

Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	3.7	(3.7)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements**	(6.0)	-	-	6.0
Adjustments involving the Pensions Reserve:				
Employer's pensions contributions and direct payments to pensioners payable in the year	76.9	-	-	(76.9)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(91.2)	-	-	91.2
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(1.2)	-	-	1.2
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.3	-	-	(0.3)
Total adjustments	**(4.8)**	**(3.7)**	**28.9**	**(20.4)**

7. Transfers to and from Earmarked Reserves

Detailed below are the amounts set aside from the county fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet county fund expenditure in 2013/14.

	Opening Balance	Net contributions to and from reserves (use of reserves)	Transfers between reserves	Closing balance
Reserves held to meet spending pressures				
County Fund	(36.0)	2.8	(2.8)	(36.0)
Business Rates Volatility Reserve	(5.0)	-	-	(5.0)
	(41.0)	**2.8**	**(2.8)**	**(41.0)**
Reserves held to deliver corporate priorities				
Strategic Investment Reserve	(41.7)	5.0	9.9	(26.8)
Modern Apprentices	(0.2)	-	-	(0.2)
Local Welfare Reserve	-	(1.1)	(0.7)	(1.8)
	(41.9)	**3.9**	**9.2**	**(28.8)**
Reserves held to deliver organisational change				
Downsizing Reserve	(37.7)	(14.9)	(46.6)	(99.2)
Service Transformation Reserve	(9.2)	0.8	8.4	0.0
Voluntary Severance Reserve	(8.0)	6.8	1.2	0.0
LAA PRG Monies – Lancashire	(5.3)	-	1.4	(3.9)
	(60.2)	**(7.3)**	**(35.6)**	**(103.1)**
Reserves held to pay for expenditure commitments				
Equal Pay Review Reserve	(4.5)	2.9	1.2	(0.4)
CC Election Reserve	(1.4)	0.9	-	(0.5)
CLEO Revenue Reserve	(1.3)	1.3	-	(0.0)
Funding of Capital Projects	(43.7)	8.8	21.7	(13.2)
	(50.9)	**13.9**	**22.9**	**(14.1)**
School reserves				
Individual School Reserves	(51.5)	(4.5)	0.1	(55.9)
Other School Reserves	(29.0)	(7.4)	5.2	(31.2)
Centrally Managed Schools Maintenance Reserve	(3.5)	(0.7)	0.0	(4.2)
	(84.0)	**(12.6)**	**5.3**	**(91.3)**
Reserves held to meet service priorities (directorate reserves)				
Corporate Reserves	(0.1)	(0.5)	-	(0.6)
Directorate Reserves	(58.6)	(8.2)	1.0	(65.8)
Building Repairs & Maintenance Reserve	(1.5)	0.4	-	(1.1)
	(60.2)	**(8.3)**	**1.0**	**(67.5)**
Total Revenue Reserves	**(338.2)**	**(7.6)**	**-**	**(345.8)**

2012/13

	Opening Balance	Net contributions to and from reserves (use of reserves) Restated*	Transfers between reserves	Closing balance
Reserves held to meet spending pressures				
County Fund	(36.5)	(8.5)	9.0	(36.0)
Business Rates Volatility Reserve	(5.0)	-	-	(5.0)
	(41.5)	**(8.5)**	**9.0**	**(41.0)**
Reserves held to deliver corporate priorities				
Strategic Investment Reserve	(59.0)	(9.4)	26.7	(41.7)
Modern Apprentices	(0.2)	-	-	(0.2)
	(59.2)	**(9.4)**	**26.7**	**(41.9)**
Reserves held to deliver organisational change				
Downsizing Reserve	-	(3.8)	(33.9)	(37.7)
Service Transformation Reserve	(26.8)	(7.0)	24.6	(9.2)
Voluntary Severance Reserve	(11.3)	3.3	-	(8.0)
LAA PRG Monies – Lancashire	(5.4)	0.1	-	(5.3)
	(43.5)	**(7.4)**	**(9.3)**	**(60.2)**
Reserves held to pay for expenditure commitments				
Equal Pay Review Reserve	(4.6)	(1.7)	1.8	(4.5)
CC Election Reserve	(1.1)	(0.2)	(0.1)	(1.4)
CLEO Revenue Reserve	(2.2)	0.9	-	(1.3)
Funding of Capital Projects	(13.1)	5.8	(36.4)	(43.7)
	(21.0)	**4.8**	**(34.7)**	**(50.9)**
School reserves				
Individual School Reserves	(54.0)	1.0	1.5	(51.5)
Other School Reserves	(27.1)	(4.7)	2.8	(29.0)
Centrally Managed Schools Maintenance Reserve	(2.7)	(0.8)	-	(3.5)
	(83.8)	**(4.5)**	**4.3**	**(84.0)**
Reserves held to meet service priorities (directorate reserves)				
Corporate Reserves	(0.2)	0.1	-	(0.1)
Directorate Reserves	(49.2)	(13.4)	4.0	(58.6)
Building Repairs & Maintenance Reserve	(2.2)	0.7	-	(1.5)
	(51.6)	**(12.6)**	**4.0**	**(60.2)**
Total Revenue Reserves	**(300.6)**	**(37.6)***	**-**	**(338.2)**

*Restated to £37.6m from £38.1m due to change in presentation to include county fund. These reserves have also been presented different to that in the 2012/13 Statement of Accounts.

8. Revenue reserves

The county council's revenue reserves are described below:

Reserves held to meet spending pressures:

- **County Fund**
  This is the main revenue fund used to provide county council services. Income to the fund consists of the county precept on the collection funds, government grants and other income. Details of the movements in county fund during the year are shown in the Movement in Reserve Statement.

- **Business Rates Volatility Reserve**
  This reserve is set aside to mitigate any adverse impact upon the council's funding due to volatility in the Business rates Retention Scheme.

Reserves held to deliver corporate priorities:

- **Strategic Investment Reserve**
  The council agreed a programme of investment in areas including the provision of residential and respite care, economic development, Libraries regeneration, further development of Youth Zones, increasing employment opportunities and the development of apprenticeship programmes. The Strategic Investment Reserve will deliver the funding for this investment.

Reserves held to deliver organisational change:

- **Downsizing Reserve**
  This reserve is set aside to support the county council as it continues to deliver its agreed savings in 2014/15, and develops its strategy to reduce costs over the following four years.

Reserves held to pay for expenditure commitments:

- **Funding of capital projects**
  This reserve comprise of revenue monies earmarked to support committed capital projects in the county council capital programme.

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, we hold it as a reserve for them to use in the future. This reserve cannot be used for any other purpose.

During 2013/14 no schools converted to academies, 292 Schools had an in year deficit and 312 schools operated an in year surplus. At the 31st March 2014, 25 schools had deficit balances.

Reserves held to meet service priorities (Directorate Reserves):

These earmarked reserves consist of amounts carried forward for specifically agreed projects within directorates. This includes trading operations reserve which funds one off revenue costs associated with trading activities

9. Other Operating Expenditure

	2013/14 £m	2012/13 £m
Levies for flood defences and inshore fisheries and conservation authorities	0.8	0.8
(Gains)/losses on the disposal of non current assets	31.3	45.5
Total	**32.1**	**46.3**

10. Financing and Investment Income and Expenditure

	2013/14 £m	Restated 2012/13 £m
Interest payable and similar charges	17.1	16.0
Interest payable on PFI unitary payments	46.6	47.8
Reclassification	-	8.2
Net interest on the net defined benefit liability*	44.8	31.5
Interest receivable and similar income	(19.5)	(28.2)
Changes in fair value of investment properties	1.5	0.2
Gain/loss on trading accounts (not applicable to services)	0.1	(0.5)
Total	**90.6**	**75.0**

*Comparatives relating to pension interest have been restated to reflect the changes to the IAS19 accounting standard

11. Taxation and Non Specific Grants Income

There have been significant changes to the local government finance system during 2013/14. These include the localisation of council tax and changes to the business rate system.

	2013/14 £m	2012/13 £m
Council Tax Income	364.4	424.7
Non Domestic Rates	165.5	310.9
Revenue Support Grant	256.9	7.0
Early Intervention Grant	-	49.6
Council Tax Freeze Grant	5.1	10.6
Recognised Capital Grants and Contributions	98.1	82.4
Total	**890.0**	**885.2**

12. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by Service Reporting Code of Practice. However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements.

The income and expenditure of the council's principal directorates recorded in the budget reports for the year is detailed in the table on the following page:

2013/14	*****Adult, Social, Health & Wellbeing**	**Children & Young People**	**Environment**	**Other Directorates**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income	83.8	62.1	56.9	90.5	293.3
Government grants	107.2	896.6	14.7	45.4	1,063.9
Total Income	191.0	958.7	71.6	135.9	1,357.2
Employee expenses	98.8	694.7	52.6	79.0	925.1
Other service expenses	426.6	354.9	213.1	151.6	1,146.2
Support service recharges	4.5	49.0	(42.8)	(22.1)	(11.4)
Total Expenditure	529.9	1,098.6	222.9	208.5	2,059.9
Net Expenditure	**338.9**	**139.9**	**151.3**	**72.6**	**702.7**

*** Heading has been changed to include public health in 2013-14

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£m
Cost of Services in Service Analysis	**702.7**
Add services not included in main analysis	(8.8)
Add amounts not reported to management	100.1
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(6.8)
Net Cost of Services in Comprehensive Income and Expenditure Statement	**787.2**

2013/14	**Directorate Analysis** £m	**Services & Support Services not in analysis** £m	**Amounts not reported to management for decision making** £m	**Amounts not included in the I&E** £m	**Cost of Services** £m	**Corporate Amounts** £m	**Total** £m
Fees, charges and other service income	293.3	-	-	-	293.3	14.1	307.4
Interest and investment income	-	-	-	-	-	19.5	19.5
Income from council tax	-	-	-	-	-	364.4	364.4
Government grants and contributions	1,063.9	17.3	-	(91.5)	989.7	525.6	1,515.3
Total Income	1,357.2	17.3	-	(91.5)	1,283.0	923.6	2,206.6
Employee expenses	925.1	-	7.0	-	932.1	-	932.1
Other service expenses	1,146.2	8.5	-	(98.3)	1,056.4	11.0	1,067.4
Support service recharges	(11.4)	-	-	-	(11.4)	-	(11.4)
Depreciation, amortisation, impairment and REFCUS	-	-	93.1	-	93.1	-	93.1
Interest payments	-	-	-	-	-	63.8	63.8
Precepts, levies and net pension interest costs	-	-	-	-	-	45.5	45.5
Gains or losses on disposal of fixed assets	-	-	-	-	-	36.0	36.0
Total Expenditure	2,059.9	8.5	100.1	(98.3)	2,070.2	156.3	2,226.5
Surplus or Deficit on the provision of services	702.7	(8.8)	100.1	(6.8)	787.2	(767.3)	19.9

2012/13	**Adult Services, Health & Wellbeing**	**Children & Young People**	**Environment**	**Other Directorates**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Fees, charges & other service income*	91.1	51.5	47.2	80.5	**270.3**
Government grants	85.0	849.6	12.3	29.5	**976.4**
Total Income	176.1	901.1	59.5	110.0	**1,246.7**
Employee expenses	101.1	684.9	34.9	65.4	**886.3**
Other service expenses*	393.3	337.0	176.5	132.9	**1,039.7**
Support service recharges	5.4	44.6	(4.8)	(12.9)	**32.3**
Total Expenditure	499.8	1,066.5	206.6	185.4	**1,958.3**
Net Expenditure	323.7	165.4	147.1	75.4	**711.6**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£m
Cost of Services in Service Analysis	**711.6**
Add services not included in main analysis	(12.0)
Add amounts not reported to management	63.9
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(32.6)
Net Cost of Services in Comprehensive Income and Expenditure Statement	**730.9**

<u>2012/13</u>	Directorate Analysis	Services & Support	Amounts not reported to management for decision making	Amounts not included in the I&E	Cost of Services	Corporate Amounts	Total
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income*	270.3	0.6	-	-	**270.9**	15.8	**286.7**
Interest and investment income**	-		-	-	**-**	28.2	**28.2**
Income from council tax	-		-	-	**-**	424.7	**424.7**
Government grants and contributions	976.4	33.8	-	(87.4)	**922.8**	460.5	**1,383.3**
Total Income	1,246.7	34.4	-	(87.4)	**1,193.7**	929.2	**2,122.9**
Employee expenses	886.3	-	-	-	**886.3**	-	**886.3**
Other service expenses*	1,039.7	22.4	-	(120.0)	**942.1**	11.9	**954.0**
Support service recharges	32.3	-	-	-	**32.3**	-	**32.3**
Depreciation, amortisation, impairment and REFCUS	-	-	63.9	-	**63.9**	-	**63.9**
Interest payments	-	-	-	-	**-**	63.8	**63.8**
Precepts, levies and net pension interest costs**	-	-	-	-	**-**	40.4	**40.4**
Gains or losses on disposal of fixed assets	-	-	-	-	**-**	49.2	**49.2**
Total Expenditure	1,958.3	22.4	63.9	(120.0)	**1,924.6**	165.3	**2,089.9**
Surplus or Deficit on the provision of services	711.6	(12.0)	63.9	(32.6)	**730.9**	(763.9)	**(33.0)**

*Non Distributed comparatives have been restated as a result of improvement made to reporting systems
**Comparatives relating to pension interest have been restated to reflect the changes to the IAS19 accounting standard.

13. Grant Income

The authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement.

	2013/14 £m	2012/13 £m
Credited to Taxation and Non Specific Grant Income		
Capital Grants		
Department of Education	24.4	43.1
Department of Transport	55.6	28.9
Other Grants	18.1	10.4
Total Recognised Capital Grants and Contributions	**98.1**	**82.4**
Credited to Services - All Services		
Department of Education *	832.9	789.7
Department of Health **	59.2	56.0
Other - Central Government Departments	53.6	43.0
Other Grants	0.5	8.8
Contributions	-	1.1
Total (Grants and Contributions) credited to services	**946.2**	**898.6**

* Figure includes Dedicated Schools Grant of £754.1m (£744.7 in 2012/13)

** Figure includes ring fenced Public Health Grant of £58.0m (£0m in 2012/13)

14. Dedicated Schools Grant

Our spending on schools is funded by the Dedicated Schools Grant (DSG): a grant provided by the Department for Children Schools and Families. DSG can only be used for spending which has been properly included in the schools budget.

This includes:

- parts of a restricted range of services which we provide across the county (central services);
- the individual schools budget, which is divided into a budget share for each school

The following table shows how DSG was used for 2013/14:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2013/14 before academy recoupment			(831.7)
Academy figure recouped for 2013/14			77.6
Total DSG after Academy recoupment for 2013/14			(754.1)
Brought forward from 2012/13			(18.5)
Agreed initial budgeted distribution in 2013/14	(61.4)	(711.2)	(772.6)
Final budgeted distribution for 2013/14	(61.4)	(711.2)	(772.6)
Less actual central expenditure	38.5	-	38.5
Less actual ISB deployed to schools	-	711.2	711.2
Carry forward to 2014/15	**(22.9)**	**-**	**(22.9)**

Comparative data for 2012/13 can be seen below:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2012/13 before academy recoupment			(807.8)
Academy figure recouped for 2012/13			63.0
Total DSG after Academy recoupment for 2012/13			(744.8)
Brought forward from 2011/12			(16.5)
Agreed initial budgeted distribution in 2012/13	(71.5)	(689.8)	(761.3)
Final budgeted distribution for 2012/13	(71.5)	(689.8)	(761.3)
Less actual central expenditure	53.0	-	53.0
Less actual ISB deployed to schools	-	689.8	689.8
Carry forward to 2013/14	**(18.5)**	**-**	**(18.5)**

NB: The Individual Schools Budget, and spending by schools, is funded by sources other than Dedicated Schools Grant, as set out below:

	2013/14 £m	2012/13 £m
Dedicated Schools Grant	(711.2)	(689.8)
Education Funding Agency	(16.0)	(17.9)
Pupil Premium Grant	(33.9)	(21.7)
Allocations from Central Items (Contingency, Schools in Difficulty etc)	(2.0)	(3.3)
	(763.1)	(732.7)
Less Individual Schools Budget total expenditure	758.7	734.9
Contributions to Individual School Balances	(4.4)	2.2

15. Pooled budgets

Councils and Clinical Commissioning Groups (CCG's) are allowed to pool funds for a particular service or initiative. We contribute to several pooled funds as described below:

Three Pooled Funds exist: 1. East Lancs CCG with LCC. 2. Chorley South Ribble CCG, Preston CCG, and West Lancs CCG grouped together with LCC. 3. North Lancs CCG, Fylde & Wyre CCG, Blackpool CCG and Gtr Preston CCG grouped together with LCC. All exist for the integrated commissioning of services for adults with learning disabilities.

	2013/14 £m	2012/13 £m
Funding provided to the Pooled Budget		
The council	105.3	105.6
The CCG's	9.3	9.2
Other	8.7	8.9
	123.3	**123.7**
Expenditure met from the Pooled Budget		
The council	122.5	122.5
The CCG's	9.8	9.8
	132.3	**132.3**
Net Surplus/(Deficit) arising on the Pooled Budget during the year:	(9.0)	(8.6)
Council Share of the Net Surplus/(Deficit):	**(8.5)**	**(8.1)**

16. External Audit costs

The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £0.15m (£0.15million in 2012/13). This figure includes a total of £1,190 in respect of grant certification (£3,700 in 2012/13).

A total payment of £20,528 was made for accounting services carried out between January and March 2014 for the Lancashire waste PFI project.

17. Members' Allowances

The total amount of members' allowances paid in 2013/14 was £1.3m (£1.2m in 2012/13). Details of the allowances paid can be found via the council's website: www.lancashire.gov.uk

18. Senior Officers' Remuneration

Disclosure of senior officers' remuneration 2013/14: Salaries over £150k

Post, Title and Name	Salary (including fees and allowances)	Other Benefits[1]	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£
Chief Executive - J Turton[2]	169,242	5,300	174,542	32,326	206,868
Chief Executive - P Halsall[3]	162,213	3,091	165,304	21,688	186,992

[1] Other Benefits relate to either lease car payments, or a cash equivalent.

[2] Jo Turton held the post of Executive Director for the Environment until 5th August 2013 and then acted up to the post of Interim Chief Executive from 6th August 2013. She was subsequently appointed Chief Executive on 20th February 2014 on an annual salary of £170,000.

[3] Phil Halsall held the post of Chief Executive until 31st October 2013 on an annual salary of £194,655.

Disclosure of senior officers' remuneration 2012/13: Salaries over £150k

Post, title and name	Salary (including fees and allowances)	Bonus	Other Benefits[1]	Total remuneration excluding pension contributions 2012/13	Pension contributions	Total remuneration including pension contributions 2012/13
	£	£	£	£	£	£
Chief Executive – P Halsall	**194,655**	**-**	**5,300**	**199,955**	**36,400**	**236,355**
Director of Change Management and Transformation – D McElhinney	**159,675**	**116,213**	**10,643**	**286,531**	**-**	**286,531**

[1] Other Benefits relate either to lease car payments, or a cash equivalent.

The Director of Change Management and Transformation was seconded from the county council to One Connect Limited, where until 31st August 2013, he held the post of Chief Executive Officer of One Connect Limited. This post was undertaken on a part-time basis.

On 28th April 2011, Lancashire County Council and Liverpool City Council agreed joint working arrangements for the appointment of David McElhinney to the CEO posts of both Liverpool Direct Limited (LDL) and One Connect Limited (OCL).

This agreement set out that the CEO would be an employee of both councils, seconded to LDL and OCL respectively and hold two contracts of employment, with the anticipation that the post of CEO would be split 50:50 over the course of the year between OCL and LDL.

Disclosure of senior officers' remuneration 2013/14: Remuneration £50k to £150k

Post	Notes	Salary (including fees and allowances) £	Other Benefits[1] £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
County Secretary & Solicitor		129,201	3,965	133,166	24,677	**157,843**
Interim Executive Director for Children & Young People		119,403	112	119,515	22,806	**142,321**
County Treasurer		112,500	5,300	117,800	21,488	**139,288**
Executive Director for Adult Services, Health & Wellbeing	2	109,556	1,787	111,343	20,925	**132,268**
Interim Executive Director for the Environment	3	105,111	6,389	111,500	20,806	**132,307**
Assistant Chief Executive		93,180	7,715	100,895	17,797	**118,692**
Director of Economic Development		93,180	5,749	98,929	17,797	**116,726**
Director for Public Health	4	89,299	-	89,299	12,502	**101,800**
Head of Communications		71,612	-	71,612	13,678	**85,290**
Interim Executive Director for Adult Services, Health & Wellbeing	5	96,901	4,070	100,971	12,339	**113,310**
Total		**1,019,943**	**35,087**	**1,055,030**	**184,816**	**1,239,846**

[1] Other Benefits relate to either lease car payments or a cash equivalent.

[2] The Executive Director for Adult Services, Health & Wellbeing was appointed on 12th August 2013.

[3] The Interim Executive Director for the Environment was appointed on 20th August 2013.

[4] The Director for Public Health was appointed on 1st November 2013.

[5] The Interim Executive Director for Adult Services, Health & Wellbeing remained in post until 30th September 2013 when the postholder left the authority.

Disclosure of Senior Officers' Remuneration 2012/13: Remuneration £50k to £150k (Restated*)

Post	Notes	Salary (including fees and allowances) £	Other Benefits[1] £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
Executive Director for Children & Young People	2	129,201	8,120	137,321	24,161	161,482
Executive Director of Adult Services, Health and Wellbeing	2	129,201	1,974	131,175	24,161	155,336
County Secretary & Solicitor		129,201	1,375	130,576	24,161	154,737
Executive Director for the Environment		129,201	5,300	134,501	24,161	158,662
County Treasurer		110,000	5,300	115,300	20,570	135,870
Assistant Chief Executive		93,180	4,594	97,774	17,425	115,198
Director of Economic Development		93,180	2,804	95,984	17,425	113,409
Head of Communications		65,952	-	65,952	12,333	78,285
Total		**879,116**	**29,467**	**908,583**	**164,396**	**1,072,979**

*Restated in accordance with guidance to include all payments and all employees; including those seconded to other organisations.

[1] Other Benefits relate either to lease car payments, or a cash equivalent

[2] On 22 of March 2013; The Executive Director of Adult Services, Health and Wellbeing left employment at Lancashire County Council; The Executive Director for Children and Young People took up the post of Executive Director for Adult Services, Health and Wellbeing; and a new Interim Executive Director for Children and Young People was appointed. The salary for the new Interim Director is not included in this table, but is included within the main banding table for 2012/13.

Number of Employees – 2013/14

Remuneration Band (£)[1]	LCC Non-Teaching Staff[2]	Seconded Staff[3]	Teaching Staff	County Council Network Staff[4]	Redundancies [5]
50,000 - 54,999	89	16	311	-	13
55,000 - 59,999	44	6	196	-	13
60,000 - 64,999	52	6	115	-	11
65,000 - 69,999	50	1	38	1	19
70,000 - 74,999	13	-	27	-	11
75,000 - 79,999	7	-	16	-	4
80,000 - 84,999	8	1	9	-	6
85,000 - 89,999	6	-	11	-	3
90,000 - 94,999	4	1	7	-	4
95,000 - 99,999	9	-	2	-	1
100,000 - 104,999	2	-	1	1	1
105,000 - 109,999	-	-	1	-	0
110,000 - 114,999	1	-	-	-	0
115,000 - 119,999	2	-	-	-	1
120,000 - 124,999	1	-	-	-	1
135,000 - 139,999	1	-	-	-	1
190,000 – 194,999	-	1	-	-	1
TOTAL	**289**	**32**	**734**	**2**	**90**

This table does not include any of the Senior Management Team highlighted in the tables above.

[1] Remuneration bands have been removed in cases where the entry for every column was zero.

[2] Includes 17 staff who transferred from the NHS as a result of the council's new public health duties.

[3] Includes those who worked for One Connect Limited (OCL) and Lancashire County Developments Limited (LCDL). Of these, 10 OCL staff transferred back to the County Council on 1st April 2014.

[4] County Council Network Staff are those working for and paid for, by the county council's network who are "hosted" for pay and rations by Lancashire County Council.

[5] This additional information has been included to show the number of staff whose remuneration included redundancy payments. The redundancy payments have led to some individuals moving up in the remuneration banding and has also meant additional individuals are included in this note.

Number of Employees - 2012/13 *Restated

Remuneration Band (£)[1]	LCC Non-Teaching Staff	Seconded Staff	Teaching Staff	County Council Network Staff
50,000 - 54,999	69	16	311	-
55,000 - 59,999	33	8	211	-
60,000 - 64,999	31	5	101	-
65,000 - 69,999	20	1	38	-
70,000 - 74,999	2	-	32	1
75,000 - 79,999	1	-	15	-
80,000 - 84,999	5	-	5	-
85,000 - 89,999	4	1	10	-
90,000 - 94,999	5	-	9	-
95,000 - 99,999	5	-	3	-
100,000 - 104,999	1	-	1	1
105,000 - 109,999	-	2	3	-
110,000 - 114,999	-	-	-	-
120,000 - 124,999	1	-	-	-
175,000 - 179,999	1	-	-	-
TOTAL	**178**	**33**	**739**	**2**

* Restated in accordance with guidance to include all payments and all employees; including those seconded to other organisations.

[1] Remuneration bands have been removed in cases where the entry for every column was zero.

This table does not include any of the Senior Management Team highlighted in the tables above.

Seconded Staff includes staff who worked for One Connect Limited (OCL) and Lancashire County Developments Ltd (LCDL).

County Council Network staff are staff working for and paid for by the county council's network who are "hosted" for pay and rations by Lancashire County Council

Exit Packages

When an employee leaves Lancashire County Council through the ongoing voluntary severance scheme, two types of costs are incurred:

- A redundancy payment received by the employee calculated in line with the relevant policies agreed by the council;
- Where the employee is able to immediately receive any benefits they have built up in the Pension Fund, a payment calculated by the independent actuary is made to compensate the fund for both the employer and employee contributions that will be received due to the early payment of benefits. This payment is **not** made to the individual.

The table below shows the cost to the council of exit packages, not the amount received by an employee (which forms only part of the cost)

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2012/13 Restated	2013/14	2012/13 Restated*	2013/14	2012/13 Restated*	2013/14 £000	2012/13 Restated* £000
£0 – £20,000	11	5	243	172	254	176	1,930	1,140
£20,001 - £40,000	-	1	97	37	97	38	2,753	1,048
£40,001 - £60,000	-	-	43	14	43	14	2,060	660
£60,001 - £80,000	-	-	9	3	9	3	644	216
£80,001 - £100,000	-	-	14	-	14	-	1,230	-
£100,001 - £150,000	-	-	4	3	4	3	448	363
£150,001 - £200,000	-	-	-	1	-	1	-	158
Total	**11**	**6**	**410**	**230**	**421**	**236**	**9,065**	**3,585**

*Restated in accordance with guidance to include all payments and all employees; including those seconded to other organisations.

19. Private Finance Initiative (PFI) Schemes

Fleetwood Sports College

In 2001 we signed a PFI contract with Fleetwood PPP Limited to build and service a new single-site school. Payments made under the contract are performance-related, so deductions are made if parts of the building are not available or if service performance (including caretaking and maintenance) falls below an agreed standard. The estimated capital value of the scheme is £13.4 million.

The arrangement runs from September 2002 (when the college opened) to August 2027.

The council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed. An estimate of 2.5% is made for future inflation within the model

Payments remaining to be made under the PFI contract at 31 March 2014(excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£m	£m	£m	£m
Payable in 2014/15	0.3	0.4	1.1	1.8
Payable within two to five years	1.4	1.6	4.1	7.1
Payable within six to ten years	1.7	3.3	3.9	8.9
Payable within eleven to fifteen years	1.4	3.2	1.5	6.1
Total	**4.8**	**8.5**	**10.6**	**23.9**

To help finance the scheme we received the following income:

	2013/14	**2012/13**
	£m	£m
PFI grant from the government	1.3	1.3
Contributions from the school	0.4	0.4
Total	**1.7**	**1.7**

Building Schools for the Future

We are taking part in the government's Building Schools for the Future Scheme, which aims to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, we have rebuilt the secondary schools in Burnley and part of Pendle in four separate phases under contract with Catalyst Education (Lancashire).

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.

For each contract the council makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed. An estimate of 2.5% is made for future inflation within the model

- Phase 1 -The contract will provide two 1,050-place secondary schools, one with a co-located 90-place secondary special school, a sixth form centre, a primary school, a children's centre and a library. The arrangement runs from September 2008 to August 2033.

- Phase 2 – The contract will provide one 1,050 place secondary school with a co-located 90 place secondary special school. The contract also involves providing ongoing services to the buildings. The arrangement runs from September 2009 to August 2034.

- Phase 2a -The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. One of the schools opened in April 2010 and the other in September 2010.

- Phase 3 - The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. The schools opened in September 2010.

Consolidated payments remaining to be made under the PFI contract at 31 March 2014 for the four phases above (excluding any estimation of inflation and availability/performance deductions) are as shown in the following table

:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£m	£m	£m	£m
Payable in 2014/15	7.9	4.3	15.6	27.8
Payable within two to five years	34.2	19.3	57.9	111.4
Payable within six to ten years	48.4	29.7	61.2	139.3
Payable within eleven to fifteen years	51.2	42.4	45.7	139.3
Payable within sixteen to twenty years	46.8	62.0	24.5	133.3
Payable within twenty one to twenty five years	4.4	11.0	1.5	16.9
Grand Total	**192.9**	**168.7**	**206.4**	**568.0**

To help finance the scheme we received the following income:

	2013/14	2012/13
	£m	£m
PFI grant from the government	20.5	20.6
Contributions from the schools	8.3	7.9
Contributions from the local authority	0.1	0.1
Grand Total	**28.9**	**28.6**

Although 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.

The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

	2013/14	2012/13
	£m	£m
Balance outstanding at start of year	(181.6)	(186.3)
Payments during the year	4.5	4.6
Balance outstanding at year end	(177.1)	(181.7)

Under all these contracts (Fleetwood Sports College and BSF Phases 1, 2, 2a and 3), the council has the rights to utilise the buildings. Each school is made available for use in the following priority order: (i) provision of education services, (ii) community use, (iii) third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

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

Lancashire Waste PFI Scheme

The county council signed a PFI contract with Global Renewables Lancashire (GRL) Limited on 2 March 2007. The Works and Services to be provided under the Contract are procured by Lancashire County Council. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The contract covers delivery, treatment and final disposal of household, green and commercial Waste at the Farington and Thornton Sites as per contract output specifications and service delivery plans as well as the provision of other "soft services" such as education centre activities, tree planting, waste minimisation initiatives and developing local markets to use the end products from processed waste.

The waste treatment facilities have been built and are in operation. The contract will run for 25 years from the date the final waste treatment facility became fully operational and the total payments to GRL, by the county council, will be around £2.0 billion over the contract period. The county council pays a unitary payment which consists of a fixed and a variable element, both of which are subject to inflation. This payment can be reduced if the Contractor fails to meet agreed targets. The capital costs of the PFI contract, attributable to the county council, are £245.9m. At the end of the contract the Waste PFI assets will be owned by Lancashire County Council.

Both sites are now in deemed service commencement and as a result, full service payments commenced in 2011/12. From an accounting point of view this also means that the assets are no longer treated as off balance sheet but now form part of the county council's assets.

Payments remaining to be made under the PFI contract at 31 March 2014 (excluding any availability/performance deductions) are as follows

	Payments for Services	Repayment of liability	Interest Charges	Total Payments due
	£m	**£m**	**£m**	**£m**
Payable in 2014/15	24.6	3.2	23.8	51.6
Payable within two to five years	108.3	14.7	92.8	215.8
Payable within six to ten years	157.6	28.4	106.4	292.4
Payable within eleven to fifteen years	181.1	48.2	92.3	321.6
Payable within sixteen to twenty years	205.8	84.2	65.2	355.2
Payable within twenty-one to twenty-five years	96.0	47.1	10.2	153.3
Total	**773.4**	**225.8**	**390.7**	**1389.9**

The significant risks that the council is exposed to during this PFI contract are in relation to waste arisings and composition, diversion rates and inflation.

The liability outstanding to pay to the contractor for capital expenditure incurred is as follows:

	2013/14	**2012/13**
	£m	**£m**
Balance outstanding at start of year	(228.9)	(232.3)
Payments during the year	3.1	3.4
Balance outstanding at year end	**(225.8)**	**(228.9)**

The above tables assume the following inflation rates: RPI 2.5%, AEI 3.75% and Baxter (fuel) 3%.

At the end of the concession period the council may retender for the provision of the Services or request the contractor to transfer all of its right, title and interest in and to the assets to the council.

There is provision within the project agreement for the termination of the contract under certain conditions by either the council or 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 contract.

20. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and Private Finance Initiative contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

	2013/14	2012/13
	£m	£m
Opening Capital Financing Requirement	1,074.2	1,111.6
Write down deferred liability 2012-13	-	(0.5)
Capital investment		
Property, Plant and Equipment & Assets Held for Sale	137.4	115.0
Intangible Assets	8.5	7.4
Revenue Expenditure Funded from Capital Under Statute	8.7	16.9
Sources of Finance		
Capital receipts	-	-
Government grants and other contributions	(138.1)	(111.3)
Sums set aside from revenue:		
Direct revenue contributions	(16.5)	(28.1)
Write down of PFI liability	(7.6)	(7.9)
Minimum Revenue Provision (MRP)/ loans fund principal	(27.6)	(28.9)
Closing Capital Financing Requirement	**1,039.0**	**1,074.2**
Explanation of movements in year:		
Increase/decrease in underlying need to borrowing (supported by government financial assistance)	(27.6)	(22.5)
Increase in underlying need to borrowing (unsupported by government financial assistance)	-	(6.4)
Write down PFI Liability	(7.6)	(8.5)
Increase (decrease) in Capital Financing Requirement	**(35.2)**	**(37.4)**

Future capital spending commitments

Due to the long term nature of many capital projects we are committed to certain levels of capital spending in the future with many projects agreed in previous years not due to be completed until later years.

Our legally committed capital expenditure as at 31 March 2014 is £142.0m (31 March 2013: £79.8m) as detailed below:-

	£m
Adult Services, Health and Wellbeing	0.1
Children and Young People Schools	20.0
Children and Young People Service	3.7
Environment	115.9
Resources	2.3
Total	**142.0**

21. Trading operations – Lancashire County Commercial Group

Our three major trading operations are:

- Care Services;
- Catering Services; and
- Operational Services.

In 2013/14 these trading operations made a total operating surplus of £0.5 million as detailed below:

	Turnover	Spending	2013/14 (Surplus)/ deficit	2012/13 (Surplus)/ deficit
	£m	£m	£m	£m
Care Services	(22.1)	23.4	1.3	1.2
Catering Services	(23.0)	22.4	(0.6)	(0.5)
Operational Services	(52.5)	51.3	(1.2)	(1.3)
Total	**(97.6)**	**97.1**	**(0.5)**	**(0.6)**

More information on our major trading operations' services for 2013/14 is given below.

Care Services

At the 31 March 2014 Care Services was providing:

- residential services from 17 homes for older people;
- rehabilitation services from 9 of these homes;
- day care from 14 day centres
  and;
- an assessment and reablement service providing assessment, practical and personal care to help people who have been ill or injured live independently at home for as long as possible.

Catering Services provided:

- school catering services for approximately 560 schools; and
- staff and civic catering from four outlets

Operational Services provides:

- Fleet Services – purchase, disposal, management, maintenance and repair of county council vehicles and repair and maintenance of Lancashire Fire and Rescue vehicles;
- Travel Care – caring and accessible bus services
- Building Cleaning services;
- School Crossing Patrol services
  and;
- Passenger Assistant services

22. Property, Plant and Equipment

The fixed assets figure includes properties valued at some £589million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. It is therefore considered appropriate to include these assets within the county council's balance sheet to fairly reflect the value of the assets used in providing the service.

With the recent economic downturn consideration was made with respect to the value of the fixed assets. After taking into account various factors it was decided that the fixed assets figure in the balance sheet represents the value of the assets held.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	**Total Property, Plant & Equipment**
	£m	£m	£m	£m	**£m**
Cost or valuation					
At 1 April 2013	2,109.4	71.3	623.1	0.7	**2,804.5**
Additions	37.6	5.9	64.7	28.2	**136.4**
De-recognition – disposals	(39.1)	-	-	-	**(39.1)**
De-recognition – others	2.1	(1.8)	-	-	**0.3**
Revaluations increases/(decreases) recognised in Revaluation Reserve	14.7	-	-	-	**14.7**
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(37.6)	-	-	-	**(37.6)**
Assets reclassified	(5.8)	-	-	-	**(5.8)**
At 31 March 2014	**2,081.3**	**75.4**	**687.8**	**28.9**	**2,873.4**
Depreciation and Impairments					
At 1 April 2013	90.8	35.8	65.6	-	**192.2**
Depreciation charge for 2013/14	24.7	7.6	14.9	-	**47.2**
De-recognition – disposals	(3.1)	-	-	-	**(3.1)**
De-recognitions – others	(1.9)	(1.0)	-	-	**(2.9)**
At 31 March 2014	**110.5**	**42.4**	**80.5**	**-**	**233.4**
Net Book Value at 31 March 2014	**1,970.8**	**33.0**	**607.3**	**28.9**	**2,640.0**
Net Book Value at 31 March 2013	**2,018.6**	**35.6**	**557.5**	**0.7**	**2,612.4**

Within the land and buildings is included the waste treatment facilities. In addition to the land and the fabric of the building, the value includes an element for equipment which is considered to be integral to the overall facility rather than the separate items of loose equipment.

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	**Total Property, Plant & Equipment**
	£m	£m	£m	£m	**£m**
Cost or valuation					
At 1 April 2012	2,152.5	65.9	572.3	12.8	**2,803.5**
Additions	58.6	5.5	50.9	-	**115.0**
De-recognition – disposals	(51.1)	(0.1)	(0.1)	-	**(51.3)**
De-recognition – others	(16.5)	-	-	(7.1)	**(23.6)**
Revaluations increases/(decreases) recognised in Revaluation Reserve	(23.8)	-	-	-	**(23.8)**
Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(13.7)	-	-	-	**(13.7)**
Assets reclassified	3.4	-	-	(5.0)	**(1.6)**
At 31 March 2013	**2,109.4**	**71.3**	**623.1**	**0.7**	**2,804.5**
Depreciation and Impairments					
At 1 April 2012	76.0	28.0	51.8	-	**155.8**
Depreciation charge for 2012/13	31.7	7.7	13.8	-	**53.2**
De-recognition – disposals	(2.1)	-	-	-	**(2.1)**
De-recognitions – others	(14.8)	-	-	-	**(14.8)**
At 31 March 2013	**90.8**	**35.7**	**65.6**	**-**	**192.1**
Net Book Value at 31 March 2013	**2,018.6**	**35.6**	**557.5**	**0.7**	**2,612.4**
Net Book Value at 31 March 2012	**2,076.5**	**37.8**	**520.6**	**12.8**	**2,647.7**

Effects of Changes in Estimates

In 2013/14 the council made no material changes to its accounting estimates for property, plant and equipment.

Depreciation

The useful lives for land and buildings used for depreciation are assessed by the valuer in groups of 10 year up to over 50 years, namely:

Life grouping	Life used for depreciation
0 up to 10 years	specific asset life used
10-20 years	10
21-30 years	20
30-40 years	30
40-50 years	40
Over 50 years	50

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Land is not depreciated
- Vehicles, Plant, Furniture and Equipment 10 years
- Infrastructure generally 50 years with exceptions as based on advice from surveyors

Fixed Asset Valuation

The property valuations are undertaken by appropriately qualified staff within the property group of the county council.

All valuations have been undertaken in accordance with the practice statements, guidance notes and valuation information papers of the Royal Institution of Chartered Surveyors' (RICS) Valuation Standards (The Red Book) and in accordance with CIPFA regulations and current Code of Practice on Local Authority Accounting.

Properties regarded by the council as operational are to be valued on the basis of existing use value or, where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost.
Properties regarded by the council as non operational are to be valued on the basis of market value.

No property valuation is to be more than five years old and at least 20% of properties are revalued each year. In 2012/13 365 properties were revalued which equates to approximately 22% of all the properties held.

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. Valuations are undertaken internally by Lancashire County Council's Property Group. All valuations have been undertaken by qualified Chartered Surveyors who are members of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

	Land and Buildings £m
Valued at historical cost	357.9
Valued at current value in:	
2013/14	418.8
2012/13	316.5
2011/12	147.8
2010/11	586.6
2009/10	253.7
Total	**2,081.3**

23. Financial instruments

The following categories of financial instruments are carried in the balance sheet. The instruments have been valued in accordance with International Financial Reporting Standards (IFRS) using the accounting policies explained within our accounting policies section.

	Long-term		**Current**	
	31/03/2014 £m	**31/03/2013 £m**	**31/03/2014 £m**	**31/03/2013 £m**
Cash and cash equivalents				
Loans & receivables (See Table 2 Note 26)	-	-	91.4	65.6
Investments				
Loans and receivables (See Table 2 Note 26)	127.1	99.4	23.7	109.8
Available-for-sale financial assets	360.8	168.9	-	-
Financial assets at fair value through profit and loss	-	-	1.0	149.1
Total investments	**487.9**	**268.3**	**24.7**	**258.9**
Debtors				
Loans & receivables	41.1	43.1	80.6	102.0
Borrowings				
Financial liabilities at amortised cost (See Table 1 Note 26)	436.1	480.7	384.0	264.7
Other Liabilities (PFI related)				
Financial liabilities at amortised cost (See Table 1 Note 26)	395.4	402.9	7.5	7.6
Creditors				
Financial liabilities at amortised cost	-	-	166.4	218.2

24. Income, Expense, Gains and Losses on Financial Instruments

The gains and losses during 2013/14 on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following table:

	2013/14					2012/13				
	Financial Liabilities at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	**Total**	Financial Liabilities at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	Assets and Liabilities at Fair Value through Profit & Loss	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Interest Expense	63.3	-	-	-	63.3	70.9	-	-	-	70.9
Fee Expense	0.4	-	-	-	0.4	1.1	-	-	-	1.1
Total Expense in Surplus/Deficit on the Provision of Services	**63.7**	**-**	**-**	**-**	**63.7**	**72.0**	**-**	**-**	**-**	**72.0**
Interest Income	-	(5.7)	(11.2)	(1.8)	(18.7)	-	(8.8)	(6.5)	-	(15.3)
Increases in fair value	-	-	-	-	-	-	-	-	(0.2)	(0.2)
Decreases in fair value	-	-	-	-	-	-	-	-	0.3	0.3
Gains on derecognition	-	-	(2.2)	(2.7)	(4.9)	-	-	-	(21.1)	(21.1)
Loss on derecognition	-	-	0.5	3.6	4.1	-	-	-	8.2	8.2
Total income in Surplus/Deficit on the Provision of Services	**-**	**(5.7)**	**(12.9)**	**(0.9)**	**(19.5)**	**-**	**(8.8)**	**(6.5)**	**(12.8)**	**(28.1)**
Gains on revaluation	-	-	-	-	-	-	-	(1.1)	-	(1.1)
Losses on revaluation	-	-	26.3	-	26.3	-	-	1.7	-	1.7
Surplus/Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	**-**	**-**	**26.3**	**-**	**26.3**	**-**	**-**	**0.6**	**-**	**0.6**
Net (Gain)/Loss for the Year	**63.7**	**(5.7)**	**13.4**	**(0.9)**	**70.5**	**72.0**	**(8.8)**	**(5.9)**	**(12.8)**	**44.5**

25. Treatment of Icelandic Deposits

Lancashire County Council had £6.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2012; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 53% of the total claim has now been repaid and the outstanding amount at 31 March 2014 is £3.1m. (The total outstanding amount at 31 March 2013 was £3.4m)

The exact timing and amounts of future distributions is not known at this stage.

The deposit is treated as an asset on the balance sheet and the carrying value is written down as distributions are received.

26. Fair Value of Financial Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions;

- Estimated ranges of interest rates at 31 March 2014 of 0.685% to 4.625% for loans from the PWLB and 0.35% to 3.8% for other loans receivable and payable based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- The fair value of PFI – using rates determined by the treasury based on a gilt zero coupon curve

The carrying values of the financial instruments can be seen in Note 23. The tables below disclose the fair value of the financial instruments, except for the following:

- short term debtors and creditors, as carrying value is reasonable approximation of fair value.
- available for sale assets and assets and liabilities at fair value through profit or loss because these are carried in the balance sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument

Table 1

	31/03/2014		31/03/2013 (restated)	
	Amortised Cost £m	Fair Value £m	Amortised £m	Fair Value* £m
Financial liabilities	1,223.0	1,552.6	1,155.8	1,560.3

The fair value of the liabilities is higher than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders above current market rates.

*Prior year comparatives have been restated in accordance with guidance

Table 2

	31/03/2014		31/03/2013	
	Amortised Cost £m	Fair Value £m	Amortised Cost £m	Fair Value £m
Loans & Receivables	242.2	244.3	274.8	290.8
Long term Debtors	41.1	41.1	43.1	43.1

The fair value of the assets is higher than the carrying amount because the council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. This shows a notional future profit (based on economic conditions at 31 March 2014) attributable to the commitment to receive interest above current market rates.

27. Nature and Extent of Risks Arising From Financial Instruments

The council's activities expose it to a variety of financial risks:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the council
- **Liquidity risk** – the possibility that the council might not have funds available to meet its commitments to make payments
- **Market risk** – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock movements.

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

Credit Risk

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

With regard to financial institutions the 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. The strategy also imposes a maximum sum and duration which the county council can be invested in an institution depending upon the quality of credit rating and over the 2013/14 financial year, despite the downgrading of the UK Government, the investment portfolio has maintained a very high AA- credit rating. However, in the past credit ratings have been proved to be fallible, and so in addition the treasury team constantly monitor other market information such as credit default swap spreads and equity prices.

A main principle of the 2013/14 credit risk strategy was to invest mainly in UK government credit through nationalised' banks and government guaranteed bonds. In addition, one of the bank loans is collateralised (backed by UK government securities), providing further access to government credit quality.

The table below analyses the portfolio by the credit rating of the counterparties at 31 March 2014 and summarises the county council's investments as at 31 March 2014 (values exclude impairments and accrued interest), in term of credit ratings. The historic default rate for the individual investment category is applied to each group to give an overall measure of the value at risk. The chance of a default is currently calculated as £2.18m in £538.3m or 0.4% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	<1mth	<3mth	<6mth	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m)	**77.7**	**-**	**0.4**	**-**	**75.0**	**80.2**	**60.8**	**244.2**	**538.3**
Historic default rate (AA-, %)	-	-	-	-	0.02	0.16	0.31	0.31	
Historic default rate (A+, %)	-	0.01	0.02	0.03	0.06	0.33	0.69	0.69	
Historic default rate (A, %)	0.01	0.02	0.03	0.07	0.21	0.80	2.15	2.15	
Exposure to default (£m)	**-**	**-**	**-**	**-**	**0.16**	**0.07**	**0.29**	**1.66**	**2.18**

Comparative data for 2012/13 can be seen below:

Credit Risk	<1mth	<3mth	<6mth	<1yr	<2yr	<5yr	<10yr	>10yr	Total
Total Investments (£m) 2012/13	84.1	50.0	20.0	-	20.4	139.0	107.2	100.6	**521.3**
Exposure to default (£m) 2012/13	0.01	0.01	0.01	-	0.04	0.59	-	-	**0.66**

The maximum single commercial exposure is to RBS at £70.0m (2012/13 £112.4m), however overall the portfolio is diversified by the use of 13 counterparties.

In the context of credit risk, non-statutory debtors are treated as financial instruments. The county council manages aged debt within the agreed policy.

Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations.

Lancashire County Council has a comprehensive cash flow management system which seeks to ensure that cash is available as needed. If unexpected movements happen, the county council has ready access to borrowings from the money markets and the Public Works Loans Board and access to their investment portfolio which is also considered to be liquid. There is no significant risk that the County Council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates however this is not considered to be material.

The county treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

Market Risk

The market risk to which the county council is exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

Movement in interest rates have a complex impact on the county council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall (this has no effect on the surplus or deficit on the provision of services).
- Investments at variable rates - the interest income credited to surplus or deficit on the provision of services will rise.
- Investments at fixed rates – the fair value of the investments will fall.

Market Risk - Borrowings

There is a significant level of short term borrowing which needs to be constantly 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 as 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.
- A long term £50m loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is 7.52% less the sterling 10 year swap rate, providing an inverse relationship with interest rates - the interest payable on the loan will fall as interest rates rise.

The county treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise.

Market Risk - Investments

A fall in the fair value of fixed rate investments that are held for trading will result in a charge to the surplus or deficit on the provision of services, reducing the County Fund balance. A fall in the fair value available-for-sale investments will be reflected in other comprehensive income. A fall in the fair value of other investments will have no impact on the primary financial statements, but will be disclosed in the notes to the accounts.

The county council also holds index linked investments the fair value of which rises as inflation rises, and a Lender Option Borrower Option (LOBO) loan for which the expense charged to the surplus or deficit on the provision of services will fall as interest rates rise. All of these instruments are part of a strategy to take advantage of current market conditions whilst managing interest rate risk.

The Treasury Management team is constantly refining the active strategy for assessing interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The table below attempts to quantify the interest rate risk looking back at the 31 March 2014 position.

The effect if interest rates were 1% higher with all other variables held constant:	
	£m
Increase in interest payable on variable rate borrowings	2.7
Increase in interest receivable on variable rate investments	(1.5)
Decrease in fair value of investments held for trading*	-
Impact on surplus or deficit on the provision of services	**1.2**
Decrease in fair value of fixed rate available for sale investment assets	65.0
Impact on other Comprehensive Income & Expenditure	**66.2**
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	1.8
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(30.8)

* Note that a rise in interest rates is also likely to result in a rise in inflation expectations which will cause the fair value of index linked investments to rise and partly offset the charge to the Surplus or Deficit on the Provision of Services.

The impact of a 1% fall in interest rates would be as above but with movements reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise. This is the consequence of the current short term borrowing policy which has provided the in year reduction in debt interest costs, and which is being carefully managed having regard to the potential for interest rates to rise.

This risk management process has begun with the inverse Lender Options Borrower Option loan outlined above. Regarding the investment portfolio it is anticipated that, in the current environment, any interest rate rises would follow a prolonged period of rising inflation, and therefore the current holding of inflation linked AAA rated bonds would provide some protection against the operating cost inflation risk.

28. Debtors

	31/03/2014	31/03/2013
	£m	£m
Central Government Bodies	22.5	15.5
NHS Bodies	11.3	0.9
Other Public Corporations	-	0.1
Other Local Authorities	19.8	3.0
Other Debtors	56.3	109.4
Total	**109.9**	**128.9**

Other debtors mainly comprises of low value high volume debtors for supply of goods and services with the exception of council tax owing £14.6m (£14.0m 2012/13) and sales of investments £0.0m 2013/14 (£21.7m in 2012/13).

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £30.9 million at 31 March 2014 (£25.3 million at 31 March 2013). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding

29. Creditors

	31/03/2014	31/03/2013
	£m	£m
Central Government Bodies	20.5	20.2
Other Local Authorities	19.4	13.4
NHS Bodies	6.8	7.4
Accumulated Absences	29.7	29.1
Other Creditors	134.7	190.7
Total	**211.1**	**260.8**

Central Government Bodies include PAYE & NI £14.3m (£14.7m 2012/13)

Other creditors mainly comprises of low value high volume creditors for purchase of goods and services with the exception of Waste PFI £10.2m (2012/13 £6.9m), Adult Social Care non-residential placements £8.3m (£6.6m 2012/13) and the purchase of investments £0.0m (£62.4m 2012/13),

30. Cash and Cash Equivalents

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

	31/03/14	31/03/13
	£m	£m
Cash held by council	0.7	0.6
Bank current accounts	33.0	15.5
Short term deposits under 3 months	57.7	49.5
Total Cash and Cash Equivalents	**91.4**	**65.6**

31. Provisions

We keep some funds set aside to provide for specific expenses, the exact cost of timing of which is still uncertain. These funds are known as 'provisions'. The changes to these funds are summarised in the following table:

	Balance at 1st April 2013	Additional provision made in 2013/14	Spending met from the provision in 2013/14	Unused amounts reversed in 2013/14	Balance at 31 March 2014
Long Term Provisions					
Insurance Provision	(16.3)	(6.5)	7.6	-	(15.2)
MMI (Municipal Mutual Insurance) Provision	(4.5)	-	1.4	-	(3.1)
Other Provisions	(0.4)	(0.1)	-	-	(0.5)
Total Long Term Provisions	**(21.2)**	**(6.6)**	**9.0**	**-**	**(18.8)**
Total Short Term Provisions	**(4.7)**	**(4.8)**	**1.0**	**0.4**	**(8.1)**
Total Provisions	**(25.9)**	**(11.4)**	**10.0**	**0.4**	**(26.9)**

Insurance provision

We set aside funds to cover liability claims which our insurers will not pay because they fall below our excess and our annual self insured limits. These claims may relate to employer's liability, public liability or buildings insurance. There are no material unfunded risks. The insurance provision contains large cash resources which may not be needed for several years. We use these resources to support our internal loans reserve .The provision is made at a level of estimated total amount for the financial year for which the council will be liable, and will be due for payment in future years.

MMI (Municipal Mutual Insurance)

This long term provision is to cover a liability that may arise from the potential insolvency of Municipal Mutual Insurance.

Other Provisions

All other provisions are individually insignificant

32. Usable Reserves

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement.

33. Unusable Reserves

The table below gives detail of the county council's unusable reserves:

	31/03/14	31/03/13
	£m	£m
Revaluation Reserve	(665.0)	(663.2)
Capital Adjustment Account	(999.8)	(930.2)
Available for Sale Financial Instruments Reserve	27.4	1.1
Financial Instruments Adjustment Account	27.1	29.6
Pension Reserve	905.1	1,127.1
Collection Fund Adjustment Account	(2.8)	(0.3)
Accumulated Absences Account	29.7	29.1
Total Unusable Reserves	**(678.3)**	**(406.8)**

Revaluation Reserve

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.

	2013/14 £m	2012/13 £m
Balance at 1 April	**(663.2)**	**(718.7)**
Upward revaluation of assets	(70.8)	(12.3)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	56.1	36.0
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**(14.7)**	**23.7**
Difference between fair value depreciation and historical cost depreciation	9.4	11.0
Accumulated gains on assets sold or scrapped	3.5	20.8
Amount written off to the Capital Adjustment Account	**12.9**	**31.8**
Balance at 31 March	**(665.0)**	**(663.2)**

Capital Adjustment Account

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 additions of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs 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 and enhancement.

The account 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.

Note 7 details the source of all the transactions posted to the account.

	2013/14	2012/13
	£m	**£m**
Balance at 1 April	**(930.2)**	**(862.0)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and impairment of non current assets	47.2	53.2
Revaluation losses on Property, Plant and Equipment including assets held for sale	38.4	13.3
Amortisation of intangible assets	2.8	1.8
Revenue expenditure funded from capital under statute	8.7	16.9
Reversal of charge re transfer of academies	13.3	38.2
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	11.0
Write down of Private Finance Initiative (PFI) liability	(7.6)	(7.9)
Adjusting amounts written out of the Revaluation Reserve	(12.9)	(31.8)
	(817.6)	**(770.9)**
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(78.6)	(30.3)
Application of grants to capital financing from the Capital Grants Unapplied Account	(59.5)	(81.0)
Statutory provision for the financing of capital investment charged against the County Fund	(27.6)	(28.9)
Capital expenditure charged against the County Fund	(16.4)	(28.1)
	(182.1)	**(168.3)**
Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	1.5	0.2
Reclassifications – PPE adjustments and waste PFI deferred consideration write out	(1.6)	8.8
Balance at 31 March	**(999.8)**	**(930.2)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2013/14	2012/13
	£m	£m
Balance at 1 April	1.1	0.5
Upwards revaluation of investments	-	(1.1)
Downward revaluation of investments not charged to the surplus/deficit on the Provision of Services	26.3	1.7
Balance at 31 March	**27.4**	**1.1**

Pensions Reserve

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.

	31/03/2014 £m	31/03/2013 £m
Balance at 1 April	1,127.1	939.5
Remeasurements of the net defined benefit liability/(asset)	(273.8)	173.3
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	134.9	91.2
Employer's pension contributions and direct payments to pensioners payable in the year	(83.1)	(76.9)
Balance at 31 March	**905.1**	**1,127.1**

34. Long Term Debtors

Long term debts to the council are shown below:

	31/03/2014 £m	31/03/2013 £m
Transferred Debt	41.1	43.1
Total	**41.1**	**43.1**

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

Cashflow Statement Notes

35. Cashflows from Operating Activities

2013/14			2012/13	
£m	**£m**		**£m**	**£m**
	19.9	**Net (surplus) or deficit on the provision of services**		**(33.0)**
		Adjustment to surplus or deficit on the provision of services for non cash movements		
(47.2)		Depreciation	(53.1)	
(39.9)		Impairment and downward valuations	(13.3)	
(2.8)		Amortisation of intangible assets	(1.8)	
5.5		Increase/(Decrease) in impairment for bad debts	(3.1)	
(1.3)		(Increase)/Decrease in Creditors	2.6	
(8.4)		Increase/(Decrease) in Debtors	18.2	
0.5		Increase/(Decrease) in Inventories	(0.6)	
(51.8)		Movement in Pension Liability	(14.3)	
(36.0)		Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	(49.2)	
3.1		Other non-cash items charged to the net surplus or deficit on the provision of services	3.3	
	(178.3)			**(111.3)**
		Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
98.1		Capital Grants credited to (surplus) or deficit on the provision of services	82.4	

0.8		Net proceeds from the sale of short and long term investments	9.8	
4.7		Proceeds from the sale of property plant and equipment, investment property and intangible assets	3.7	
	103.6			**95.9**
	(54.8)	**Net Cash Flows from Operating Activities**		**(48.4)**

36. Cash Flow Statement - Operating Activities (Interest)

2013/14			**2012/13**	
£m	**£m**		**£m**	**£m**
(19.5)		Ordinary interest received	(28.2)	
2.4		Other adjustments for differences between Effective Interest Rates and actual interest receivable	(0.4)	
(1.4)		Movement in Debtors	(1.4)	
	(18.5)	**Interest Received**		**(30.0)**
63.7		Interest charge for year	63.8	
0.0		Reclassification	(8.2)	
0.2		Adjustments for differences between Effective Interest Rates and actual Interest payable	(0.7)	
-		Movement in Creditors	1.3	
	63.9	**Interest Paid**		**55.6**

37. Cash Flows from Investing Activities

2013/14 £m		2012/13 £m
134.3	Purchase of Property, Plant and Equipment, investment property and intangible assets	122.9
877.2	Purchase of investments	1,773.0
0.7	Other payments for investing activities	-
(4.7)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(3.7)
(827.4)	Proceeds from the sale of investments	(1,860.2)
(86.2)	Other capital grants and receipts from investment activities	(84.7)
93.9	**Net Cash Flows from Investing Activities**	**(52.7)**

38. Cash Flows from Financing Activities

2013/14 £m		2012/13 £m
(1,260.5)	Cash receipts from borrowing	(1,046.1)
2.6	Appropriation to/from Collection Fund Adjustment Account	(1.3)
1185.4	Repayment of borrowing	1,122.8
7.6	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	8.0
(64.9)	**Net Cash Flows from Financing Activities**	**83.4**

Other Notes

39. Related Parties

We are required to disclose material transactions with related parties – bodies or 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 Authority.

Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in note 13 on reporting for resources allocation decisions.

Members

Members of the county council have direct control over the council's financial and operating policies. Under section 81 the Local Government act 2000, their outside interest are recorded in a formal register, The Register of Interest, which is available for inspection at the office of the Chief Executive, County Hall, Preston. The details of how to view the register can also be found on the council's website at:

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=969&tab=1

Our code of conduct requires county councillors to declare any related interests they have and to take no part in meeting or decisions on issues involving those interests.

In preparing this statement of accounts we have asked all councillors to fill in a declaration about any interests which they or their family may have in organisations that we deal with. These interests include:

- Roles with voluntary organisation and charities which may receive grants from the council.
- Roles where they have significant influence/control within Limited Companies that has a contract with the council.
- Family members that have significant influence/control within any organisation that has dealings with the council.

Revealed below is a list where councillors or a member of their family are involved and has significant control with an organisation.

There were a number of transactions that were declared between Lancashire County Council and organisations where the councillors have significant involvement.
None of the transactions were classed as significant to Lancashire County Council.

CC Carl Crompton is a board member of Gift 92, the charity received payments totalling £42,188.28.

CC Mike Otter is a trustee at Community Futures, the organisation received payments totalling £37,799.38.

CC Mark Perks, chairman for Buckshaw Youth Association and Buckshaw Scouts. Buckshaw Youth Association received a grant of £2,857 whilst Buckshaw Scouts received a grant of £959.

CC Alan Schofield is a board member at Ribble Valley Citizens Advice Bureau, the organisation received payments totalling £29,809.

CC Jennifer Mein is a trustee at Emmaus Preston, the charity received payments totalling £103,876.99.

CC Stephen Holgate is a non executive director for Chorley Community Housing, the organisation received payments totalling £130,646.

CC Azhar Ali, Regenerate Pennine Lancashire.

CC Lorraine Beavers, Blackpool Fylde and Wyre EDC.

CC David Borrow, The Lancashire Partnership Against Crime Limited.

CC Janice Hanson, LWS Lancashire Environmental Fund Limited.

CC Miles Parkinson, Regenerate Pennine Lancashire Limited.

Some county councillors hold positions on companies referred to in the companies section of this note, therefore any transactions between the two entities are referred to in that section.

Officers

Our senior officers may influence our financial and operating policies. The officers of the Management Team have filled in a declaration about their related interest and those of their family. This has revealed that the Management Team officers had roles in the following organisations during 2013/14.

Phil Halsall, chief executive (until 31 October 2013) of Lancashire County Council, Regenerate Pennine Lancashire Ltd,

Gill Kilpatrick, the county treasurer was treasurer to the Lancashire County Pension fund.

Jo Turton, the interim chief executive from 6 August 2013 and subsequently chief executive from 20 February 2014, declared board membership on Community Foundation Lancashire & Merseyside., Preston Vision Limited, Regenerate Pennine Lancashire Limited, Steve Browne, interim executive director for environment is also chairman of the board of Preston College.

Steve Gross, executive director of adult services, health and wellbeing is director for Lancashire Workforce Development Partnership Limited.

Martin Kelly, director of economic development has declared that he holds the position of director on Motor Industry Local Authority Network. He also holds the position of alternate director for Blackpool Fylde and Wyre Economic Development Company Limited, Regenerate Pennine Lancashire Limited; and also holds the position of Chairman with The Clayton Park Conference Centre Limited.

Lancashire County Pension Fund

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £4.2 million (2012/13: £3.8 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 £69.1 million to the fund in 2013/14 (2012/13:£63.4m million). All monies owing to and due from the fund were paid in year.

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

Lancashire County Developments Ltd

Lancashire County Developments Ltd (LCDL) acts as an economic and job creation agency for the county. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The Council controls 80% of the members' voting rights and it is classed as a subsidiary of the county council.

County councillors and county council senior officers are represented on the board. The county council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not allowed to distribute profits as dividends.

Sales to Lancashire County Council during the year amount to £3,329,345 (2013: 2,235,389). Purchases from Lancashire County Council amount to £3,254,488 (2013: £2,510,058). The amount owed by Lancashire County Council to this related party at 31 March 2014 is £3,006,955 (2013: £586,883).The amount owed to Lancashire County Council from this related party at 31 March 2014 is £31,647 (2013: £6,310).

A copy of the statement of accounts is available from the LCDL registered office: PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

One Connect Limited (OCL)

OCL was a joint venture between Lancashire County Council and BT, set up in May 2011. County councilors and county council senior officers were represented on the board.

The company recognised revenue of £78.2m (2013: £60.6m) from Lancashire County Council, holder of 4,000 "A" ordinary shares at 31 March 2014. The company also paid £48.3m (2013: £42.2) to Lancashire County Council. The expenditure related to the reimbursement of staff and other costs incurred by Lancashire County Council on behalf of the Company. At 31 March 2014, debtors include balances of £7.5m (2013: £6.3m) owing from Lancashire County Council.

From 1 April 2014 the partnership between BT and Lancashire County Council changed. One Connect Limited became a wholly owned BT company and was renamed as BT Lancashire Services Limited (BTLS)

A copy of the statement of accounts are available from Companies' House, www.companieshouse.gov.uk. Due to timing this information is based on unaudited accounts.

The Via Partnership (formerly CXL)

CXL was incorporated on 11th January 2007 to support, advance and promote the education and training of children, young people and adults in the Lancashire, Blackpool and Blackburn with Darwen areas in order to equip them for further education, employment and training. CXL changed its name to The Via Partnership Limited on the 4 April 2013.

The Via Partnership is owned by Lancashire County Council with 40% shares; Blackburn with Darwen Borough Council with 30% shares; and Blackpool Borough Council with 30% shares. The voting rights of each council in general meetings of the company directly reflect their shareholdings. County councillors are represented on the board along with LCC's Head of Business growth and innovation and Head of Economic Development and the county secretary and solicitor is the company secretary.

In 2013/14 Financial Year the three shareholders of Via Partnership Limited provided an interest bearing commercial loan of £1million for working capital purposes to be repaid over the next eight to ten years, based on their respective shareholding. (Lancashire County Council £400,000, Blackburn with Darwen Council £300,000 and Blackpool Council £300,000)

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from The Via Partnership Ltd registered office: County Hall, Preston, Lancashire, PR1 8XJ.

Marketing Lancashire Limited

Marketing Lancashire Ltd was created in 2004. It is one of four tourist boards that succeeded the North West Tourist Board. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. County councillors are represented on the board.

The £72k loss includes a £25k FRS17 valuation loss adjustment.

During the year, the company declared purchases of £nil (2013: £1,838) from Lancashire County Council and a creditor balance of £nil (2013: £nil) due to its member Lancashire County Council. Sales for the year to Lancashire County Council are £37,170 (2013: £1,200) and the amount owed by Lancashire County Council to Marketing Lancashire as at 31st March 2014 amounts to £1,902.

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Marketing Lancashire Ltd (formerly Lancashire and Blackpool Tourist Board Ltd) in the past.

Lancashire Sports Partnership Ltd

Lancashire Sports Partnership Ltd exists to increase participation in sport and physical activity across the 15 local authorities of the sub region in Lancashire. Since being established in 2000 the company has been hosted by Myerscough College. In April 2010 the company became a separate legal entity from the college as a company limited by guarantee with a Board of Trustees.

During the year, the company received funding of £21,577 (2013: £87,600) from its member, Lancashire County Council. A portion of the amounts received in the prior year related to projects continuing into the current year, and such amounts were included within deferred income as at 31st March 2013. The company also paid £9,629 (2013: £2,134) to Lancashire County Council for the use of conferencing facilities and for the recharge of other services.

Due to timing this information is based on unaudited accounts. A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

LWS Lancashire Environmental Fund Ltd

LWS Lancashire Environmental Fund Ltd receives landfill tax credits and awards grants to environmental projects which meet the criteria specified by the Landfill Tax Regulations 1996. It is a charitable company limited by guarantee and therefore has no share capital. The liability of members is limited to £1.

Lancashire County Council is a member of the charitable company with the power to appoint one trustee to the board. J Hanson was the Chairman of the charitable company and a member of Lancashire County Council. During the year, the charitable company has placed funds on deposit with Lancashire County Council on which interest of £7,878 (2012: £7,922) has been earned at the local authority seven day notice deposit rate. At 31 December 2013, the balance of funds on deposit was £1,579,955 (2012: £1,579,955).

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, PR1 8XJ.

Lancashire Workforce Development Partnership Limited

This organisation is an employer led partnership between the Independent Social Care employers in Lancashire and Lancashire County Council, established to improve social care delivery through workforce training. This is a company limited by guarantee with the council's liability limited to £1.

An amount of £1,200,000 was received under a service level agreement from Lancashire County Council in the year. In addition, Lancashire Workforce Development Partnership invoiced Lancashire County Council for room hire of £134 in the year (2012/13: £15,949). Lancashire Workforce Development Partnership Limited also paid £58,366 in contributions (2012/13: £53,876) to the Local Government Pension Scheme administered by Lancashire County Council.

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancashire PR1 8XJ.

Public Transport Information Ltd

Public Transport Information (PTI) Ltd provides a public transport information service. It is part of the national Traveline network. PTI Ltd is a company limited by guarantee and has no issued share capital. The liability of a member is limited to £1.

Lancashire County Council made contributions to the company of £102,521 (2012: £97,026) during the year. During the year, Public Transport Information Limited acquired licenses with a total cost of £2,355 (2012: £1,614) on behalf of Lancashire County Council which were subsequently recharged at cost. At the year end, Lancashire County Council were owed £Nil (2012: £Nil) by Public Transport Information Limited, and owed £Nil (2012: £Nil) to the company.

A copy of the accounts can be obtained from companies' house,www.companieshouse.gov.uk.

New Era Trust Ltd

New Era Trust Ltd provides community services to the residents of Hyndburn. It is a company limited by guarantee and the liability of members is limited to £1.

Lancashire County Council, currently has one representative on the board of the Trust. During the year, the County Council did not rent any office space from the Trust, or pay any fees in relation to rent (compared to paying £33,609 to the Trust for rented space in 2013). The Trust paid £293.52 to the County Council for the 2013/14 financial period in respect of services provided by the County Council (compared to £12,336 in 2012/13). £1312.92 was paid to the Trust by Lancashire County Council in respect of services provided by the Trust during the 2013/14 financial year. As at 31st March 2014 Lancashire County Council owed the trust £0.00 (2013: £4,098).

Lancashire County Council and Hyndburn Borough Council lease land and buildings to the Trust under the terms of 125 year leases at a peppercorn rent. Whilst the lease arrangements are due to expire on 30 September 2124, discussions are ongoing between the County Council and the Trust with a view to negotiating a surrender.

A copy of the accounts can be obtained from Paul Wright at the following email address paul.wright@lancashire.gov.uk .

Healthwatch Lancashire Limited

Healthwatch Lancashire Limited commenced operations on 1st April 2013 and will be commissioned by the County Council to undertake statutory functions on the Authority's behalf.

Healthwatch is the new independent consumer champion for both health and social care. It will exist in two distinct forms – local Healthwatch, at local level, and Healthwatch England at national level. The aim of Healthwatch Lancashire will be to give citizens and communities a stronger voice to influence and challenge how health and social care services are provided within their locality. Healthwatch Lancashire will also provide or signpost people to information to help them make choice about health and care services.

During the year, the company has declared purchases of £7,200 from Lancashire County Council. Funding received during the year from Lancashire County Council amounts to £305,000.

A copy of the accounts can be obtained from PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ.

40. Contingent Liabilities

Public Liability claims - There are outstanding public liability claims addressed to both LCDL, LCD(P)L and Lancashire County Council relating to a fire in one of LCD(P)L's properties in December 2011. These are currently in the hands of insurers and lawyers who are defending these claims on behalf of all three entitles. At this stage it is not possible to provide an accurate estimate of any costs that will arrive as a result of this claim.

41. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other 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 that need to be disclosed at the time that employees earn their future entitlement. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31 March 2015 and on revalued average salary (a "career average" scheme) for service from 1 April 2015 onwards.

At 31 March 2014 the authority's principal pension arrangement for its employees was 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, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2014, and at that date showed a funding level of 78% (assets of £5.0bn against accrued liabilities of about £6.4bn). The weighted average duration of the liabilities of the Fund as a whole is 18 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

In addition, the authority also participates in some other defined benefit pension arrangements, also governed under statute, but these other schemes are unfunded.

These other arrangements relate to:

Teachers. The authority'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 authority is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement.

Health workers. Again, the authority'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 authority's pension arrangements is material to the authority, as is the cash funding required. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

Lancashire County Pension Fund

Governance

Management of the Fund is vested in Lancashire County Council as Administering Authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

Funding the liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation was carried out as at 31 March 2013, which showed a shortfall of assets against liabilities of £1.38 billion as at that date, equivalent to a funding level of 78%. The fund's employers are paying additional contributions over a period of 19 years in order to meet the shortfall.

The weighted average duration of the authority's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes.

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 Fund's forecast cash flow.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other Price Risk

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

Interest Rate Risk

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

Currency risk

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

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risks

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 funding standards, which could materially affect the authority's cash flow.

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

Amendments, curtailments and settlements

The provisions of the Fund were amended with effect from 1 April 2014. As explained above for service up to 31 March 2013 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund's administering authority.

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 authority's assets and liabilities as a result of employing members who have accrued benefits with the authority.

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 authority. Again, the authority has no material involvement in this process.

Funding the liabilities

Contributions to the arrangements are set by the government for these Teachers and NHS staff pension schemes, having taken advice from the government actuary, so 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 authority is responsible.

Only this additional pensions to retired teachers part of the liability which directly falls to the council is recognised within the council's balance sheet and these liabilities are shown under teachers pension scheme figures within the tables below. The weighted average duration of these particular liabilities is 9 years, measured on the actuarial assumptions used for IAS19 purposes.

	Local Government Pension Scheme 2013/14	Local Government Pension Scheme 2012/13	Teachers Pension Scheme 2013/14	Teachers Pension Scheme 2012/13
Comprehensive Income and Expenditure Statement	**£m**	**£m**	**£m**	**£m**
Cost of Services :				
Current service cost	87.7	63.5	-	-
Past service cost	0.2	0.1	-	-
Curtailment costs	0.8	(3.8)	-	-
Admin Expenses	1.4	-	-	-
Financing and Investment Income and Expenditure				
Net Interest Expense	39.5	25.3	5.3	6.1
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**129.6**	**85.1**	**5.3**	**6.1**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement Remeasurement of the net defined benefit liability, comprising:				
Return on plan assets (excluding the amount included in the net interest expense	(4.5)	(165.8)	-	-
Experience (gains)/losses on liabilities	(45.5)	-	1.2	-
Actuarial (gains)/losses arising from changes in financial assumptions	(232.8)	292.4	(7.9)	15.9
Actuarial (gains)/losses arising from changes in demographic assumptions	13.1	29.0	2.6	1.9
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(140.1)**	**240.7**	**1.2**	**23.8**
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	129.6	85.1	5.3	6.1
Actual amount charged against the general fund balance for pensions in the year				
Employers contributions payable to the scheme	71.9	65.9	11.2	11.1

* The above table has been amended in light of the revised reporting requirements

Investment Risks

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 authority's contributions to them.

Other risks

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

Transactions relating to retirement benefits

We recognised the cost of retirement benefits in the surplus/deficit on continuing operations in the Comprehensive Income and Expenditure Statement, when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge we are required to make against council tax is based on the cash payable in the year, so the International Accounting Standard 19 (IAS 19) cost of retirement benefits is reversed out in the Movement in Reserve Statement against the County Fund balance.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

In 2013/14 we paid £45.9 million to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£46.1 million and 14.1% in 2012/13). We also paid £0.5m in 2013/14 for NHS Public Health Staff transferred across from NHS from 1 April 2013 which represents 14% of pensionable pay.

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2013/14 these amounted to £8.5 million, representing 2.6% of pensionable pay (£8.6 million and 2.6% in 2012/13).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, a remeasurement of the net defined liability gain of £273.8 million (£173.3 million loss in 2012/13) were included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss of £176.3 million.

Assets and liabilities in relation to retirement benefits

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

Lancashire County Pension Fund

	2013/14	2012/13
	£m	£m
Opening balance at 1 April	2,009.1	1,753.2
Remeasurement (assets)	4.5	165.8
Interest on plan assets	84.3	99.4
Admin expenses	(1.4)	-
Settlements	-	(1.9)
Employer Contributions	71.9	65.9
Contributions from scheme participants	22.2	20.5

Benefits/Transfers paid	(97.6)	(93.8)
Closing balance at 31 March	**2,093.0**	**2,009.1**

Reconciliation of present value of the scheme liabilities:

	Funded liabilities:		**Unfunded liabilities:**	
	Lancashire County Pension Fund		**Teachers Pension Scheme**	
	2013/14	**2012/13**	**2013/14**	**2012/13**
	£m	**£m**	**£m**	**£m**
Opening balance at 1 April	2,986.1	2,555.4	150.1	137.4
Current service cost	87.7	63.5	0.0	0.0
Interest on pension liabilities	123.8	124.8	5.3	6.1
Contributions from scheme participants	22.2	20.5	-	-
Benefits/Transfers paid	(97.6)	(93.9)	(11.2)	(11.1)
Curtailment cost	1.3	1.3	-	-
Gain/loss from settlements	(0.5)	(7.0)	-	-
Past service cost	0.2	0.1	-	-
<u>Remeasurement (gains) and losses</u>				
Experience (gains)/losses on liabilities	(45.5)	-	1.2	-
Actuarial (gains)/losses arising from changes in financial assumptions	(232.8)	292.4	(7.9)	15.8
Actuarial (gains)/losses arising from changes in demographic assumptions	13.1	29.0	2.6	1.9
Closing balance at 31 March	**2,858.0**	**2,986.1**	**140.1**	**150.1**

* The above table has been amended in light of the revised reporting requirements

Local Government Pension Scheme assets comprised:-

Fair value of scheme assets

	31/03/2014	31/03/2013
	£m	£m
Cash and cash equivalents	**36.4**	**70.2**
Equity instruments:		
By Industry		
Consumer	269.5	245.1
Manufacturing	166.6	117.4
Energy and utilities	84.9	58.4
Financial institutions	154.4	99.3
Health and care	94.4	78.6
Information technology	138.9	108.8
Miscellaneous	5.7	0.0
Sub-total equity	**914.4**	**707.5**
Bonds:		
By Sector		
Corporate	192.8	221.9
Government	64.2	185.9
Sub-total bonds	**257.0**	**407.9**
Property:		
By Type		
Retail	78.7	78.1
Commercial	92.5	97.8
Sub-total property	**171.2**	**175.9**
Private equity:		
UK	52.6	48.8
Overseas	57.5	43.9
Sub-total private equity	**110.1**	**92.7**
Other investment funds:		
Infrastructure	113.9	62.5
Property	10.5	3.0
Miscellaneous	479.5	489.5
Sub-total other investment funds	**603.9**	**555.0**

Total assets	**2,093.0**	**2,009.1**

Scheme history

The amounts included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:-

	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Present value of scheme liabilities:					
Local Government Pensions Scheme	(2,522.5)	(2,372.0)	(2,555.4)	(2,986.1)	(2,858.0)
Teachers Pensions Scheme	(143.9)	(136.2)	(137.4)	(150.1)	(140.1)
Fair value of assets in the Lancashire County Pension Fund	1,606.4	1,743.0	1,753.2	2,009.1	2,093.0
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(916.1)	(629.0)	(802.1)	(977.0)	(765.0)
Teachers Pension Scheme	(143.9)	(136.2)	(137.4)	(150.1)	(140.1)
Total	**(1,060.0)**	**(765.2)**	**(939.5)**	**(1,127.1)**	**(905.1)**

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £905.1 million in 2013/14 has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in net assets of £1,103.2 million.

However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2015 is £52.1 million. Expected contributions for the Teachers and Health Workers in the year to 31 March 2015 are £40.4million.and £0.4m respectively.

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, salary levels, etc. Both the Teachers Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2014. The principal assumptions used by the actuary have been as follows:

	2013/14	**2012/13**
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.00%	7.00%
Bonds	4.08%	3.48%
Other	Dependent on type of asset	4.45%
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	22.8 years	22.1 years
Women	25.3 years	24.8 years
Longevity at 65 for future pensioners:		
Men	25.0 years	23.9 years
Women	27.7 years	26.7 years
Rate of inflation (CPI)	2.40%	2.40%
Rate of increase in salaries	3.90%	4.40%
Rate of increase in pensions	2.40%	2.40%
Rate for discounting scheme liabilities	4.40%	4.20%

The rate of return is not applicable to the Teachers Pension Scheme since it has no assets to cover its liabilities. The Lancashire County Pension Fund's assets consist of the following categories:

	31/03/2014	**31/03/2013**
	%	**%**
Equity investments	57.7	62.0
Bonds	12.3	25.1
Other assets	30.0	12.9
	100.0	100.0

Sensitivity Analysis

The methods used to carry out the sensitivity analyses presented above for the material assumptions are the same as those the authority has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption	**Decrease in Assumption**
	£m	**£m**
Longevity (increase or decrease in 1 year)	55.94	(55.94)
Rate of inflation (increase or decrease by 1%)	518.09	(518.09)
Rate of increase in salaries (increase or decrease by 1%)	116.19	(116.19)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(508.86)	508.86

42. Events After the Balance Sheet Date

Date on which the financial statements were authorised for issue

The Statement of Accounts was authorised for issue by the county treasurer on 27th June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Non adjusting post balance sheet events

- **BT Lancashire Services:**

From 1 April 2014 the partnership between BT and Lancashire County Council changed. One Connect Limited became a wholly owned BT company and was renamed as BT Lancashire Services Limited (BTLS)

BTLS focus on utilising BT's technological capabilities to improve the efficiency and quality of; information and communication technology (ICT), revenue, benefits and payroll services. The formation of BTLS has led to a number of services currently delivered by OCL to come back in-house to the county council.

Other Funds

Trust and special funds

We manage several small trust and special funds. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area. The capital accounts in the table below show the value of the investment money that has been bequeathed.

Each fund balance is invested in line with the terms of the relevant trust deed. The annual income is used to meet the aims of the trust, for example by providing school prizes.

The revenue accounts record the day-to-day transactions of the funds, including income earned from investments and payments made to beneficiaries.

The movements on fund balances are summarised below.

	Adult and Community Services 2013/14 £000s	Children and Young People 2013/14 £000s	Other 2013/14 £000s	Total 2013/14 £000s	Total 2012/13 £000s
CAPITAL ACCOUNTS					
Balances at 1 April	3.4	194.0	0.8	198.2	178.8
Net Movement in funds	0.1	2.4	-	2.5	19.4
Balances at 31 March	**3.5**	**196.4**	**0.8**	**200.7**	**198.2**
REVENUE ACCOUNTS					
Balances at 1 April	6.5	55.7	15.0	77.2	63.7
Income received	0.1	7.3	15.6	23.0	23.2
Less payments during the year	-	0.1	7.6	7.7	9.6
Balances at 31 March	**6.6**	**62.9**	**23.0**	**92.5**	**77.2**
AGGREGATE BALANCES at 31 March (Capital Revenue)	**10.1**	**259.3**	**23.8**	**293.2**	**275.4**

(page left intentionally blank)

Lancashire County Pension Fund

Accounts
2013 / 2014

Accounts of the Fund

Responsibilities for the Statement of Accounts

a) The Responsibilities of the Administering Authority

The Administering Authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the County Treasurer, who is also the Treasurer to the Pension Fund;

- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

b) The Responsibilities of the Treasurer to the Pension Fund

The Treasurer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Treasurer to the Pension Fund has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code.

In addition, the Treasurer to the Pension Fund has:

- Kept proper accounting records which were up to date;

- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2014 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

29 September 2014

Fund Account

	Note	2013/14 £m	2012/13 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	214.0	202.7
Transfers in	7	7.1	9.9
		221.1	212.6
Benefits	8	(221.1)	(210.2)
Payments to and on account of leavers	9	(15.3)	(12.6)
Administrative expenses	10	(4.5)	(5.0)
		(240.9)	(227.8)
Net withdrawals from dealings with members		**(19.8)**	**(15.2)**
Return on investments			
Investment income	11	105.3	120.8
Profit and loss on disposal of investments and change in market value of investments	15	102.9	532.6
Investment management expenses	21	(11.3)	(7.2)
Net return on investments		**196.9**	**646.2**
Net increase (decrease) in the net assets available for benefits during the year		**177.1**	**631.0**

Net Asset statement

	Note	31/03/14 £m	31/03/13 £m
Investment assets	15	5,192.8	*5,107.4
Investment liabilities	15	(21.3)	*(118.4)
Current assets	22	28.3	31.7
Current liabilities	23	(11.7)	(9.7)
Net assets of the fund available to fund benefits at the period end		5,188.1	5,011.0

*The prior year has been restated to present new forward currency contracts in a comparable manner

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

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 at 31 March 2014 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund

County Councillor Clare Pritchard

Chair of the Audit Committee

Notes to the Financial Statements

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 published accounts show that in 2013/14 cash inflows during the year consisted of £326.4 million and cash outflows were £252.2 million, representing a net cash inflow of £74.2 million (compared with an inflow of £98.4 million in the previous year). Benefits payable amounted to £221.1 million and were partially offset by net investment income of £105.3 million (including £12.4 million accrued dividends); contributions of £214.0 million and transfers in of £7.1 million produced the positive cash inflow.

a) General

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

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

The investments of the Pension Fund are managed by eleven external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at http://www.yourpensionservice.org.uk

b) **Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

The 297 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.

Participation in the Pension Fund

	Number at 31/03/14	Number at 31/03/13
(1) Active Scheme Members		
Scheduled Bodies	50,536	49,391
Admitted Bodies	4,208	3,572
Total	**54,744**	**52,963**
(2) Pensioners		
Pensions in Payment	42,278	40,885
Preserved Pensions	53,895	49,837
Total	**96,173**	**90,722**
Total membership	**150,917**	**143,685**

c) **Funding**

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employers' contributions are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31st March 2014 was done at 31 March 2010. The latest valuation was carried out at 31st March 2013 and will be applicable for 3 financial years commencing 1st April 2014. Currently employer contributions range from 8.6% to 70.3% of pensionable pay.

d) **Benefits**

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

LGPS 2014

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton.

After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay
- an accrual rate of 1/49th of pensionable pay
- revaluation of benefits in line with the CPI
- a Normal Pension Age equal to State Pension Age
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits
- a vesting period of two years

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing councillor members as at 31 March 2014 will leave the Scheme at the end of their current fixed term of office.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2013/14 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 29 of these accounts.

3. Accounting Policies

Fund Account revenue recognition

- Contribution income

Normal contributions both from members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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**

Transfer values represent amounts received and paid during the period for individual members who have either joined or left the fund during the financial year and are calculated in accordance with Local Governance Pension Scheme Regulations.

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

- **Investment Income**

i. 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.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii. Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv. Rental income

Net rental income from operating leases on properties owned by the fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents are only recognised when contractually due.

v. Movement in the net market value of investments

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

Fund Account –expense items

- **Benefits payable**

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

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

- **Investment Management expenses**

Investment management expenses are accounted for on an accruals basis. They include the fees paid and due to the fund managers, custodian, actuarial fees and performance measurement and investment consultant fees.

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- MFS
- Morgan Stanley

Performance related fees paid in 2013/14 were £1.5m. No performance related fees were paid in 2012/13 as these managers were only appointed in October 2012.

Where an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2013/14 £2.8m of fees is based on such estimates (2012/13 £2.2m).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the fund.

Net asset statement

- **Financial Instruments**

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset 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 by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- Market-quoted investments
  The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- Fixed interest securities
  Fixed interest securities are recorded at net market value based on their current yields.

- Unquoted investments
  The fair value of investments for which market quotations are not readily available is determined as follows:

  Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

- Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

Loans and receivables

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

The fund's loans and receivables comprise of trade and other receivables and cash deposits.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

- **Valuation of Investments**

Investments are shown at their fair value as at 31 March 2014. The fair value is the current bid price for quoted securities and unitised securities.

Transaction costs are included in carrying value of investments. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Investments in private equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

- **Currency Translation**

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2014. Any gains or losses are treated as part of a change in market value of investments.

- **Acquisition costs of Investments**

The Acquisition costs of investments are included within the purchase price.

- **Property**

The fund's freehold and leasehold properties were valued on 31 March 2014 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

- **Derivatives**

The funds external managers use derivative financial instruments to manage the exposure to specific risks arising from the fund's investment activities. The fund does not hold derivatives for speculative purposes or for any of the internally managed funds.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date.

- **Cash and cash equivalents**

  Cash comprises of cash in hand and on demand deposits.

  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 asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

- **Actuarial present value of promised retirement benefits**

  The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

  As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 29).

- **Additional voluntary contributions**

  The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown in note 20.

- **Securities Lending**

  Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate.

Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation.

- **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Fund does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund. The Fund does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. Critical judgements in applying accounting policies

- Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

- Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 28. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimated uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Pension Fund 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 Pension Fund's net asset statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	**Uncertainties**	**Impact if actual results differ from assumptions**
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent.	The market value of private equity and infrastructure investments in the financial statements totals £512.9m. There is a risk that these investments might be under or overstated in the accounts.
Local authority bond valuations.	The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.	The market value of local authority bonds totals £17.4m in the financial statements and there is a risk that this may be under or overstated.
Indirect overseas property valuations.	Overseas 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.	Overseas indirect property investments in the financial statements total £25.4m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £300 million. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £128m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £139m.

6. Contributions receivable

	2013/14 £m	2012/13 £m
Employers' contributions		
County Council	67.5	61.3
Scheduled Bodies	74.0	71.2
Admitted Bodies	13.1	12.6
	154.6	145.1
Pension Strain		
County Council	1.6	2.1
Scheduled Bodies	3.6	3.5
Admitted Bodies	0.2	0.3
	5.4	5.9
	160.0	151.0
Employee contributions		
County Council	22.2	20.6
Scheduled Bodies	26.8	26.3
Admitted Bodies	5.0	4.8
	54.0	51.7
Total contributions	214.0	202.7

Within the employee contributions figure for 2013/14, £0.4m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2013/14 £m	2012/13 £m
Individual transfers in from other schemes	7.1	9.9
	7.1	9.9

8. **Benefits**

	2013/14	2012/13
	£m	£m
Pensions	183.9	176.5
Lump sum retirement benefits	33.2	28.3
Lump Sum death benefits	4.0	5.4
	221.1	210.2
Relating to:		
County Council	93.4	91.4
Scheduled Bodies	112.9	105.7
Admitted Bodies	14.8	13.1
	221.1	210.2

9. **Payments to and on account of leavers**

	2013/14	2012/13
	£m	£m
Individual transfers to other schemes	12.9	12.6
Bulk transfers to other schemes	2.4	0
	15.3	12.6

10. **Administrative expenses**

	2013/14	2012/13
	£m	£m
Administration and processing	4.2	3.8
Audit fee*	0.1	0.1
Legal and other professional fees	0.2	1.1
	4.5	5.0

*The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £38k (£41k in 2013/13).

11. Investment income

	2013/14	2012/13
	£m	£m
Fixed interest securities	31.5	21.5
Equity dividends	36.8	59.5
Index linked securities	1.6	1.2
Pooled investment vehicles	6.4	6.3
Net rents from properties	23.5	25.0
Interest on cash deposits	3.2	2.8
Other	2.3	4.5
	105.3	120.8

12. Net rents from Properties

	2013/14	2012/13
	£m	£m
Rental Income	27.4	28.1
Direct operating expenses	(3.9)	(3.1)
Net income	23.5	25.0

13. Operating leases

The Pension Fund leases out its investment properties under operating leases.

The future minimum leases receivable under non -cancellable leases in future years are:

	2013/14	2012/13
	£m	£m
Leases expiring in the following year	2.0	2.9
Leases expiring in two to five years	11.9	13.2
Leases expiring after five years	12.4	13.6
Total	26.3	29.7

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

The income is contractually secured against a wide range of tenants who in turn operate in a range of market sectors. Income is generally reviewed to Market Rent 5 yearly, and there is also an element of the portfolio income that is indexed or has fixed uplifts (generally being in the range of 2-4% per annum). The portfolio also features a number of vacant properties for which the future income depends on the terms agreed by tenants, and the investment manager is working with letting agents to fill these voids.

14. Stock Lending

Northern Trust the Fund's custodian, are authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2013/14 was £1.2m (2012/13 £0.6m)

Securities on loan at the 31st March 2014 were £131.7m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £129.9m of equities and £1.8m of bonds.

Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £139.8m of government bonds.

15. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2013	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investments	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5

Derivative contracts:

Forward currency contracts asset value	121.4	21.4
Cash deposits	170.5	315.5
Investment accruals	21.6	12.4
Investment assets	5,107.4	5,192.8
Forward currency contracts liability value	(118.4)	(21.3)
Portfolio value	4,989.0	5,171.5

	Market Value at 1 April 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	623.4	501.1	(471.9)	191.0	843.6
Equities	1,613.7	1,409.8	(1,581.2)	307.0	1,749.3
Index linked securities	124.6	16.1	(29.1)	53.3	164.9
Pooled investments	1,466.3	696.6	(558.9)	(2.8)	1,601.2
Property	383.9	72.1	(5.3)	(15.8)	434.9
	4,211.9	2,695.7	(2,646.4)	532.7	4,793.9
Derivative contracts					
Futures	0.2	0.4	(0.5)	(0.1)	0.0
Forward currency Contracts*	1.6				3.0
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
Portfolio value	4,359.9				4,989.0

Within the £102.9m increase in market value of investments during the 2013/14 financial year, a reduction in market value of £33.9m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 18.j

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2013/14 amounted to £1.4m (2012/13: £2.2m).

The investment assets at 31 March 2014 were managed by eleven external investment managers, with the remaining managed in-house. The following table shows the split of the investment assets by investment manager

Summary of Manager's Portfolio Values

	31/03/14		31/03/13	
	£m	%	£m	%
Externally Managed				
Equities				
Baillie Gifford	793.0	15%	703.1	14%
Robeco	366.7	7%	354.5	7%
NGAM	285.8	6%	245.7	5%
MFS	269.6	5%	245.0	5%
AGF	239.9	5%	0.0	0%
Morgan Stanley	239.4	5%	234.1	5%
Magellan	197.5	4%	0.0	0%
Nomura Transition	1.9	0%	1.7	0%
Private equity				
Capital Dynamics	221.5	4%	229.1	4%
Infrastructure				
Capital Dynamics	118.6	2%	77.5	1%
Credit and fixed income transition				
BNYM Transition	82.5	2%	929.4	19%
Property				
Knight Frank	450.5	9%	434.9	9%
Index tracking – multi asset				
Legal & General	0.0	0%	582.1	12%
Externally Managed Portfolios	**3,266.9**	**64%**	**4,037.1**	**81%**

Internally Managed				
Credit Strategies	784.1	15%	424.0	9%
Bonds and Cash	715.7	14%	224.4	5%
Equity Funds	206.6	4%	0.0	0%
Infrastructure Funds	172.8	3%	76.9	1%
Indirect Property Funds	25.4	0%	7.5	0%
Emerging Markets ETF	0.0	0%	219.1	4%
Internally Managed Portfolios	**1,904.6**	**36%**	**951.9**	**19%**
Total Portfolio Values	**5,171.5**	**100%**	**4,989.0**	**100%**

	31/03/14 £m	**31/03/13 £m**
Fixed Interest Securities		
UK public sector quoted	-	294.9
UK corporate bonds quoted	76.0	225.0
Overseas corporate bonds quoted	157.0	323.7
	233.0	843.6

	31/03/14 £m	**31/03/13 £m**
Equities		
UK quoted	231.3	218.3
Overseas quoted	1,689.8	1,531.0
	1,921.1	1,749.3

	31/03/14 £m	**31/03/13 £m**
Index Linked Securities		
UK quoted	-	164.9
	-	164.9

Pooled Investment Vehicles	31/03/14 £m	31/03/13* £m
UK Managed Funds:		
Equity funds	-	166.0
Fixed Income funds	47.0	-
Venture Capital	264.8	*218.8
Overseas Managed Funds:		
Equity Funds	644.1	632.2
Fixed Income funds	970.3	*412.0
Property funds	25.1	7.5
Venture Capital	287.6	164.7
	2,238.9	**1,601.2**

* The custodian has provided the statutory notes for the accounts, this change has led to a review of the prior disclosure categories and some assets being reclassified and restated.

.

	31/03/14 £m	31/03/13 £m
Properties		
UK – Freehold	389.8	346.4
UK – Long Leasehold	60.7	88.5
	450.5	434.9

	2013/14 £m	2012/13 £m
Balance at start of the year	434.9	383.9
Additions	15.0	72.1
Disposals	(43.3)	(5.3)
Net gain/loss on fair value	43.9	(15.8)
Balance at the end of the year	450.5	434.9

Derivative contracts (forward currency positions)

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
one to six months	USD	3.7	AUD	(4.2)	2.2	(2.3)
one to six months	USD	30.5	CHF	(26.6)	18.3	(18.1)
up to one month	GBP	0.1	USD	(0.1)	0.1	(0.1)
up to one month	JPY	17.0	GBP	(0.1)	0.1	(0.1)
up to one moth	USD	0.4	EUR	(0.3)	0.3	(0.3)
up to one month	USD	0.7	JPY	(70.1)	0.4	(0.4)
Open forward currency contracts at 31 March 2014					21.4	(21.3)
Net forward currency contracts at 31 March 2014						0.1
Prior year comparative						
Open forward currency contracts at 31 March 2013					121.3	(118.4)
Net forward currency contracts at 31 March 2013						2.9

Forward Foreign currency contracts are used to hedge against foreign currency movements.

	31/03/14	31/03/13
	£m	£m
Cash Deposits		
Sterling	148.0	116.6
Foreign currency	167.5	53.9
	315.5	170.5

16. **Financial Instruments classification**

The accounting policy on financial instruments describes how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31/03/14	**Fair value through profit or loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
	£m	**£m**	**£m**
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	1,661.4	-	-
Pooled property investments	25.1		
Venture Capital	552.4		
Derivative Contracts	21.4		
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total Financial Assets	**4,426.8**	**343.8**	**-**
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total Financial Liabilities	**21.3**	**-**	**11.7**

	Fair value through profit or loss	**Loans and receivables**	**Financial liabilities at amortised**

			cost
31/03/13			
	£m	**£m**	**£m**
Financial assets		-	-
Fixed interest securities	843.6	-	-
Equities	1,749.3	-	-
Index linked securities	164.9	-	-
Pooled investment vehicles	1,601.2	-	-
Derivative contracts	4.9	-	-
Cash deposits	-	170.5	-
Investment accruals	21.6	-	-
Debtors	-	31.7	-
Total Financial Assets	**4,385.5**	**202.2**	**-**
Financial liabilities			
Derivative contracts	1.9	-	-
Creditors	-	-	9.7
Total Financial Liabilities	**1.9**	**-**	**9.7**

17. **Net gains and losses on financial instruments**

The net gain on financial assets at fair value through profit and loss is £59.0m (2012/13 £548.4m)

18. **Financial Instruments – Valuation**

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

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, 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. The technique for valuing these assets is independently verified.

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 internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure, local authority bonds and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparables and estimated future cash flows.

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

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and valuation Standards. These valuations are performed monthly.

The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.

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

31/03/14	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total Financial assets	**3,314.6**	**179.9**	**929.9**	**4,424.4**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total Financial Liabilities	**21.3**	**-**	**-**	**21.3**

31/03/13	*Level 1 £m	*Level 2 £m	*Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	*2,881.5	*977.1	*648.3	4,506.9
Total Financial assets	**2,881.5**	**977.1**	**648.3**	**4,506.9**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	*118.4	-	-	118.4
Total Financial Liabilities	**118.4**	**-**	**-**	**118.4**

*Financial instruments at 31st March 2014 have been categorised into levels1, 2,and 3 based upon a review of individual investments rather than on the basis of investment manager portfolios as was the policy at 31st March 2013. Comparatives have been restated accordingly.

19. 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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Bonds	4.8%
Overseas bonds	4.8%
UK equities	11.9%
Overseas equities	11.9%
Index linked Gilts	4.8%
Alternatives	3.8%
Property	2.7%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. 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 shown below):

Asset Type	31/03/14	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Investment portfolio assets:				
UK bonds	76.0	4.8%	79.6	72.3
Overseas bonds	157.0	4.8%	164.5	149.5
Total equities	1,921.1	11.9%	2,149.7	1,692.5
Alternatives	2,238.9	3.8%	2,324.0	2,153.8
Property	450.5	2.7%	462.7	438.3
Total asset available to pay benefits	**4,843.5**		**5,180.5**	**4,506.4**

Asset Type	31/03/13	Percentage Change	Value on Increase	Value on Decrease
	£m	%	£m	£m
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.8	496.0
Overseas bonds	323.7	8.7%	351.8	295.5
Total equities	1,749.3	12.8%	1,973.2	1,525.5
Index linked gilts	164.9	8.1%	178.2	151.5
Alternatives	1,601.2	3.6%	1,658.8	1,543.6
Property	434.9	1.8%	442.7	427.1
Total asset available to pay benefits	**4,793.9**		**5,148.5**	**4,439.2**

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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31/03/14	31/03/13
	£m	£m
Cash and cash equivalents	315.5	170.5
Fixed interest securities	1,250.3	1,255.5
Total	**1,565.8**	**1,426.0**

Interest rate risk sensitivity analysis

The Fund has recognised that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 110 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type		**Change in year in net assets available to pay benefits**	
	31/03/14	**+100BPS**	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in asset available	**1,565.8**	**15.6**	**(15.6)**

Asset Type		**Change in year in net assets available to pay benefits**	
	31/03/13	**+100BPS**	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	170.5	1.7	(1.7)
Fixed interest securities	1,255.5	12.5	(12.5)
Total change in asset available	**1,426.0**	**14.2**	**(14.2)**

Currency risk

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

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

The table on the following page summarises the fund's currency exposure as at 31 March 2014 and as at the previous year end:

Currency exposure – asset type

	31/03/14	31/03/13*
	£m	£m
Overseas quoted securities	1,689.8	1,531.0
Overseas corporate bonds (quoted)	157.0	323.7
Overseas fixed income	970.3	*412.0
Overseas pooled investments	956.8	*804.4
Total overseas assets	**3,773.9**	**3,071.1**

*Classification by asset type has been reviewed at an individual asset level for 2013/14. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Currency risk – sensitivities analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6% (as measured by one standard deviation).

A 6% 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.

A 6% 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	31/03/14	Change to net assets available to pay benefits	
		+6.0%	-6.0%
	£m	£m	£m
Overseas quoted securities	1,689.8	1,791.1	1,588.4
Overseas corporate bonds (quoted)	157.0	166.4	147.6
Overseas fixed income	970.3	1,028.5	912.1
Overseas pooled investments	956.8	1,014.2	899.4
Total change in assets available	**3,773.9**	**4,000.2**	**3,547.5**

Currency exposure – asset type	**31/03/13***	***Change to net assets available to pay benefits**	
		+6.1%	**-6.1%**
	£m	**£m**	**£m**
Overseas quoted securities	1,531.0	1,624.4	1,437.6
Overseas corporate bonds (quoted)	323.7	343.5	303.9
Overseas fixed income	*412.0	*437.1	*386.8
Overseas pooled investments	*804.4	*853.5	*755.3
Total change in assets available	**3,071.1**	**3,258.5**	**2883.6**

*Classification by asset type has been reviewed at an individual asset level for 2013/14. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31st March 2014 was £315.5m (31 March 2013: £170.5m.) This was held with the following institutions:

Summary	**Rating**	**31/03/14**	**31/03/13**
Bank deposit accounts		**£m**	**£m**
Ulster Bank	Baa3	5.0	5.0
Northern Trust	A1	248.0	75.0
Svenska Handelsbanken	Aa3	61.4	0.0
Bank of Scotland	A2	-	50.0
Bank Current Accounts			
NatWest Account	Baa1	1.1	40.5
Total		**315.5**	**170.5**

Liquidity risks

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.

All financial liabilities at 31 March 2014 are due within the one year.

20. **Additional Voluntary Contributions (AVC's)**

Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers).

The figures relate to the financial year 1 April 2013 to 31 March 2014 for Prudential and 1 September 2012 to 31 August 2013 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional Voluntary Contributions

	Equitable Life £m	Prudential £m	Total £m
Value at the start of the year	1.1	15.9	17.0
Income (incl. Contributions, bonuses, interest, transfers in)	0.1	5.3	5.4
Expenditure (incl. Benefits, transfers out, change in market value)	(0.1)	(1.4)	(1.5)
Value at the end of the year	1.1	19.8	20.9

21. Investment management expenses

	2013/14 £m	2012/13 £m
Administration, management and custody	11.0	6.9
Performance measurement service	0.1	0.2
Other advisory fees	0.2	0.1
	11.3	7.2

22. Current assets

	31/03/14 £m	31/03/13 £m
Contributions due from: Employers	14.4	12.5
: Members	4.4	4.4
Debtors: Bodies external to general government	9.5	14.8
	28.3	31.7

	31/03/14 £m	31/03/13 £m
Other local authorities	15.5	18.9
NHS bodies	0.1	0.1
Public corporations and trading funds	0.1	0.1
Other entities and individuals	12.6	12.6
	28.3	31.7

23. Current liabilities

	31/03/14 £m	31/03/13 £m
Unpaid benefits	0.6	2.3
Accrued expenses	11.1	7.4
	11.7	9.7

	31/03/14 £m	31/03/13 £m
Other local authorities	4.0	4.2
NHS bodies	-	0.4
Other entities and individuals	7.7	5.1
	11.7	9.7

24. Contingent Asset and Liability

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigation, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts.

The Pension Fund has entered into a number of other claims that are not financially material which may result in additional income for the Fund.

25. Contractual Commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £594.5m. 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 an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

The Fund entered into a new venture capital commitment in November 2013. This will be internally managed and as at 31st March 2014 there had been no drawdowns on the commitment of £17.9m.

In April 2013, the Fund approved the direct investment into a property development in St Albans. The Fund is the sole investor in this town centre hotel and retail development The Fund has a commitment to pay monthly staged payments to fund the development plus a balancing payment at completion. The outstanding commitment at 31st March 2014 amounts to £7.1m.

26. 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. They include:

- At 31 March 2014, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 99 scheduled and 198 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2013/14. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £4.2 million (2012/13: £3.8 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 £69.1 million to the fund in 2013/14 (2012/13:£63.4m million). All monies owing to and due from the fund were paid in year.

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

27. Icelandic Investment

The Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2013; this showed that LBI's assets, including partial payments already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 51.8% of the total claim has now been repaid and the outstanding balance at 31st March 2014 is £1.2m. The exact timing and amount of future distributions is not known at this stage. The deposit is treated as an asset on the net asset statement and the carrying value is written down as distributions are received.

28. **Funding Arrangements**

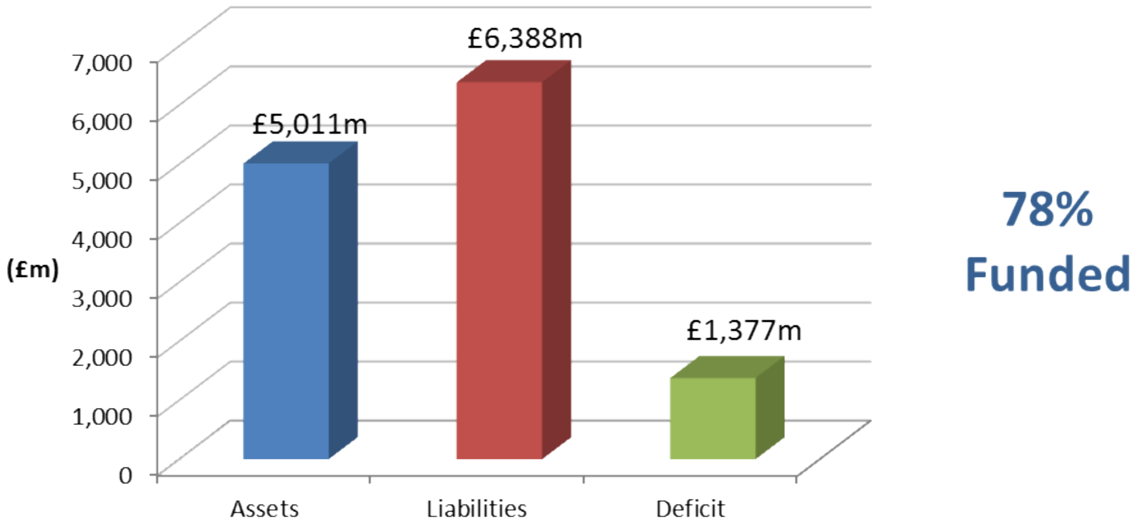
Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

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 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Fulll detalis of the valuation are available as part of the funding strategy statement.

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.

.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

29. Actuarial Present Value of Promised Retirement Benefits

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.4% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

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 (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation alongside a reduction in the long-term rate of real pay growth (1.5% p.a. versus 2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £7,373 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by *c*£614 million. Adding interest over the year increases the liabilities by

c£310million, and allowing for net benefits accrued/paid over the period increases the liabilities by another *c*£33 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£185 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £6,917 million.

30. **Events after the net asset statement date**

Greater Manchester Pension Fund has been chosen by the Ministry of Justice to administer the Local Government Pension Scheme in respect of the National Probation Service and Community Rehabilitation Companies with effect from 1st June 2014. Active and deferred members of Lancashire County Pension Fund who are affected by this change transferred to the Greater Manchester Pension Fund on 1st June 2014. Probation Service pensioners who are currently members of the Lancashire County Pension Fund are scheduled to transfer out to Greater Manchester Pension Fund at the end of September 2014. The transfer share of assets is expected to be in the region of £85m and the share of liabilities of the order of £109m.

Glossary

Accounting Policies

The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Accumulated Absences Account
The accumulated absences account absorbs the differences that would otherwise arise on the County Fund balance from accruing for compensated absences earned but not taken in the year,

Actuary
An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses
A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Administrative Expenses (IAS 19)
The administration costs of running the pension fund

Agency services
Services which one council is responsible for, but which another council provides (as the agent). The council responsible pays the agent council the cost of the services provided.

Amortisation
An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation
A contribution to or from a financial reserve.

Audit qualification
A comment made by the auditors if they are not completely satisfied with the accounts.

Budget
A statement which reflects the County Council's policies in financial terms and which sets out its spending plans for a given period.

Capital assets
Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

Capital creditors
Amounts owed by the county council for spending on buying or improving assets.

Capital expenditure
Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads.

Capital funding
Money to support spending on capital projects.

Capital grant
Money received for capital items (see 'capital expenditure' above).

Capital investment
Money invested in capital projects.

Capital projects
Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

Capital receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital value
Amount spent on capital.

Capitalise
To treat as capital expenditure rather than revenue expenditure.

Cash equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions
Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items
Central overheads e.g. payroll costs.

CIPFA
The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund

The system used by district and borough councils to keep council tax separate from their own accounts. The amount in the fund each year is fed into the council tax calculation for the following year.

Collection Fund Adjustment Account
The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the County Fund from the Collection Fund.

Construction contract
A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities
Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

County Fund
The main revenue fund used to provide County Council services. Income to the fund consists of the county precept on the collection funds, government grants and other income.

Creditors
Amounts owed by the County Council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)
The increase in the County Council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailment cost (IAS 19)
Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption
Where a debt is repaid early.

Debtors
Amounts owed to the County Council which had not been paid by the date of the balance sheet.

Deferred liabilities
Debts to be settled sometime in the future, but the actual date is not certain.

Defined benefit scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)
The county council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Direct service organisation (DSO)
An organisation set up within the county council to carry out certain activities subject to competitive tendering.

Employer's pension contributions
Payments to the pension scheme made by the county council for current employees.

Expected return on assets (IAS 19)
The average rate of return expected on investment assets held by the pension scheme.

Fair value
The amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease
A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

Financial Instruments Adjustment Account
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 year
The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or ‘accounting period’) begins on 1 April and finishes on 31 March of the following year.

Financing charges
Repayments on amounts loaned to the county council by external organisations. These charges include interest as well as repayment of the amount borrowed (the ‘principal’).

Financial instrument
A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets
Assets intended to be used for several years – for example, buildings, machinery and vehicles.

Global custodian
A financial institution responsible for keeping up-to-date records of equities and bonds owned by a pension fund.

Government grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Historic cost
The cost of an asset at the time it was bought.

Impairment
Where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Infrastructure assets
Highways fixed assets – for example, roads and bridges.

Intangible assets
Assets which do not have a physical form. Examples include computer software, brand names, patents and copyrights.

Interest cost (pensions)

The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Investing activities
The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment property
Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

Market value
The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision
The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate (NNDR)
The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more that the retail price index. Rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

Net book value
The amount at which fixed assets are included in the balance sheet (i.e. their historical cost or current value less the cumulative amounts provided for depreciation).

Net nil trading position
This is where spending matches income.

Net pension liability
The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value
The amount for which an asset can be sold, less the cost of selling it.

Nil consideration
Where no charge is made for an item.

Nominal value of a financial instrument
The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-distributed costs

These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets
Assets which are not in use.

Operating lease
A lease where ownership of the goods remains with the company leasing them.

Operational assets
Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Past service cost or gain (IAS 19)
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to regulations.

Pension enhancements
Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

Pooled investment vehicle
Where a pension fund invests in a fund with other investors. This fund in turn buys and owns assets.

Precept
A charge made by one authority which is collected by another authority – for example, the council tax precept.

Principal
The amount of money borrowed, not including interest charges.

Principal repayment of debt
Re-payment of a loan, not including interest charges.

Prior period adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private finance initiative (PFI)
A means of securing new assets and associated services in partnership with the private sector.

Projected unit method (Pensions)
An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) The accrued benefits for members in service on the valuation date (accrued benefits are the benefits for service up to a given point in time, whether vested rights or not).

Provisions
Liabilities of uncertain timing or amount.

Public Works Loan Board (PWLB)
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Realisable value
The amount for which an asset can be sold.

Reconciliation
The process of checking figures from different sources which should logically match up – for example, matching invoices paid against amounts banked.

REFCUS (Revenue Expenditure Funded from Capital Under Statute)
Capital expenditure which does not create or add to the value of an item of property, plant

or equipment belonging to Lancashire County Council.

Related party
A person or organisation which has influence over another person or organisation.

Remeasurements – Assets (IAS 19)
The return on assets net of administration expenses and interest on income

Remeasurements – Liabilities (IAS 19)
Remeasurement On liabilities that are subdivided into 'Experience gains (losses) on liabilities, gain (loss) on financial assumptions and gain (loss) on demographic assumption

Reserves
Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value
The amount an asset can be sold for, less the cost of selling it.

Revenue account
An account which records the county council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue expenditure

The county council's day-to-day spending. This consists mainly of salaries and wages, running costs and financing charges.

Revenue Support Grant
A general grant from central government to contribute towards the cost of providing services.

Reversed out
This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

Specific grants
Government grants for a particular service – for example, the Standards Fund Grant.

Tangible assets
Assets which have a physical form – for example, buildings, furniture and equipment.

Transfers in/out
Transfers of money either into or out of the pension fund, from another pension fund.

Transfer value
A payment made by one pension fund to another when a scheme member changes schemes.

Useful life
The period which an asset is expected to be available for use.

Write down
This is where amounts are charged to the revenue account or offset against another balance sheet account.