Statement of Accounts 2015/16

Lancashire County Council

Contents

Written Statements to the Accounts

Core Financial Statements

Explanatory Notes to the Financial Statements

Supplementary Accounts and Explanatory Notes

Glossary of Terms and Contact Details

Written Statements
to the Accounts

Panopticon - *Singing, Ringing Tree* Burnley

FOREWORD FROM THE DIRECTOR OF FINANCIAL RESOURCES

Like many parts of the public sector, councils are under acute financial pressure and further austerity measures are expected for the foreseeable future.

Alongside reductions in the level of financial resources, we are experiencing increased demand for many services, especially those the Council has a statutory obligation to provide. We will continue to deliver against a challenging programme of budget reductions and reshape services in support of our core purpose and principles. However, we know that the Council's financial resources going forward will be insufficient to enable us to continue to deliver effective services without considering the potential role of other public services, private and voluntary sectors, and our communities, in meeting local needs.

Despite an unprecedented savings programme, the Council will still be an organisation that spends over £1.5 billion per annum on services and infrastructure. We must continue to focus on spending this money wisely to maximise the benefit to the people of Lancashire. We must also seek to further the Council's role in providing strategic leadership and influence across the county.

There is no single vision as to what public services will look like in 2021, but we cannot solve the challenges we face alone and must work with the Government and partners towards new solutions for public services. In this respect we see this as a time of possibility for the Council, its partners and communities. Devolution and de-centralisation have the potential to unlock the fundamental reconfiguration of services such as health and care systems.

There is also a new opportunity to develop one voice for Lancashire and a shared understanding with partner organisations.

We need to ensure we continue to meet the immediate needs of our communities while shaping the Council into an organisation that is sustainable and able to deliver successfully against its goals for years to come. Whilst setting out what we will be doing to achieve that balance, along with our commitment to securing the best outcome for our citizens, communities and for Lancashire.

The Council has had to continually make savings for the past 5 years, both to offset Government cuts in our funding and to account for significant cost pressures brought about by high demand for many of our services.

Thanks to the efforts of colleagues in every part of the organisation good progress has been made, but there is a lot more to do. There will be further cuts to central funding and demand on key services will continue to rise, meanwhile we've still got to deliver some of the savings opportunities identified in our financial plans and now identify the next wave of savings too.

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents of Lancashire, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the Council and the outturn for 2015/16

- Have confidence that public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure

The style and format of the accounts, complies with CIPFA standards, however, the content has been reviewed and refreshed to make the accounts easier to understand.

Acknowledgements

The production of the Statement of Accounts would not have been possible without the hard work and dedication of staff across the Council. I would like to express my gratitude to all colleagues, from the Finance team and other services, who have assisted in the preparation of this document. I would also like to thank them for all their support during the financial year.

Neil Kissock
Director of Financial Resources

AN INTRODUCTION TO LANCASHIRE

Lancashire County Council is the 4th largest county council in England. It provides services to residents of the 12 district areas of Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, West Lancashire and Wyre and covers an area of 2,903km^{2}.

The county of Lancashire lies in the north west of England. The county borders Cumbria to the north, Greater Manchester and Merseyside to the south and North and West Yorkshire to the east; with a coastline on the Irish Sea to the west.

Lancashire has one of the largest local economies in the North of England, a large and multi-faceted area with a diverse geography, the county boasts a rich industrial tradition, set within a network of densely populated urban centres which are themselves surrounded by outstanding countryside and coastal fringes.

Lancashire's leading national and regional position in relation to aerospace, advanced engineering and manufacturing, together with its strengths in energy and higher education, make it a pivotal part of the long term sustainability of the North's economy, as does its internationally recognised visitor offer.

Reducing inequality in health and life expectancy caused by the social circumstances in which people live is a key priority for the Council's administration. With responsibilities spanning public health, social care, the economy and the environment, the County Council is in a position to make a difference.

Deprivation

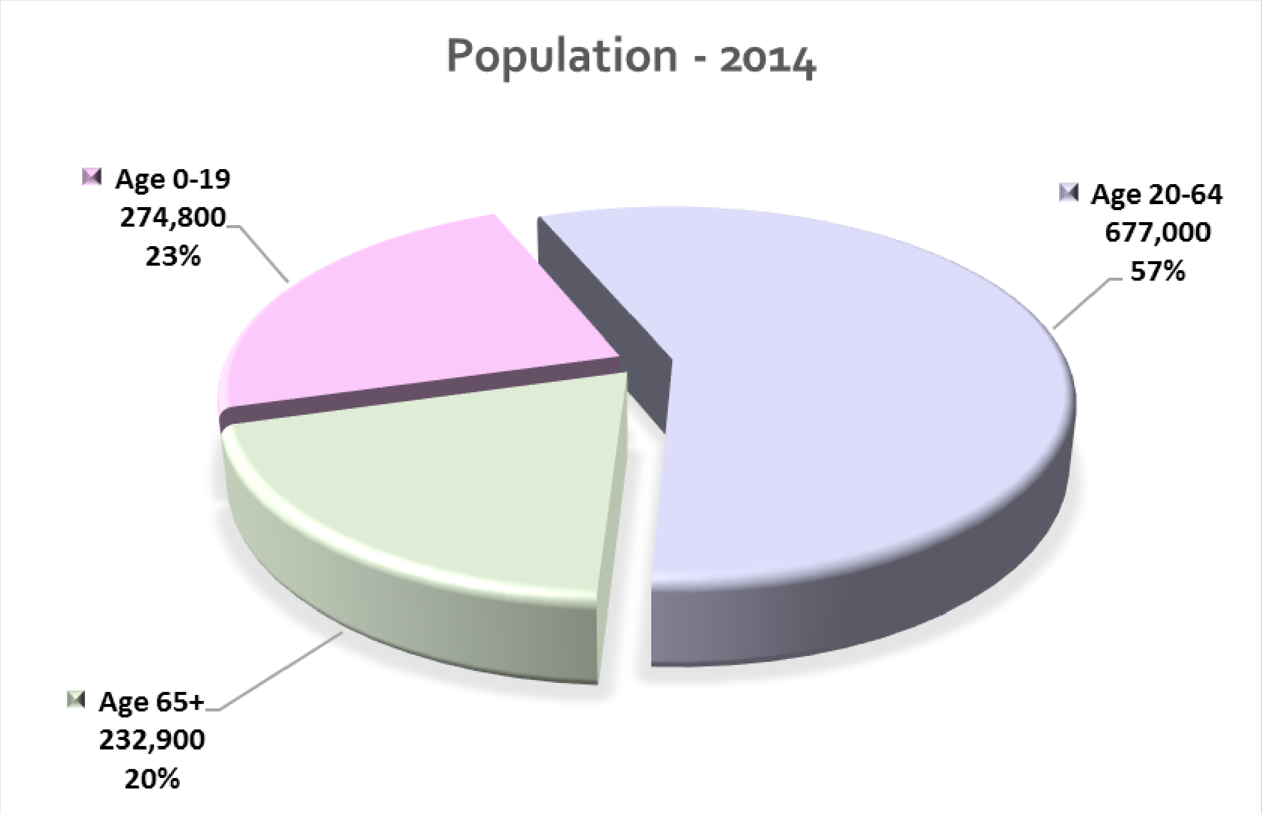
The Lancashire area is ranked 87, out of 152 upper tier local authorities for deprivation which puts the county in the middle ground (3rd quintile, 57%), where 1 is the most deprived. Lancashire County Council serves a population of marked social and economic contrasts. Between 2010 and 2015, the indices of deprivation results indicate a continuing trend of growing disparities between the most and least deprived areas of the county. A male child born today in one of our most deprived communities would be expected to live, on average, until they were 74. A male child born today in one of our most affluent communities could expect to live for almost 7 years longer, and to be free of disability for almost 9 years longer than their counterpart.

The Council aims to ensure that its services are designed to address the significant variations in need that underpin these huge contrasts.

Population

The profile of the population is an important determinant of the demand for services provided by the Council, such as, for example the demand for adults and children's social care.

The Office for National Statistics mid-year population estimate for Lancashire in 2014 was 1,184,700. The make-up of which is shown in the following chart:



KEY FACTS ABOUT LANCASHIRE COUNTY COUNCIL

Political structure in the 2015/16 financial year

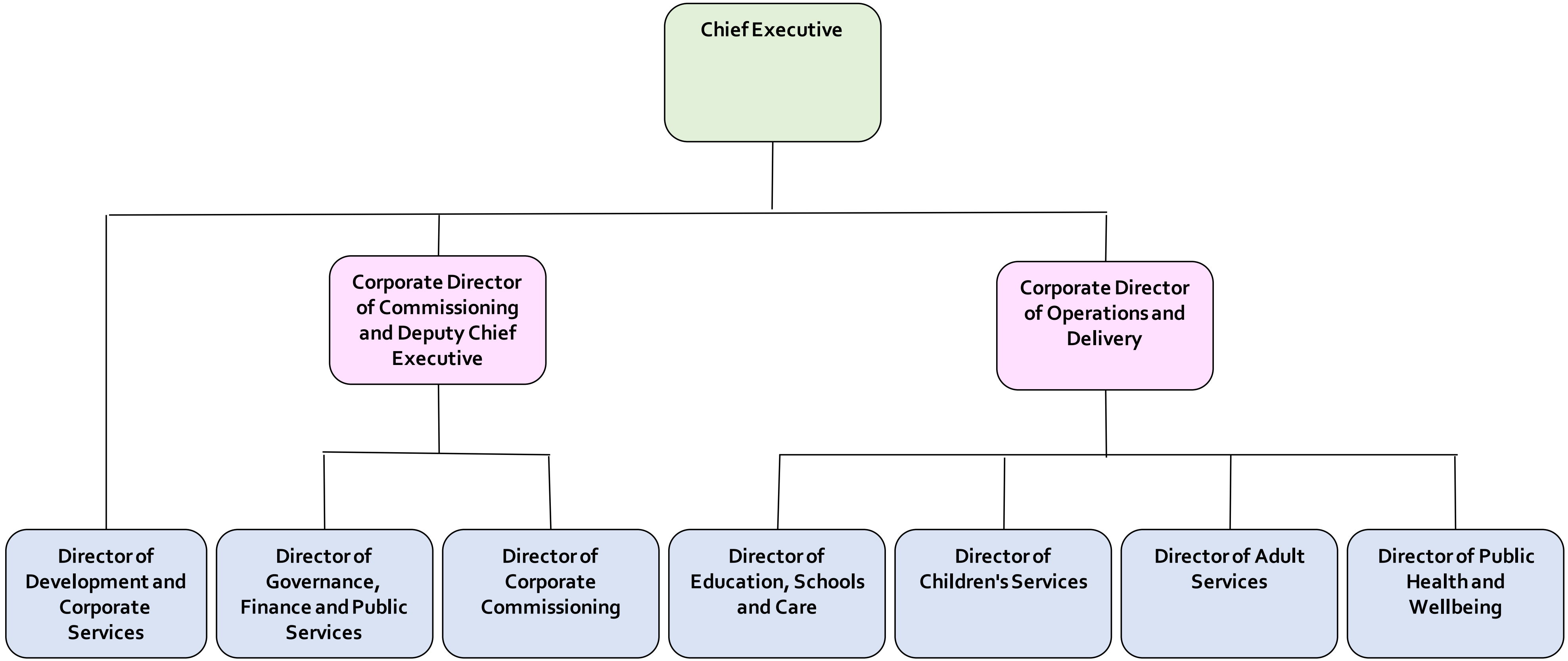
The County Council consists of 84 elected Councillors. The Council's composition is:

Party	No.
Labour	39
Conservative	35
Liberal Democrat	6
Independent	3
Green Party	1
Total	**84**

Labour currently form a minority administration, with the support of the Liberal Democrats. The County Council's political management structure includes the full council, the cabinet, committees and working groups.

Management structure

As part of a Council wide transformation a new management structure was put in place from April 2015. The structure is reflective of new ways of working at the Council, to improve service outcomes and reduce costs.



THE COUNCIL'S CORPORATE STRATEGY

Work to develop the corporate strategy has been on-going, with a stakeholder consultation during August and September 2015, culminating in Full Council considering the core of the new Strategy on 17 December 2015.

Importantly, the Council's core purpose has now been agreed; to work for the people of Lancashire to enable them to:

To live a healthy life

Increasing the time that people in Lancashire can expect to live in good health, narrowing the gap in people's health and wellbeing between different parts of the county and enabling people to make healthy lifestyle choices.

To live in a decent home in a good environment

An adequate supply of affordable quality housing to rent or buy that meets the needs of all our citizens; good quality local neighbourhoods with adequate parks, open spaces, social, cultural and sporting opportunities; communities where families and individuals feel safe and a high quality natural environment.

To have employment that provides an income that allows full participation in society

Rebalance Lancashire's economy to reduce its over reliance on low paid employment, increase the employability of Lancashire's citizens and focus on communities where there are high concentrations of unemployment and low paid employment.

The vision is that every child born in Lancashire, and every citizen will grow up and live in a community and an environment that enables them to live healthier for longer, have a job when they leave education and achieve their full potential throughout life.

A COMBINED AUTHORITY

A combined authority is a formal legal arrangement, which supports and enables collaboration and co-ordination between 2 or more local government areas on transport, regeneration and economic growth as well as skills, housing and employment. Each of the councils who are members of a combined authority remain separate authorities; the combined authority is a mechanism to work more effectively and formally in partnership. Five Combined Authorities across England have been established, all of which cover the 5 key cities across the Northern Powerhouse (Liverpool, Manchester, Leeds, Sheffield and Hull). A number of devolution proposals and deals are starting to emerge across the country. The Government have been clear that they will devolve powers and flexibilities to areas with robust governance structures in place.

The ambitions developed for Lancashire are:

- Prosperous Lancashire – a Lancashire that is recognised as a destination of choice, to invest in, do business in, live or visit;
- Connected Lancashire – digital and transport connectivity to promote inclusive growth;

- Skilled Lancashire – a skilled workforce to meet the demands of employers and future business growth;
- Better Homes for Lancashire – better living standards for residents with good quality homes and a wide housing offer;
- Public services working together for Lancashire – integrated public services at the heart of local communities giving everyone the opportunity for a healthier life.

A combined authority offers a strong governance model to attract freedoms and flexibilities from the Government and will enable a cohesive approach across Lancashire to a range of issues including developing better and broader skills provision, including entry level skills; more co-ordinated infrastructure planning with improved use of resources; more co-ordinated approach to housing provision and a more co-ordinated approach to business growth.

At meetings held in March/April 2016 all 14 councils agreed to become constituent Members of a Lancashire Combined Authority and to submit proposals to do so to the Secretary of State, with the combined authority commencing in shadow form with effect from 11 July 2016.

HEALTH & SOCIAL CARE INTEGRATION

Every part of the NHS is required to have a locally led Sustainability and Transformation Plan (STP) in place by 2017 which should be implemented by 2020. This needs to be seen in the context of the financial challenges for the health and social care system in Lancashire.

The plan is therefore required to cover better integration with Council services and reflect Health and Wellbeing strategies. Cabinet has agreed Operating Principles, which have been shared with partners, to enable the Council to participate effectively in the shaping of the STP process. The principles agreed cover the following areas:

- Governance
- Citizen-focused Integration
- Local Health Economies
- Joint Strategic Needs Assessment (JSNA)
- Pooled Budgets
- Single Commissioning arrangements

FINANCIAL POSITION OF THE COUNCIL

Revenue outturn

The County Fund revenue accounts represent the cost of meeting the annual expenses of carrying out the Council's duties and responsibilities to the community, most of which are of a statutory nature.

In February 2015 the County Council approved a revenue budget of £726.675 million. The final outturn position for the year was £726.074 million, reflecting an in year underspend of £0.601 million. The 2015/16 outturn position reflects the new organisational structure that was implemented from 1 April 2015. The 2014/15 outturn position contained some significant ongoing financial pressures where base budget provisions were inadequate to meet the cost of service provision. These underlying pressures form part of the financial outturn position for 2015/16, although the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast anticipated earlier in the year.

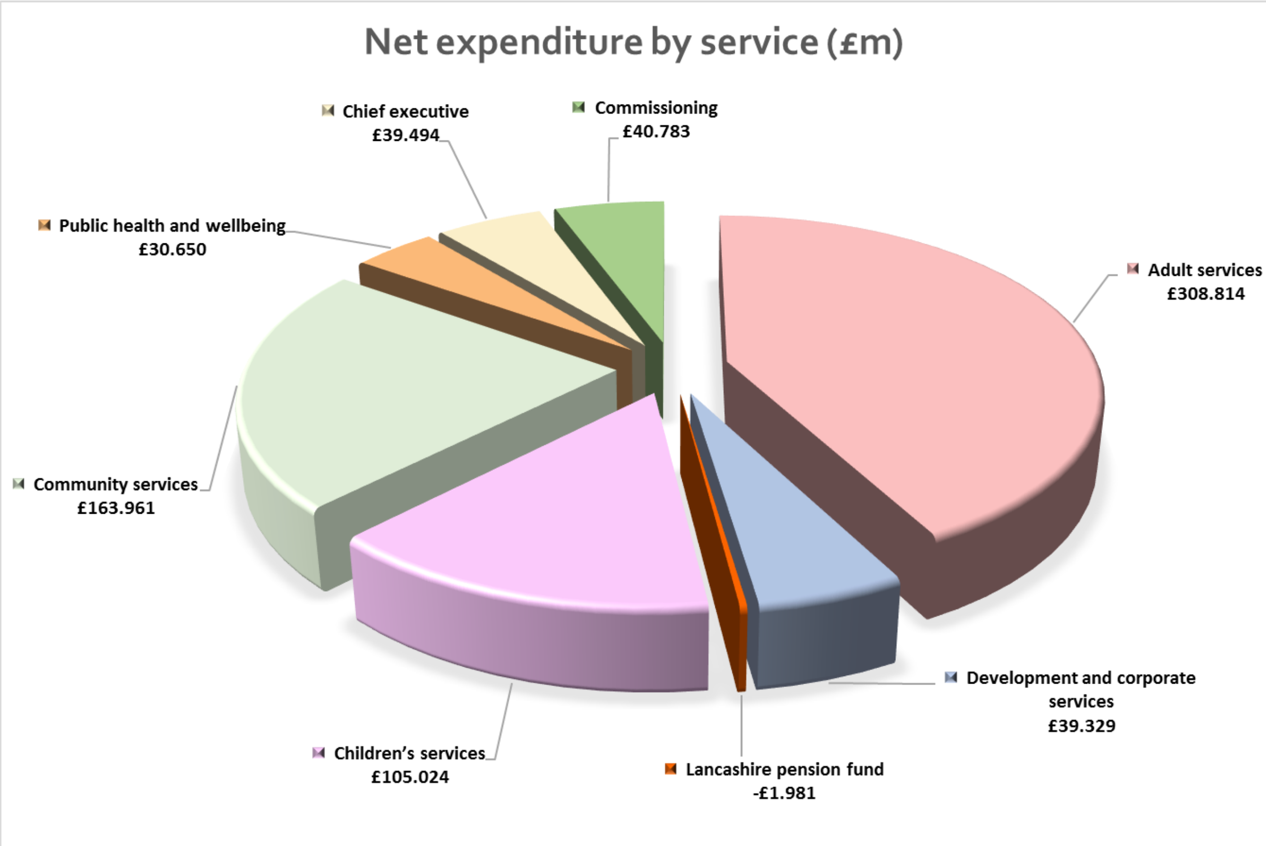
The Council continues to face significant budget pressures due to demands for Adult Social Care, in particular Learning Disability Services and recognises significant pressures within the Adult Social Care market. The outturn has also been impacted during the year by a £4 million reduction in Public Health grant funding. In addition, Children's Social Care agency placement costs are also affected by financial pressures due to increased demand. The Council has worked to source and commission suitable placement and support services, as well as focusing on recruiting and retaining foster carers.

With flooding affecting many parts of Lancashire during the year, the County Council met the additional cost, with its role in the response to the floods being wide-ranging, from setting up emergency rest centres for residents and checking on the wellbeing of vulnerable people who receive social care support, to clearing the road network of debris and ensuring the safety of the many bridges that took the brunt of the flood water.

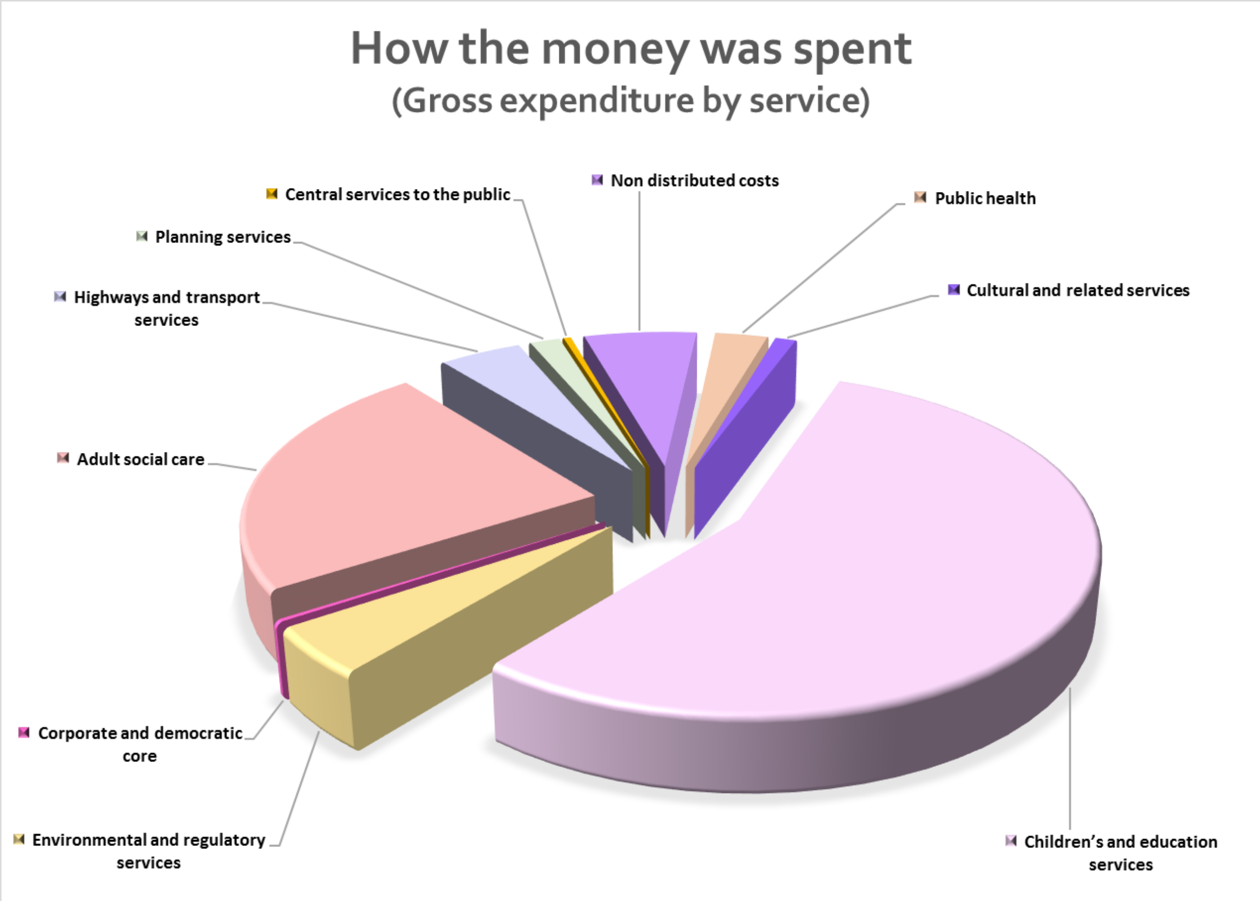
The final outturn position for the year against the budget is set out in the following table:

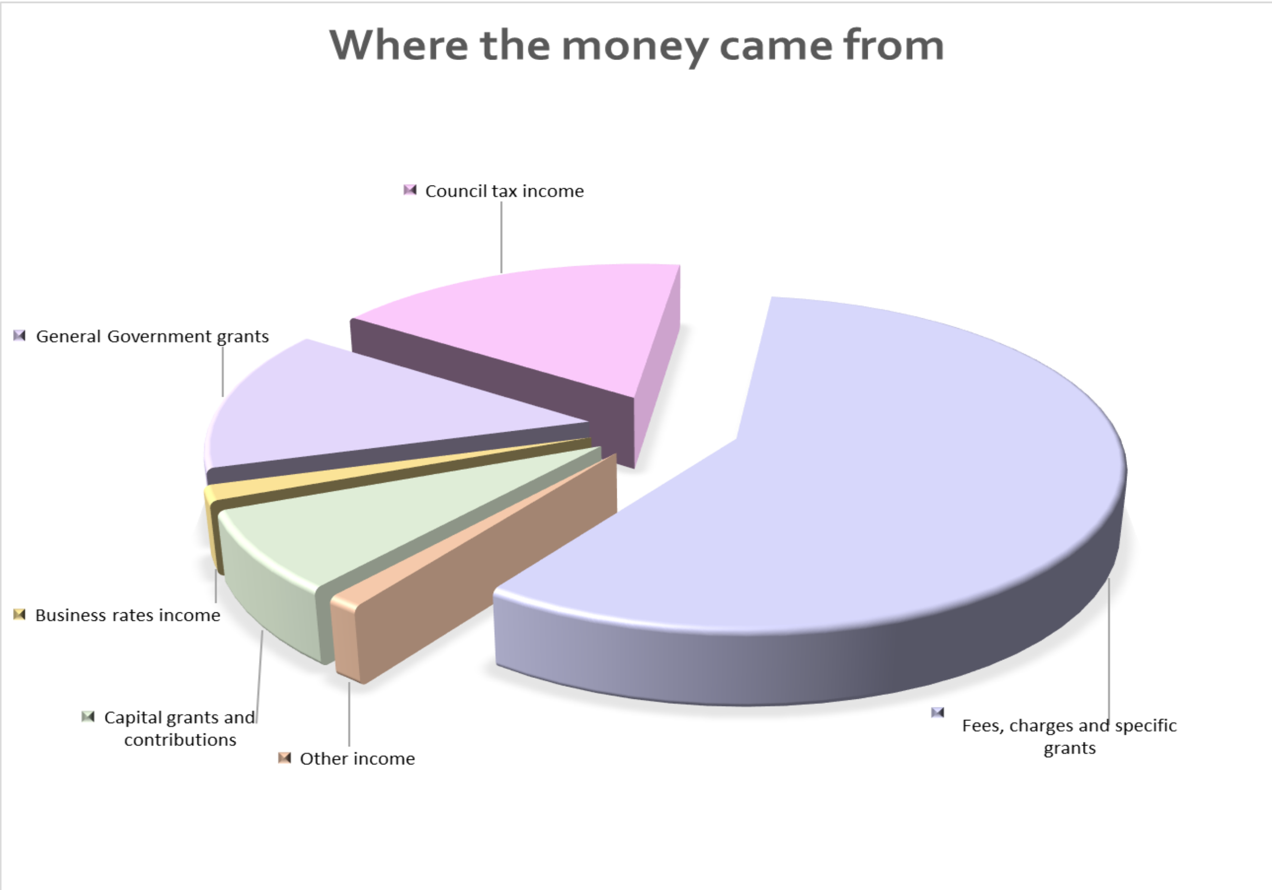
	Estimate £m	Actual £m	Variation £m
Net Expenditure			
Adult services	291.837	308.814	16.977
Children's services	103.645	105.024	1.379
Community services	168.535	163.961	(4.574)
Public health and wellbeing	29.870	30.650	0.780
Lancashire pension fund	(1.842)	(1.981)	(0.139)
Commissioning	37.844	40.783	2.939
Development and corporate services	35.222	39.329	4.107
Chief executive	61.564	39.494	(22.070)
Total	**726.675**	**726.074**	**(0.601)**

The net expenditure by service is shown in the chart below.



The following charts are derived from the Comprehensive Income and Expenditure Statement. They show how the money was spent based on the Service Expenditure Analysis as prescribed in the CIPFA Service Reporting Code of Practice (SerCOP) and how the expenditure was funded.


How the money was spent
(Gross expenditure by service)
Central services to the public
Non distributed costs
Public health
Planning services
Highways and transport services
Cultural and related services
Adult social care
Corporate and democratic core
Environmental and regulatory services
Children's and education services


Where the money came from
Council tax income
General Government grants
Business rates income
Capital grants and contributions
Other income
Fees, charges and specific grants

Capital investment programme

Resources available to the Council to support capital investment come from a number of sources:

- Central government support
- Capital receipts
- The Council's revenue resources
- Prudential borrowing

The significant areas in the capital programme for 2015/16 included works relating to the maintenance of school buildings, highway and bridge maintenance and transport improvement e.g. the Heysham to M6 link road.

Outlook for the future

In the Autumn Statement the Chancellor of the Exchequer stated that austerity measures will continue up to 2019/20. The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. All reserves have been extensively reviewed during 2015/16 to ascertain whether the need for them remains and whether their scale continues to be appropriate. This has led to many reserves being closed or significantly reduced and their balances transferred to the new 'Transitional Reserve' to support the Council in meeting future funding reductions.

The budget approved at Full Council was based upon £129m of savings being delivered in 2016/17 and 2017/18 and the use of c£117m of reserves to support the revenue budgets in these years. Despite this, there remains a funding gap of c£200m by 2020/21 reflecting reducing resources and increasing demand for services, particularly social care as a result of demographic changes including an increasingly ageing population and also the increased cost of commissioning and delivering those services, a financial pressure further impacted by the introduction of the National Living Wage from 1 April 2016 at £7.20 per hour and which will rise to at least £9 per hour in 2020. The additional financial pressures on Adult Social Care budgets are only partially mitigated by the ability to raise the 2% Adult Social Care Precept.

Budget reports to Cabinet during the year identified several strands seeking to address the future financial challenge facing the County Council. This includes a continuous review of efficiency, with a Zero Based Budget Review being undertaken in 2016/17 of every service within the Council's current operating model to identify the potential for removing any non-essential expenditure. These reviews have reference to benchmark unit costs with the intention of moving towards the lowest quartile of the most appropriate comparator group.

The outcome of these reviews is unlikely to deliver a sustainable financial position in the medium term and therefore the November budget report identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed to assist the Council in scoping and undertaking the review of its operating model. It is anticipated that this review will be undertaken during 2016/17 with the key aspect being to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21. This review is likely to involve looking at opportunities across all public services in Lancashire as the County Council is not alone in this financial challenge, with health and adult social care services across Lancashire forecast to have a budget shortfall of over £800 million by 2020/21.

Whilst the scale of the financial challenge is a hugely significant one, the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast earlier in the year.

Outturn pressures and 2016/17 delivery will be monitored with appropriate contingencies and proposals being tabled to ensure effective service delivery within the financial envelope.

Despite the difficult environment the Council has continued to demonstrate:

- Strong financial management, through the delivery of a detailed budget risk assessment, including deliverability of previously agreed savings, and a small overall underspend which demonstrates the ability to address forecast service overspends in-year.
- Innovation through the strong performance of traded services.
- Commitment to improving services with additional investment in Children's Services following the Ofsted Inspection.
- Flexibility through redeploying resources and working collaboratively across functions to deliver significant pieces of work such as the base budget review which inform the financial strategy

All of these are characteristics of organisations with well managed finances. At the same time the County Council has maintained a strong balance sheet and has set resources aside to mitigate identified risks.

It is vital that strong financial management is maintained across the County Council in 2016/17 and beyond in order to ensure that the County Council can maintain an effective approach to the financial challenge ahead.

The Statement of Accounts summarises the Council's transactions for the financial year 2015/16 and its financial position at the year end of 31 March 2016. It comprises core and supplementary statements, together with disclosure notes. It has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based on International Financial Reporting Standards (IFRS).

A glossary of key terms can be found at the end of this publication.

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members, employees and other interested parties clear information about the Council's finances. It provides information on the following:

- The cost of the Council's services for the year
- Where the money came from
- What the Council's assets and liabilities were at the year end

CORE FINANCIAL STATEMENTS

The accounts consist of the following core financial statements supported by explanatory notes. An explanation of the purpose of each of the statements is given below.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area – this is a standard analysis provided by CIPFA so that local authority accounts and spending can be compared. The bottom half of the statement deals with corporate transactions and funding.

The costs also include transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year.

Movement in Reserves Statement

The Movement in Reserves Statement is a summary of the changes to the Council's reserves during the year. Reserves are divided into "usable", which can be invested in capital projects or service improvements, and "unusable" which must be set aside for specific purposes for example those that hold unrealised gains and losses e.g. the Revaluation Reserve.

The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, as detailed in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the County Fund balance for council tax setting purposes.

A series of statutory adjustments are made as detailed in Note 15 (Adjustments between accounting bases and funding regulations), resulting in the net increase or decrease before transfers to earmarked reserves.

Balance Sheet

The Balance Sheet shows the Council's assets, liabilities, cash balances and reserves at the year end date.

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.

Cash Flow Statement

The Cash Flow Statement shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

Notes to the Financial Statements

These notes explain in more detail the individual items shown in the financial statements.

Supplementary Accounts

The supplementary accounts are:

Group Accounts

The Group Accounts show the full extent of the Council's economic activities by reflecting the Council's involvement with its group companies and organisations. These are followed by notes explaining these statements.

Pension Fund Accounts

The Pension Fund Accounts provide a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the County Council. A Pension Fund Annual Report will be published for members of the fund, which will include these accounts.

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

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Section 151 Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Section 151 Officer's responsibilities

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

In preparing this Statement of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2016.

N Kissock
Director of Financial Resources
26 September 2016

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit and Governance Committee on 26 September 2016.

T Brown
Chair of Audit and Governance Committee
26 September 2016

The published version will include the Audit Certification on these pages.

The published version will include the Audit Certification on these pages.

The published version will include the Audit Certification on these pages.

The published version will include the Audit Certification on these pages.

1. 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, 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.

In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

2. 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.

3. Governance issues in 2014/15

In the light of the exceptional circumstances that had been reported over the previous two years, the Internal Audit Service had been unable to complete a risk-based programme of work sufficient to support an overall opinion on the Council's overall governance framework.

The Annual Report concluded that the level of assurance previously provided had gradually deteriorated and therefore only limited or no assurance had been provided over the majority of control systems audited during 2013/14. At Management Team's request internal audit work during 2014/15 was therefore directed towards reassessing key areas of control weaknesses and follow up actions agreed by management to improve controls across a number of systems and services identified in previous years' reviews. As a result of that work it was concluded that substantial assurance could be provided over the areas of high and medium risk. Substantial assurance was also provided over the Council's key financial systems and it was reported that there had been a robust improvement over areas such as information governance.

The External Auditor's Value for Money (VFM) conclusion contained in the Audit Findings Report for 2014/15 also identified a number of areas of concern which had resulted in a qualified opinion as follows:

- The Head of Internal Audit's inability to provide an overall opinion on the system of internal control for 2014/15;
- Procurement risks following the return of the Procurement Service from One Connect Limited, in particular the need to waive procurement rules to extend a number of existing contracts;
- The financial pressures facing the Council, in particular the risks around the delivery of savings necessary to meet a spending gap from 2016/17 to 2020/21.

At their meeting held on 25 January the Committee received a report providing an update on the performance of the Procurement Service following its transfer back from One Connect Limited. The report set the progress made in implementing the procurement Service Improvement Plan and the Service's current performance against the key performance indicators aligned to the Procurement Strategy and was commended by the Committee. In relation to both the financial pressures facing the Council and the absence of an overall Audit Opinion for 2015/16, both issues remain concerns and are commented on later in this report.

4. The Head of Internal Audit's report 2015/16

In June 2015 the Audit and Governance Committee noted the Internal Audit Annual Report for the year ended 31 March 2015 which stated that during 2015/16 the Internal Audit Service would work to support management and in particular a number of members of the team will be seconded into the Finance service to provide extra, necessary capacity on key projects, therefore it would not undertake work that would support an overall opinion in 2015/16 but would, so far as resources allowed, provide consultancy support to services.

Subsequently, in January 2016, the Committee approved the Internal Audit Service Strategic Internal audit Plan 2015/16, 2016/17 and beyond, the report noting that the Service would not be in a position to complete a risk-based programme of work to support an overall opinion on the Council's framework of governance, risk management and control for 2015/16 but would focus its assurance work solely on the Council's centrally managed key financial systems.

The key financial systems are as follows:

- The general financial ledger;
- Cash and banking;
- Accounts payable system;
- Accounts receivable and debt management system;
- Payroll;
- Treasury management; and
- VAT

All this work is now complete with all areas assessed as providing substantial assurance other than in respect of accounts receivable and debt management where further actions agreed are being implemented during 2016/17 including the appointment of debt recovery staff in Legal Services.

5. Emerging governance issues in 2015/16

A number of risk areas emerged or came to prominence during 2015/16 including:

- The challenges associated with fully implementing the Councils medium term financial strategy and the longer term financial viability of the Council;

- Continuing to deliver organisational transformation. Phase 2 of the original transformation process has been stopped and an alternative base budget review process adopted;
- The delivery of a joint service between the Lancashire Pensions Fund and the London Pension Fund Authority.
- The Ofsted inspection judgement of "inadequate" in relation to Children's Services;
- The delivery of new waste management arrangements to achieve significant budget savings by introducing changes in operations and processes at the two recovery parks;
- Health and social care integration and the requirement to produce Sustainability and Transformation Plans by June 2016, to be fully implemented by 2018;
- Developing new model for public service delivery through the establishment of a combined authority for Lancashire and securing a devolution deal with central government and securing economic growth, of which public sector reform is one strand.
- The implementation of the Council's Property Strategy agreed by Cabinet in September 2016

All of these risk areas have been the subject of detailed reports to Cabinet and/or other committees/Full Council.

The following sections comment in more detail on the issues identified above:

6. The Financial Viability of the Council

The Council's Risk and Opportunity Register identifies the risk to the ongoing longer-term financial viability of the County Council as one of its highest level risks. The Medium Term Financial Strategy (MTFS) presented to Cabinet on 21 January 2016 noted that there is a strong likelihood that the Council will, during the course of this financial strategy period (up to 2020/21) be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered. The assessment of statutory services followed a detailed base budget review undertaken earlier in the year.

The budget approved at Full Council was based upon £129m of savings being delivered in 2016/17 and 2017/18 and the use of c£117m of reserves to support the revenue budgets in these years. Despite this, there remains a funding gap of c£200m by 2020/21 reflecting reducing resources and increasing demand for services, particularly social care as a result of demographic changes including an increasingly ageing population and also the increased cost of commissioning and delivering those services, a financial pressure further impacted by the introduction of the National Living Wage from 1 April 2016 at 7.20 per hour and which will rise to at least £9 per hour in 2020. The additional financial pressures on Adult Social Care budgets are only partially mitigated by the ability to raise the 2% Adult Social Care Precept.

Budget reports to Cabinet during the year identified several strands to seeking to address the future financial challenge facing the County Council. This includes a continuous review of efficiency, with a Zero Based Budget Review being undertaken in 2016/17 of every service within the Council's current operating model to identify the potential for removing any non-essential expenditure. These reviews have reference to benchmark unit costs with the intention of moving towards the lowest quartile of the most appropriate comparator group.

The outcome of these reviews is unlikely to deliver a sustainable financial position in the medium term and therefore the November budget report identified the need for a review of the Council's operating and business model and proposed that external consultants be appointed to assist the

Council in scoping and undertaking the review of its operating model. It is anticipated that this review will be undertaken during 2016/17 with the key aspect being to enable the Council to be sustainable, within its forecast financial resource envelope, by 2020/21. This review is likely to involve looking at opportunities across all public services in Lancashire as the County Council is not alone in this financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a budget shortfall of over £800m by 2020/21.

Price Waterhouse Cooper have been appointed to provide this support to the Council and their review is ongoing. PwC's ongoing review of the Council's operating model involves looking at opportunities across all public services in Lancashire, engaging other public sector partners where appropriate, in the context that the Council is not alone in its financial challenge, with Health and Adult Social Care Services across Lancashire forecast to have a significant budget shortfall by 2020/21.

The remit of the Political Governance Working Group has been extended to include this review and to make recommendations to Full Council.

Whilst the scale of the financial challenge is a hugely significant one, the Council has delivered a small underspend in 2015/16 through strong financial arrangements and actions taken to address a significant overspend forecast earlier in the year. The Director of Financial Resources provides regular reports on budget and performance to Management Team and Cabinet and fundamental to this will be the delivery of approved savings plans which are subject to ongoing detailed scrutiny and monitoring.

7. Organisational Transformation

With effect from 1 April 2015 the transformation of the Council's senior management structure at grade 11 and above (Phase 1) is complete. Phase 2 of the transformation (all other grades of staff) was put on hold shortly after the completion of Phase 1 due to the increasing certainty of an even more severe financial position for the Council than had been previously forecast.

A revised transformation approach was established which incorporates a fundamental review of all Council services to determine which services will be provided in the future. Posts at all grades (including posts established as part of Phase 1) are being reviewed, and revised structures, on a service by service basis, are being developed, consulted on and implemented. This process commenced in 2015/16 and will continue in 2016/17, with a view to establishing a new operating model for the Council by April 2018.

The review of services referenced above commenced in the summer of 2015 with a base budget review of all County Council services. The review established which services the Council has to provide as a statutory minimum. A "legal challenge" test was applied to all services. The outcome of the review demonstrated at that point that by the end of the financial year 2017/18 the Council would not have sufficient funding to provide a minimum level of statutory service provision.

The next stage of the transformation approach is a zero based budget review exercise, which commenced in January 2016. This review will determine, for the services that the Council is still providing, the lowest achievable cost model, for a minimum level of service provision. The exercise will incorporate a benchmarking exercise and consideration of alternative service delivery models. The exercise will also determine minimum staffing level requirements and inform staffing structures, on a service by service basis. This will incorporate new management arrangements for each service. This approach will ultimately result in the Council being significantly smaller and providing services in a very different way. As noted in the preceding section, the Council has recognised that it needs the support of external consultants to assist and advise on the reconfiguration of its major services and the establishment of its new operating model and has engaged PwC to assist with this work.

Newton Europe were also procured during 2015/16 to support the reconfiguration of adults' services and to undertake a diagnostic for children's services. This work will play a vital part in supporting the delivery of budget savings agreed by Full Council in relation to adult social care.

8. Establishment of Local Pensions Partnership Limited (LPPL)

At its meeting held on 24 March 2016, the Full Council approved recommendations (subject to a number of conditions precedent) from the Pension Fund Committee in relation to the creation of a partnership between the Lancashire Pension Fund (LPF) and the London Pension Fund Authority.

PricewaterhouseCoopers had advised on the viability of the financial model to be used by LPPL and confirmed the benefits likely to accrue to LPF in agreeing to enter into the joint venture. Uncertainties however remain in relation to the Government's wish to establish "Wealth Funds" which will require the pooling of existing pension funds with a value of not less than £25 billion.

At the time of writing the LPPL fund falls well short of this and the Government have indicated that they are not prepared in this case to make an exception for a smaller fund, therefore the final position for LPPL is unclear.

However, currently LPPL and the Council are in the process of reviewing the basis of the current joint venture arrangements in the context of the potential for another pension fund becoming a shareholder.

Negotiations between the Council and LPPL continue in relation to LPPL taking over the Council's Treasury Management activity and it is hoped that this will be implemented from 30 September 2016.

9. Ofsted Inspection of Children's Services

Ofsted carried out an unannounced inspection of Children's Services which commenced on 14 September 2015 which lasted for four weeks.

The inspection focused on the experiences and progress of children in need of help and protection, children looked after and care leavers. It also included looking at the effectiveness of the Council's services and arrangements to help these children, including adoption and fostering. Ofsted also carried out a review of the effectiveness of the Lancashire Safeguarding Children Board (LCSB) at the same time.

Ofsted published its report on Friday 27 November 2015 rating the overall effectiveness of the Children's Services as "inadequate". The judgement for the LSCB was "good".

A number of actions have been put in place and developed since the outcome of the Ofsted inspection so that we can quickly improve services for children and young people and ensure that they are safe and protected. These include:

***Director of Children's Services* -** Agreement has been reached between Lancashire County Council and Blackburn with Darwen Borough Council for BwD's Director of Children's Services to fulfil that role for both authorities, the arrangement being for an initial 6 month period which has now been extended. This arrangement began in February 2016 and ensures additional leadership capacity and extensive expertise around children's social care and the improvement agenda.

***Child in Need Reviews* -** A concern raised by Ofsted was whether there was sufficient social work oversight over Child in Need cases and therefore a clear understanding of the levels of risk to children. In response, 2345 Child in Need cases have been being reviewed and, where necessary, appropriate levels of intervention are being put in place to ensure children are safe. Work is also underway to ensure that in future, there is an effective social care model that provides sufficient oversight to manage risk in child in need cases. Plans to revise the approach and structure of the Early Help and Wellbeing Service, with the implementation of a Neighbourhood Centre model agreed by cabinet, will also strengthen and support this new model for Children in Need.

***Improvement Seminar* -** Ofsted facilitated an improvement seminar on the 13 January which was attended by senior colleagues from the County Council, representatives from partner organisations and also social care managers and frontline social workers.

The purpose of the seminar was to provide a comprehensive understanding of the inspection judgements and this is being used to help shape and inform the improvement plan. Whilst the focus of the seminar was the areas of improvement that need to be made a key message from the inspectors was that' it is not all broken'. The new Children Services Scrutiny Committee (see below) will have a role in ensuring that these other areas of children's services do not "drift" or deteriorate particularly given that inspections of Youth Offending and Special Educational Needs and Disabilities services are expected in the near future.

***Lancashire Children's Services Improvement Board* -** The Improvement Board has been established, which is usual practice following an 'inadequate' inspection judgement. The Board will be responsible for closely monitoring the development and delivery of an improvement plan which will be critical to achieving a much improved outcome when Ofsted carries out a further inspection in due course.

The independent chair of the Improvement Board has been appointed, being a specialist children's services improvement advisor for the Department for Education (DfE). He was previously the Director of Children's Services at Cheshire East Council and has more recently been working with Leicester City Council through their improvement journey as chair of their Improvement Board. As Chair he is responsible for reporting improvement progress to the Secretary of State.

***Improvement Notice* –** The Independent Chair has undertaken a diagnostic aimed at establishing a detailed understanding of the capacity and capability of the Council's ability to improve children's services. The diagnostic was informed through interviews with managers and partners, focus groups with staff and analysis of performance information and existing policy, plans and strategy.

The diagnostic was reported in March directly to the Minister of State for Children and Families to inform the approach taken by the DfE and has resulted in the lowest level of intervention in the form of an improvement notice to the Council specifying the areas of concern, the level of improvement required and how progress will be assessed and reported.

***Improvement Plan* -** An Improvement Plan has been developed, agreed by the Improvement Board and was submitted to the DfE on 4 March 2015. This Plan outlines in detail the activity and action that will be developed to make the improvements to children's services that are needed at the scale and pace that is required. The Improvement Plan responds to all the concerns that have been raised by Ofsted in their inspection report. The Improvement Board is responsible for the development of this Plan and for overseeing its implementation and impact.

***Ofsted Improvement Offer* -** Ofsted have agreed that their follow up work will entail a quarterly, two day monitoring inspection for two inspectors commencing in September 2016, the outcomes of which will be fed back to the Council.

Children's Services Pathway Review **-** A team from Newton have completed work in developing an understanding of the effectiveness of the process, systems, structure and approach within children's services. The initial findings of the review indicate that there are opportunities to improve the effectiveness of social care practice and increase the amount of time that Social Workers spend in direct contact with families.

Children's Services Scrutiny Committee **–** A new Children's Services Scrutiny Committee has been established which will operate in addition to existing committees and its remit will cover all issues relating to children and young people's services. Education matters will still be reserved for the Education Scrutiny Committee. Representatives, including five lay members, one from each of the local Children's Partnership Boards, have now been agreed and the Committee has had a briefing session so that members can better understand the key issues across children's services. The Committee has now agreed its work plan for the first six months, focussing on youth offending and Special Educational Needs and Disability (SEND) in view of forthcoming inspections and it has also looked at the fostering and adoption services.

Increasing Capacity **–** Additional management capacity has been redirected from existing resources into the districts to allow increased oversight of social work practice. There are two additional senior managers in North, East and Central Lancashire working with social care district managers.

Recruitment to posts in social services have ensured that structures are now at establishment levels and plans are being developed to further increase capacity both at practitioners and management levels. A recruitment and retention strategy has also been agreed by Management Team and a range of innovative measures have been introduced to attract high calibre candidates.

External support has also been engaged for help in reviewing the child and family assessments of 720 child in need cases, an area of work specifically identified by Ofsted. Going forward a framework arrangement has been put in place to provide further external support.

There is weekly reporting and monitoring of children's social care vacancies and recruitment. A refresh of the recruitment and retention strategy is also being developed to enable a renewed and sustainable approach to ensuring appropriate staffing of children's social care both in terms of numbers but also in terms of experience and skills. This is in the context of a national shortage of trained social work staff which is reflected at a regional level.

Communication and engagement **–** Staff awareness and engagement in developing and delivering improvement activity will be key in ensuring progress is effective and sustainable. Regular communication and briefings are already in place and communications strategy and action plan have been developed to support the improvement process and activity.

Care Leavers **–** There is a need to improve the support to care leavers so that they are able to make the right choices and can access that support that they are entitled to. Guidance has been issued to all workers to raise awareness and understanding of the Leaving Care Regulations. Care Leavers have also received an information pack which details and explains their full entitlements. In addition, proposals are being developed to that will provide additional capacity so that care leavers can access the support they need. A mentoring Service for care leavers has also been launched. In their October monitoring visit Ofsted commended the work that had been undertaken and the improved service.

Performance Management **-** Weekly reporting arrangements have been established and continue to focus on children's services staffing vacancies, the audits of all Child in Need, the timelessness and multi-agency engagement in section 47 strategy discussions and social worker caseload levels. Work is also underway to streamline the performance reporting approach and ensure that key measures have clear and robust targets set against them. This will include the development of a performance dashboard that will be used by the Improvement Board to monitor and challenge the progress being made in delivering help and protection to children and young people.

External expertise is also currently being agreed through the region and Ofsted to support the development of improvement performance reporting.

***LiquidLogic Children's System (LCS)* -** A key area of concern raised by Ofsted was the ability to access timely and accurate information and data from LCS. Newton have been commissioned to lead a project to enhance the accuracy of the information held on LCS and provide confidence in this as the key system for providing performance information. This work is being progressed with accountability to a newly established 0-25 Board chaired by the Chief Executive with support and challenge from the Chair of the Improvement Board.

The improvement work will also be supported and informed by a completed health check where colleagues from LiquidLogic worked with practitioners and have produced a report that outlines amendments to the system that will streamline processes. Support is also being drawn from neighbouring authorities, learning from how they have implemented and use the LiquidLogic system.

A separate report has been provided to the Committee concerning improvements to the Liquidlogic system.

Development post-June 2016

Following the inadequate judgement provided by Ofsted there has been a strong commitment to ensure that all children in Lancashire are safe and protected. Significant resources have been invested and large scale change activity is being implemented, all of which is captured within the Lancashire Children's Services Improvement Plan.

This Plan was agreed by the Improvement Board and approved by the Department for Education in March 2016 and good progress is being made to deliver the Plan. In addition, a 12 week plan has been agreed by the Improvement Board with the intention that this provides an additional focus on some short term priorities and the pace at which these can be addressed.

The 12 week plan will have been implemented by 31 August 2016 and below is a summary of the key areas covered:

Workforce

- Creation of more specialised team structures
- Reducing caseloads
- Recruitment of additional capacity
- Improved IT equipment

Managing Change

- Accurate and complete performance information
- Implementation of new audit model
- Implementation of a single operating model

Managing Demand

- Implement new risk sensible assessment model
- Establish effective interface between children social care and early help
- Multi Agency Safeguarding Hub redesign
- Refresh the Continuum of Need

September and October will provide some key points of external scrutiny to assess whether these plans are improving services and making the intended difference to children and families. Ofsted conducted a two day monitoring inspection in September and their feedback was that the Council is making expected progress which concurs with the judgement of the Improvement Board Chair. The next Ofsted monitoring visit will be in October which will be proceeded by a peer review undertaken by colleagues from other authorities in the region.

To see the Improvement Plan, the 12 week plan or a summary of discussion and decisions from each Improvement Board click on Children's Services Improvement.

The Council's Employment Committee have also recently agreed to advertise for a Director of Children's Services on the basis of revised responsibilities to ensure strong connectivity between children's social care, special educational needs and disability, adoption, fostering, residential care and youth offending, all of which will form part of the new DCS role which is currently out to advertisement.

10. Waste Management - GRLOL

In July 2014 the Cabinet authorised the termination of its waste PFI Contract. Under the termination arrangements the existing waste operating company, Global Renewables Lancashire Operations Limited (GRLOL), transferred to the ownership of the County Council in order to facilitate the necessary and continued provision of waste services.

The Company transfer took place on 31 July 2014 and since this date a new Board of Directors, consisting of elected Members, was appointed and revised Articles of Association for the Company adopted.

The County Council's budget decisions relating to GRLOL taken in November 2015 and subsequent requirements relating to residual waste processing significantly change the service which the Council requires the Company to provide.

On 11 April 2016 the GRLOL Board considered a report setting out proposals for a new company structure based on the revised service requirements and these proposals were subsequently approved by the Employment Committee on 18 April.

In addition to the new permanent structure, a temporary structure necessary in the short term to protect and preserve the Company's physical assets has also been agreed to support the Company's transition.

The new structure agreed reduces the Company's staffing from 352 posts at a cost of £11,651,500 at the outset of 2015/16 to 62 posts with a forecast, full-year labour cost of £2,007,700.

11. Health and Social Care Integration

Since April 2015 the Council has been a partner organisation in the Better Care Fund planning and pooled budget arrangements with Clinical Commissioning Groups (CCG's). This involves a pooled budget of c£90m, hosted by the County Council, with the purpose of commissioning services more effectively for citizens and patients through better integrated health and social care systems to reduce demand on acute hospital and care home services particularly.

Building on this, every part of the NHS is required to have a locally led Sustainability and Transformation Plan (STP) in place by 2017 which should be implemented by 2020. This needs to be seen in the context of the substantial financial challenges for the health and social care system in Lancashire.

The plan is therefore required to cover better integration with Council services and reflect Health and Wellbeing strategies. The approach is backed by a dedicated Sustainability and Transformation Fund worth £2.1 billion nationally in 2016/17 and rising to £3.4 billion in 2020/21. The level of funding received will be dependent on the quality of the STP with the nature of local authority engagement seen as an indicator of quality.

The development of the STP, together with the ongoing considerations of options for integration and joint working (including potential for more extended pooled budget arrangements), will involve the development of new delivery models and ways of working to minimise the impact of funding reductions and provide a better offer for service users.

Cabinet has now agreed Operating Principles, which have been shared with partners, to enable the Council to participate effectively in the shaping of the STP process. The principles agreed cover the following areas:

- Governance – supporting a single pan-Lancashire Health and Wellbeing Board with the development of local Health and Wellbeing Partnerships covering the five local health economy footprints;
- Citizen-focused Integration – to provide joined-up and seamless services to citizens as the primary focus of health and social care integration;
- Local Health Economies – to support integration on the basis of the five local health economy footprints subject to a commitment to avoid duplication and to plan services on a pan-Lancashire footprint where this is the best fit model;
- Joint Strategic Needs Assessment (JSNA) – to support the development of the JSNA at a pan-Lancashire level, to support activities of the Health and Wellbeing Board, and at a community level to support the commissioning of local services;
- Pooled Budgets – to ensure that the financial resources available for the provision of services are most effectively utilised;
- Single Commissioning arrangements – for those services covered by the pooled budget to drive the most cost-effective outcomes.

A draft Sustainability and Transformation Plan for Lancashire and South Cumbria 2016/21 was submitted to NHS England in June. Discussions have since taken place with NHS England and other representatives from the health and social care system focusing on the plans for delivering on targets to close the financial gaps in 2016/17 and 2017/18, with positive feedback from NHS England.

Significant emphasis was placed on the need to achieve financial sustainability in the current year and to then establish for transformation in years 3-5 of the STP, spreading the work to bridge the gap, avoid cost and take cost out over the whole lifetime of the STP. STP footprints have now been asked to submit further detailed financial analysis on the plans for 2016-18, and show how those gaps will be bridged, by 16 September 2016 with a final STP being submitted by October following consideration by the Council's Health and Wellbeing Board as well as the Boards for Blackpool and Blackburn with Darwen Councils.

12. A Combined Authority for Lancashire

Local Authorities in Lancashire have continued to work together to develop proposals for a Combined Authority (CA). Fourteen authorities in Lancashire, including Lancashire County Council, made a decision at their full council meetings in November/December 2015, based on a full governance review and outline proposals on future governance, to progress with discussions on arrangements for a potential CA.

Significant work has gone into developing the governance structure, and a cross-authority working group was formed in February 2016 to develop a new constitution for the CA. Agreement has already been gained from all participating authorities on Overview and Scrutiny arrangements, and the outline arrangements, including structure and voting rights. This includes provisions for unanimous voting on key elements, such as finance.

At meetings held in March/April 2016 all fourteen councils agreed to become constituent Members of a Lancashire CA and to submit proposals to do so to the Secretary of State, with the CA commencing in shadow form with effect from 11 July 2016. The first meeting of the shadow Combined Authority was held on that date and an interim Chair and Vice-Chair appointed.

Future proposals for a devolution deal with Government will be considered by all Constituent Members of the CA in due course. In addition, the shadow Combined Authority is focussing on the development of a Lancashire Plan which will highlight those things that local government in Lancashire can do better by joining up and without the need for further powers and budgets to be devolved by Government.

13. Implementation of the Council's Property Strategy

A key element in the delivery of continuing Council services is the property portfolio from which services can be directly accessed by citizens or from which the Council's employees can deliver outreach services into the community.

The Council's property portfolio (excluding schools) comprises in the order of 500 operational sites. As part of the approved Property Strategy a total of 222 premises have been identified as part of the review, excluding those which are clearly unsuitable for front facing service delivery.

The proposals have been developed around the Neighbourhood Centre model approved in November 2015 and are designed to ensure that all Lancashire's residents can continue to be provided with high quality services from a reduced number of properties.

The proposals are designed to provide a flexible response to future patterns of service delivery and take account of:

- Data analysis based on a weighting and scoring methodology previously agreed by Cabinet;
- Dialogue with elected members and partners;
- Consideration of how the proposals align with service delivery strategies and the delivery of approved budget options

In May 2016 Cabinet approved the proposals for the purposes of a 12 week public consultation. The outcomes of that consultation were reported to Cabinet on 8 September when revised proposals were agreed also taking account, amongst other things, of a Planning and Needs Assessment for the Library Service and a revised Library Strategy.

Cabinet also agreed to instruct officers to consider the viability of expressions of interest received in relation to the transfer of council premises and to bring back a further report to the October Cabinet meeting. Cabinet also agreed to explore the development of alternative options for the future delivery of library services, including the extended use of volunteers and the development of a model which would allow the Library Service to be run independently of the Council, potentially through a community interest company or industrial or provident society.

14. Other Sources of Assurance

Understanding the nature and scale of the risks facing adult social care in Lancashire is important for the Council and all its public sector partners and citizens. To help frame a systematic and comprehensive understanding of these risks a framework has been developed under the auspices of the Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS) which Directors of Adult Social Care have been encouraged to use.

This risk assessment tool has been completed for Lancashire in November 2015 using the data available at the time. The top five risks (as well as the full completed risk awareness tool) were reported to CCPI at its meeting held on 8 June 2016. The report to CCPI highlighted the top five risks and sought endorsement of the high level plans proposed to mitigate the risks.

The top five risks identified and some of the key mitigations are as follows:

- Finance/Budget Savings – there is a challenging target of £37M to save over the financial years 2016/17 and 2017/18 with potentially further savings to be made in subsequent years.

Mitigations include the commissioning of Newton Europe to support savings plans; to increase income via the Better Care Fund and/or social care precept; lobbying of Government about funding levels in association with partners such as LGA, ADASS and CNN.

- Market Sustainability/Quality – only 68% of registered services are judged as Good or Outstanding. Good quality services are becoming increasingly unaffordable. Recruitment and retention is becoming an issue for providers and compliance with employment legislation increasing staffing costs.

Mitigations include fresh consideration of commissioning options around home care, reablement, learning disability and mental health. Significant fee uplifts have been agreed for residential and nursing home care for older people to reflect sector pressures along with an increase in rates to address the pressures resulting from employment legislation

- Transforming Care – this national programme to end the use of inpatient beds for adults with learning disabilities poses particular challenges for Lancashire given the planned closure of Calderstones.

Funding for individuals who move into the community during 2016/17 will come from the NHS from transitional funding. Both the Department of Health and NHS England are being lobbied to ensure that they understand the particular pressures facing Lancashire.

- Performance/Systems Development – whilst there is a general picture of improvement, concerns remain around the inability to report accurately on the number of people awaiting assessment, and the focus on retrospective analysis does not provide the information to enable staff to work proactively and manage their work.

Improvement plans for Liquid Logic are underway along with a review of metrics. This work will be supported by Newton Europe, including the use of local performance dashboards.

- Waiting Times for Assessments and Reviews – These are significant in some areas including occupational therapy, safeguarding and social care reviews, leading to increased risk to individuals and increased cost to the Council.

Additional capacity is being secured in key areas of social work with clear triaging/prioritisation schemes in customer access. Providers are undertaking safeguarding work in residential and supported living schemes and work with Newton Europe is underway to improve productivity.

In relation to Special Educational Needs and Disability (SEND), Ofsted and the Care Quality Commission will begin to inspect local areas on the implementation of the SEND reforms from May 2016.

The Council therefore needs to have a clear view of areas of strength and for development and therefore a self-evaluation framework has been completed. The risks identified through the self-assessment are as follows:

- Whilst SEND data is largely accurate, the lack of an appropriate secure IT platform is a risk although this can be achieved through the implementation of the Liquid Logic early help module;

- The recruitment and retention of education psychologists and workloads for SENDOs remain a concern although Management Team have now approved the recruitment of additional SENDOs and an approach has been made to the Association of Educational Psychologists to resolve existing difficulties;

- Commissioned arrangements with Health are inconsistent across the six CCGs in relation to designated medical officers and the current arrangements are therefore being reviewed;

- The current position on the transfer of statements of special educational needs to Education Health and Care Plans is continuing and, whilst the volume of statements transferred out of a total of c.6,500 are positive, there may be issues around the quality of plans.

In addition to specific mitigations, alongside the introduction of the self-assessment framework arrangements have been put in place for peer support via a regional arrangement in the North West. Dip-sampling of case files is also in place with a neighbouring local authority.

The Council's Finance Service has recently been through an LGA Peer Review process, the outcomes of which are still to be finalised.

15. The Council’s Governance Framework

The Council's Governance Framework comprises many systems and processes. The following identifies key elements of the Governance Framework and the council's arrangements for fulfilling them:

Identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users

Work to develop the corporate strategy has been on-going, with a stakeholder consultation during August and September 2015, culminating in Full Council considering the core of the new Strategy on 17 December 2015.

The draft strategy sets out the proposed future direction for the Council and framework including:

- our vision, values, high level priorities and overall approach
- our evidence base

- thematic strategies, such as our financial strategy
- our risk, quality and performance framework
- service delivery plans
- annual budgets.

The core strategy document provides the starting point for that framework, setting out the core purpose, vision, values, approach and evidence base which we will be used to inform and guide what we do and as a reference point for the further prioritisation of our financial resources.

The updated corporate strategy was approved subject to the section 'Our approach to service delivery' being referred back to Cabinet for further consideration

Importantly, the Council's core purpose has now been agreed; to work for the people of Lancashire to enable them to:

- live a healthy life;
- live in decent home in a good environment; and
- have employment that provides an income that allows full participation in society.

Reviewing the council's vision and its implications for the Council's governance arrangements

To measure the effectiveness and delivery of the Council's ambitions, the Council's Cabinet Committee on Performance Improvement (CCPI) regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, by the Chief Executive and directors.

Through the development of the corporate strategy framework and continued development of the approach to service delivery in communities, performance measures are being updated where appropriate, to ensure that the Council manages performance in the context of reduced resources and refreshed priorities.

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.

Translating the vision into objectives for the Council and its partnerships

In December 2015 Full Council agreed the core vision, values, strategic outcomes and priorities within the draft corporate strategy, set out in the following table:

<table>
<tr><td colspan="3">
Our core purpose
Is to work for the people of Lancashire to enable them to:
• live a healthy life
• live in a decent home in a good environment
• have employment that provides an income that allows full participation in society.
Our vision
Is that every child born today in Lancashire, and every citizen will grow up and live in a community and an environment that enables them to live healthier for longer, have a job when they leave education and achieve their full potential throughout life.
Our values
To be Fair, Trustworthy, Ambitious and to have Belief in People.
Our approach
Achieving this vision will be the lifelong journey, which we describe in terms of Starting Well, Living Well and Ageing Well.
A child born in Lancashire today has the potential to live for over 100 years. Whilst our strategy looks up to twenty years ahead, every year we will have citizens aged from 0 to over 100. We will work for all of them to do all we can within our resources to achieve our vision.
Our evidence base
We will provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.
</td></tr>
<tr>
<td>Strategic outcome
To live a healthy life
Increase the time that people in Lancashire can expect to live in good health
Narrow the gap in people’s health and wellbeing between different parts of the county
Enable people to make healthy lifestyle choices</td>
<td>Strategic outcome
To live in a decent home in a good environment
An adequate supply of affordable quality housing to rent or buy that meets the needs of all our citizens
Good quality local neighbourhoods with adequate
parks, open spaces, social, cultural and sporting opportunities
Communities where families and individuals feel safe
A high quality natural environment</td>
<td>Strategic outcome
To have employment that provides an income that allows full participation in society
Rebalance Lancashire’s economy to reduce its over-reliance on low paid employment.
Increase the employability of Lancashire’s citizens
Focus on communities where there are high concentrations of unemployment and low paid employment</td>
</tr>
</table>

Alongside this, the Council agreed 28 overarching priorities, to provide a focus for service delivery, either by the Council directly or through our influence with communities and our partners.

The strategy, supporting evidence base and changes agreed by Council in December have been published on the Council's website, are being used to inform the development of our approach to service delivery and to ensure that we provide services based upon sound evidence of need and in a way that is proportionate to the needs of our communities.

Measuring the quality of services for users, ensuring that they are delivered in accordance with the council's objectives and ensuring that they represent the best use of resources and value for money

- 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;
- Consulting on changes we are planning to make, for example in relation to the implementation of the Council's Property Strategy;
- Quality of Service Reports presented to CCPI

Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the council and partnership arrangements

Decision-making and conduct

The Council operates a leader and cabinet model of executive government with a Cabinet of seven members including the Leader and Deputy Leader of the Council. A cross party "political governance working group" continues to meet to oversee governance and constitutional issues, such as developments relating to the Combined Authority proposals.

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 was reviewed, and a new scheme introduced from 1 April 2015. The new scheme empowers heads of service in the new organisational structure to take all decisions within their area of responsibility, except for those reserved to Cabinet or cabinet members or committees.

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 embedded to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

Scrutiny

The Council created an additional scrutiny committee in 2015/16, taking the total number to five:

- The Scrutiny Committee, whose responsibilities include the Council's crime and disorder and flood risk management scrutiny responsibilities.

- 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.
- A Children's Services Scrutiny Committee was created in December 2015 to oversee services for children, in response to the Ofsted inspection outcomes.

Partnership arrangements

The Council recognises the substantial benefits of developing and delivering services in collaboration with other organisations, providing an integrated approach to service provision that is cost effective and maximises impact for people living in Lancashire. The Council plays a key role, either as a statutory lead, or significant partner, in facilitating wider engagement in decisions and developments to align budgets, capacity and expertise and agree shared priorities.

This approach is embedded in a range of formal partnership structures that drive and support ambitious priorities whilst recognising existing and future key challenges, building upon a strong track record in Lancashire that has been recognised by numerous inspectorates, for collaboration and partnership working.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.

The Code of Conduct for Elected 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.

Following that review complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee.

The Council has a Code of Conduct for employees and a system for recording officer gifts, hospitality and interests, which has recently been reviewed and updated. Councillors and staff are reminded of their requirements on a regular basis. The Council also has a protocol for councillor/officer relations.

Reviewing the effectiveness of the Council's decision making framework including delegation arrangements, decision making in partnerships and robustness of data quality.

The Council has embedded a revised scheme of delegation, commenced in April 2015, and has created a new scrutiny committee to respond to issues identified within children's services following an Ofsted inspection. The Council is a member of a cross-authority working group looking at the development of a new constitution for a proposed Combined Authority. The Political Governance Working Group continues to meet as required.

In 2015/16 County Council officer support for Lancashire Health and Wellbeing Board, Lancashire Community Safety Strategy Group, Children's Trust Board and the Lancashire Partnership for Road Safety, was brought together under the Health Equity and Partnerships team. This has enabled the links between partnerships to be further strengthened and strategic priorities to be aligned. The Children's Trust Board continue to lead on the Start Well strand of the Health and Wellbeing Board Strategy.

Changes have been made to the membership of the Health and Wellbeing Board, to strengthen links with area Health and Wellbeing Partnerships. The Board has reviewed its actions with partners to support changes to the health and social care plans. The Lancashire Community Safety Group is reviewing the Lancashire Community Safety Agreement to set out how we will work together with partners to address community safety priorities for Lancashire in 2016/17. The Children's Trust Board is working through the streamlined partnership arrangements put into place in the 2013/14 partnership review, to join up work that brings together initiatives that support better outcomes for young people and families.

The above Partnerships will continue to review their structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.

The Council continues to work with partner agencies to make a real impact for local communities. This includes delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners.

The robustness of data quality

The Council understands that good quality data is important to ensure accurate reporting of performance to the public and is the basis for effective decision making. Maintaining data that is fit for purpose is an integral part of operational, performance management, and governance arrangements.

The Council follows good practice guidance issued by the Information Commissioner's Office and general data quality standards, ensuring that information is accurate, valid, reliable, timely, relevant, complete and secure. Data quality advice is included in the Council's Information Governance annual eLearning course and there are specific bite sized briefings available for all data users regarding data quality. A member of staff within every Council service is nominated as an information governance champion and they sign an annual commitment on behalf of their service to ensure the robustness of data quality within their service.

However, it is clear from the recent Ofsted Report in relation to Children's Services that data quality is often not fit for purpose, or there is a lack of confidence in it which brings into question its use for decision-making.

To address these issues Management Team have put in place "Project Accuracy" with the objective of improving the quality of data in LCS in order to increase the efficiency of the system and enable social workers to spend more time with children and families. Seven priority areas have been identified for Wave 1 of the project:

- Team structures
- Caseloads
- S47s and strategy discussions
- Referrals per week

- C&Fs due and overdue
- Visits due and overdue
- Reviews due and overdue

Project Accuracy was launched on 4 April with briefings in Lancaster, Fleetwood, Burnley and Preston to all children's social care practitioners and managers. The initial phase of ensuring that team hierarchies are all up to date and accurate is well underway.

This project includes a tightly managed programme of work involving the generation of weekly reports, short weekly improvement meetings held by the area teams, and a senior management led weekly steering group. Newton Europe have facilitated the project. By 20th May, 82% of team structures were correct which is a huge improvement on the initial 33%. This provides a key fundamental building block to enable all the priority reports to be assessed for accuracy and swift progress is anticipated in resolving issues relating to the other priority areas. Importantly, robust processes are now in place to sustain the accurate recording of team hierarchies.

The lessons learnt from the improvement of LCS will then also be applied to data quality in relation to adult social care and other services.

A separate report to the Committee provides further detail on proposed improvements to the Liquidlogic system including the estimated timescales for implementation.

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

A Risk and Opportunity Register has been developed by Management Team and relevant directors/heads of service, providing a brief, high level description of risks and opportunities along with the current controls and further proposed mitigating actions. The Register also includes "risk scores" for both before and after the application of mitigating actions based on a scoring matrix.

A corporate approach to reporting on risk and opportunity has been agreed. Risk and Opportunity reports will be provided to Management Team on a quarterly basis, following which the reports would then go to the Cabinet Committee for Performance Improvement and then to the Audit and Governance.

At is meeting on the 25 January 2016, members of the Audit and Governance Committee received training on risk management and a programme of training is being delivered for Risk Champions within service areas.

A Risk Management intranet site has been developed and a handbook for staff and councillors has been produced setting out the adopted approach.

Risks and opportunities will also be incorporated into Quality of Service and Highlight reports.

At its meeting on the 25 January 2016, the Audit and Governance Committee, approved an Internal Audit Plan for 2016/17. The report noted that the processes supporting the Risk and Opportunity Register are still being developed to ensure that the register is robust and sustainable and to ensure that the register is an adequate reflection of the Council's most significant risks being addressed at a given point in time.

In due course this will serve as an active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and therefore not yet under effective control. The Internal Audit Plan itself includes the preparation and use of the Risk and Opportunity Register as a key component of an overall assurance opinion.

The report also noted that the Risk and Opportunity Register is relevant to the draft Audit Plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the Council's most significant risks and the progress being made in their implementation. Where risks have been mitigated, or are believed to have been so, they may not then be recorded in the Risk and Opportunity Register and must then be identified through other means.

Where management understands controls to be in place around significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are adequately designed and operating effectively.

Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

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.

The Council has adopted a response appropriate to the fraud and corruption risk it faces in line with the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption.

The Council's existing counter fraud strategy which has been in place for a number of years has recently been reviewed and an amended strategy and policy were approved by the Employment Committee on 16 May 2016. A Pension Forfeiture Strategy has also been approved which enable the Council to recover money owing as a result of misconduct, or criminal, negligent or fraudulent acts or omissions, from pension benefits.

Ensuring effective management of change and transformation

As part of its Transformation Programme, the Council has strengthened its arrangements for managing change and transformation. This includes creating a new Programme Office to provide project and programme management capacity and capability for the organisation, and a new Business Change & Transformation Team to provide change management support to services in delivering business change. Recognising change activity, and providing resources to deliver that activity separately to business-as-usual activity, has improved the management of change.

The Programme Office is now co-ordinating the delivery of all the change activity required to deliver the Council's current budget savings, and preparing regular reports to the Council's Management Team, who are providing clear leadership and governance of the changes. This ensures that change activity is aligned to the corporate strategy and financial plan. Management Team also continue to act as the Programme Board for the Council's Transformation Programme.
Change activity is now organised as projects and programmes within clusters, or portfolios, of change, and governance arrangements are in place that involve key stakeholders and decision-makers effectively. This has also improved the way that risks and issues are identified and managed, with significant risks linking through to the corporate risk and opportunity register.

These arrangements should be further strengthened through the introduction of a corporate project and programme management ICT system during 2016/17, which will help support the further standardisation of the Council's approach to managing change and improve the quality of reporting on change activity.

Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010)

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). An Interim Director of Financial Resources was in post for much of 2015/16 with a permanent appointment being made in February 2016.

The 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 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.

Ensuring the Council's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

The Council's Internal Audit Service operates in accordance with professional standards. Management Team have identified that the current Internal Audit Service lacks sufficient capacity for an organisation of the Council's size and has therefore agreed a revised staffing structure which increases the Service's capacity which will deliver a sufficient breadth of audit work for 2016/17 for there to be an overall opinion.

Ensuring effective arrangements are in place for the discharge of the monitoring officer function

The Council's monitoring officer is the Director of Governance, Finance and Public Services. He has appointed a deputy monitoring officer (the Director of Legal and Democratic Services).

Ensuring effective arrangements are in place for the discharge of the head of paid service function

The Council has appointed the Chief Executive as head of the paid service.

Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities

The Council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement. The Committee's role is to provide independent oversight of the adequacy of the Council's governance and internal control frameworks, and oversee the financial reporting process, and it will also have a key role in relation to new arrangements for the oversight of risk management.

The Audit and Governance Committee in approving an Internal Audit Plan for 2016/17 and beyond agreed to an assessment of the constitution and operation of the Committee against professional practice and current best practice. The assessment will therefore form part of the Head of Internal Audit's overall opinion for 2016/17 which will be reported to Committee in 2017.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

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.

Whistleblowing and for receiving and investigating complaints from the public

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.

Receiving and investigating complaints from the public

The Council has robust arrangements for processing all complaints. These arrangements were revised during 2015/16 bringing together all the complaints functions under the management of one team. The Complaints Team now manages statutory procedures for adults' and children's social care complaints as well as the non-statutory corporate complaints process to facilitate a strategic overview of complaints within Legal and Democratic Services.

Complaints are now reported upon every quarter and the Council produces a public statutory annual report for complaints and customer feedback and learning from complaints, which is reported to CCPI. The team also produces quarterly complaint reports which are shared with Heads of Service who act as Designed Complaints officers for their area of service. This information is reported on and taken to the senior management team in the form of Quality of Service Reports.

During 2015/16, a total of 1542 complaints were made about Council services. There has been a significant increase in the number of corporate complaints which are primarily about highway related issues although the increase reflects, at least in part, to more robust reporting processes including improvements in the Council's website.

The number of statutory complaints in relation to both adult and children's services have also increased. Adults' complaints have related primarily to assessments, financial issues (and charging) and domiciliary/home care provision. Children's complaints have related mainly to assessments, safeguarding/child protection processes and financial issues.

The Annual Report in relation to complaints and customer feedback is currently being prepared and will be reported to CCPI, including improvements that have been made as a result of complaints.

Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training

A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. A comprehensive member development programme was undertaken during 2014/15. An Induction working Group has been established in February 2016 to consider the needs of county councillors in the run up to and following the next County Council elections in 2017.

A comprehensive range of learning and development opportunities have been provided during including intranet based tools; numerous training courses; and a series of staff briefing sessions to assist and support staff through the Council's Transformation process.

All senior officers appointed to the new organisation structure are participating in a new Senior Leadership Development Programme designed to create a supportive and respectfully challenging thinking environment that enables leaders in setting a vision, engaging our employees and ensuring the council delivers high quality services for the people of Lancashire. Additional training needs will be identified through a corporate performance and development review process.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Council uses a number of main channels to communicate with the community and other stakeholders including:

- The website www.lancashire.gov.uk, which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter
- A variety of public information leaflets and other literature distributed to public places across the county

Enhancing the accountability for service delivery and effectiveness of other public service providers

Overview and Scrutiny has engaged with the NHS, Police and other public sector partners to hold them to account through formal meetings and through informal engagement arrangements. Work was undertaken in the year through Overview and Scrutiny to look at planning functions and joint working between the Council and its district partners, as well as undertaking significant work with utility providers and those organisations involved in flood risk management. The Council also currently hosts the statutory "Healthwatch" organisation.

The Council has strong relationships with district and parish councils, and works collaboratively with them. The work with other local authorities on Combined Authority proposals has emphasised the importance of accountability and effective governance.

Incorporating good governance arrangements in respect of partnerships and other joint working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the council's overall governance arrangements

The 2013/14 review of partnerships has ensured a model of strategic partnerships that have a far greater synergy across key corporate priorities and improved the clarity of purpose and accountabilities that exists across partnership structures. The formal working protocols that have been agreed between the Children's Trust, Health and Wellbeing Board and Lancashire Safeguarding Children Board demonstrate this commitment and endorsement of better governance and accountabilities between partnerships. A LGA Health and Wellbeing Peer Challenge will take place during 2015 as part of an ongoing Improvement Programme.

County Council scrutiny committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

Internal control

The External Auditor's VFM conclusion for 2014/15 identified the lack of an overall opinion on the system of internal control as one of the areas of concern that resulted in a qualified opinion. Similarly, as it is not intended that there will be an overall opinion for 2015/16, it must be expected that the VFM conclusion for 2015/16 will again be qualified.

However, going forward the External Auditor has noted that there is now an Audit Plan in place for 2016/17 which identifies key areas of audit coverage, and that if this plan is refined and delivered as expected, then it is likely that the Head of Internal Audit will be able to reach a conclusion on the Council's system of internal control.

Management Team have given an unequivocal assurance that sufficient audit work will be undertaken during 2016/17 to ensure that this is the case and have approved a new staffing structure for Internal Audit which increases the current capacity of the service. They have also agreed to bring in additional, external resources on a temporary basis to undertake work which forms part of the Audit Plan if this is necessary in the short term, pending appointments being made to the permanent staffing structure.

Key issues for 2016/17

Financial viability

As noted in section 6 above, the MTFS presented to Cabinet in January 2016 noted the strong likelihood that the Council will, during the period up to 2020/21 be in the position of being unable to set a budget to meet the cost of statutory services as they are currently delivered.

The review of the Council's operating and business model being undertaken in conjunction with PwC and the Political Governance Working Group is therefore key to address the funding gap. Any under-delivery of the savings currently built into the Council's budget will increase this gap still further.

Similar challenges also face other parts of the public sector within Lancashire which give rise to fundamental questions as to the nature, scale and sustainability of public services, in particular Health Service organisations, circumstances which form the backdrop to health and social care integration. What is clear is that in this context the Council cannot plan its future in isolation and must develop a public service model for Lancashire in conjunction with its partners.

It is particularly important that the Council positions itself well to feed into the Government review of its plans to end the rate support grant and allow 100% retention of business rates. To that end part of PwC's brief as approved by Cabinet is to prepare a report for submission to the Secretary of State for Communities and Local Government, the Treasury and the Department of Health on the Council's funding base in relation to its statutory obligations and the resources needed to sustain a minimum level of statutory public services in the County.

Children's Services – delivering the Improvement Plan

The delivery of the Council's Improvement Plan prepared in response to the Ofsted judgement in relation to Children's Services as "inadequate" will also continue to be a focus and a key priority for resources to ensure that the Improvement Plan is delivered and that children are not put at risk of harm.

ICT Strategy and systems development

The Council is at various stages in the implementation of 4 key systems that will be implemented during 2016/17. Once fully implemented these will complete the Council's core systems transformation programme and will ensure that small, standalone systems are reduced significantly and that the Council can further develop its ambitions, i.e. for having integrated systems that allow one source of data to be used by different systems and for fully integrated and efficient end to end processes that reduce cost.

The key systems that will be implemented during 2016/17 are the Property Asset Management System and the Project Management System, both of which have now gone live. The Highways Asset Management System is scheduled to go live later in the year, after which the decommissioning strategy for over 20 legacy systems will be implemented. The Customer Access Service replacement platform is due to be fully implemented in July 2016, replacing the existing platform which, due to its age and other factors, has been a risk to the Council.

Roadmaps for all other systems are currently being developed together with resource, funding and implementation plans which will help ensure that the needs of services are identified, planned and co-ordinated so that they can be implemented in a safe way across the council. As part of this work, a roadmap for systems that supports the wider health integration agenda, as well as that with other partners, is also being developed. It should be noted that this work incorporates Project Accuracy and other workstreams that have been set up in response to recent inspections. Additional capacity to support our systems is also being built in to the corporate structure.

The Council's 'Digital By Default' strategy will be produced and finalised in the Autumn and will focus on key digital ambitions that will streamline process, improve the customer journey, reduce cost and duplication and provide access to services to citizens in a way that meets their needs. This strategy will also focus on how the Council can maximise the benefits and cost reduction following the implementation of its core systems. Some of this work has already commenced and has been tested successfully on a pilot basis with a number of social work teams. A more extensive roll out plan will be implemented during 2016/17.

Sustainability and Transformation Plan

The structural complexity of the pan-Lancashire health and social care economy – CCGs, acute trusts and upper tier local authorities – create inevitable tensions and difficulties in designing and agreeing an integrated system.

The importance of this work, supported by Healthier Lancashire, cannot however be over-stated, with a clear government requirement to agree and submit an STP which, if approved, will initially draw down significant transformation funding, setting the blueprint for integration.

Core Financial Statements

Panopticon - *Halo* Haslingden, Rossendale

2014/15				2015/16		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
7.9	(5.7)	2.2	Central services to the public	8.7	(3.8)	4.9
1,136.1	(955.6)	180.5	Children's and education services	1,226.7	(949.7)	277.0
27.0	(3.7)	23.3	Cultural and related services	24.5	(3.6)	20.9
211.3	(36.4)	174.9	Environmental and regulatory services	102.6	(12.9)	89.7
114.1	(27.5)	86.6	Highways and transport services	97.3	(26.3)	71.0
0.2	0	0.2	Other housing services	0	0	0
444.1	(114.9)	329.2	Adult social care	516.9	(173.0)	343.9
26.5	(18.5)	8.0	Planning services	35.6	(3.5)	32.1
52.9	(56.2)	(3.3)	Public health	62.4	(65.4)	(3.0)
12.9	(22.9)	(10.0)	Corporate and democratic core	5.4	0	5.4
117.2	(37.2)	80.0	Non distributed costs	133.7	(43.5)	90.2
2,150.2	**(1,278.6)**	**871.6**	**Cost of services**	**2,213.8**	**(1,281.7)**	**932.1**
7.1	(13.4)	(6.3)	Other operating income and expenditure (Note 6)	5.8	(18.4)	(12.6)
106.0	(82.4)	23.6	Financing and investment income and expenditure (Note 7)	73.4	(30.1)	43.3
0	(937.5)	(937.5)	Taxation and non-specific grant income (Note 8)	0	(922.9)	(922.9)
2,263.3	**(2,311.9)**	**(48.6)**	**(Surplus)/deficit on provision of services**	**2,293.0**	**(2,253.1)**	**39.9**
		(20.5)	(Surplus)/deficit on revaluation of non-current assets (Note 30)			(63.3)
		301.9	Remeasurement of the net defined benefit pension liability/(asset) (Note 31)			(228.7)
		5.1	Other adjustments			(2.2)
		(20.8)	(Surplus)/deficit on revaluation of available for sale assets (Note 30)			2.2
		265.7	**Other comprehensive income and expenditure**			**(292.0)**
		217.1	**Total comprehensive income and expenditure**			**(252.1)**

2015/16

	County Fund £m	Earmarked Revenue Reserves £m	Earmarked Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves (Note 30) £m	Total Reserves £m
Balance at 1 April 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**
Movement in 2015/16								
(Surplus)/deficit on the provision of services	39.9	0	0	0	0	**39.9**	0	**39.9**
Other comprehensive income and expenditure	0	0	0	0	(2.2)	**(2.2)**	(289.8)	**(292.0)**
Total comprehensive income and expenditure	**39.9**	**0**	**0**	**0**	**(2.2)**	**37.7**	**(289.8)**	**(252.1)**
Adjustment between accounting basis and funding basis under regulation (Note 15)	(15.9)	0	0	15.3	(24.5)	**(25.1)**	25.1	**0**
Net (increase)/decrease before transfers to earmarked reserves	**24.0**	**0**	**0**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**
Transfers (to)/from earmarked reserves (Note 16)	(24.0)	11.6	12.4	0	0	**0**	0	**0**
(Increase)/decrease in year	**0**	**11.6**	**12.4**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**
Balance at 31 March 2016	**(36.0)**	**(364.5)**	**(0.1)**	**(17.7)**	**(70.8)**	**(489.1)**	**(649.1)**	**(1,138.2)**

2014/15

	County Fund £m	Earmarked Revenue Reserves £m	Earmarked Capital Funding Reserves (Revenue) £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves (Note 30) £m	Total Reserves £m
Balance at 1 April 2014	**(36.0)**	**(296.6)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**
Movement in 2014/15								
(Surplus)/deficit on the provision of services	(48.6)	0	0	0	0	**(48.6)**	0	**(48.6)**
Other comprehensive income and expenditure	0	0	0	0	5.1	**5.1**	260.6	**265.7**
Total comprehensive income and expenditure	**(48.6)**	**0**	**0**	**0**	**5.1**	**(43.5)**	**260.6**	**217.1**
Adjustment between accounting basis and funding basis under regulation (Note 15)	(30.2)	0	0	(1.7)	(1.4)	**(33.3)**	33.3	**0**
Net (increase)/decrease before transfers to earmarked reserves	**(78.8)**	**0**	**0**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**
Transfers (to)/from earmarked reserves (Note 16)	78.8	(79.5)	0.7	0	0	**0**	0	**0**
(Increase)/decrease in year	**0**	**(79.5)**	**0.7**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**
Balance at 31 March 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**

31 March 2015 £m		Note	31 March 2016 £m
2,638.2	Property, plant and equipment	19	2,681.7
28.7	Heritage assets	21	28.7
2.8	Investment properties		4.4
21.7	Intangible assets		24.6
262.2	Long term investments	27	445.0
74.2	Long term debtors	22	68.9
3,027.8	**Long term assets**		**3,253.3**
267.8	Short term investments	27	119.7
3.0	Inventories		2.7
135.8	Short term debtors	23	109.2
12.3	Payments in advance		12.8
130.3	Cash and cash equivalents	24	44.7
5.2	Assets held for sale		11.3
554.4	**Current assets**		**300.4**
(574.2)	Short term borrowing	27	(399.2)
(204.5)	Short term creditors	25	(173.3)
(7.3)	Receipts in advance		(10.6)
(18.0)	Short term provisions	26	(12.2)
(4.6)	Other current liabilities	27	(4.6)
(808.6)	**Current liabilities**		**(599.9)**
(13.8)	Long term provisions	26	(19.0)
(467.6)	Long term borrowing	27	(583.4)
(1,406.1)	Other long term liabilities	27, 31	(1,213.2)
(1,887.5)	**Long term liabilities**		**(1,815.6)**
886.1	**Net assets**		**1,138.2**
(501.7)	Usable reserves	16	(489.1)
(384.4)	Unusable reserves	30	(649.1)
(886.1)	**Total reserves**		**(1,138.2)**

2014/15 £m		Note	2015/16 £m
(48.6)	Net (surplus)/deficit on the provision of services		39.9
(183.5)	Adjustments to net surplus/deficit on the provision of services for non-cash movements	32	(222.1)
237.2	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	32	204.5
5.1	**Net cash flows from operating activities**		**22.3**
(58.9)	Investing activities	33	2.1
14.9	Financing activities	34	61.2
(38.9)	**Net (increase)/decrease in cash or cash equivalents**		**85.6**
(91.4)	Cash and cash equivalents at the beginning of the reporting period		(130.3)
(130.3)	**Cash and cash equivalents at the end of the reporting period**	24	**(44.7)**

Explanatory Notes to the Financial Statements

Panopticon - *Atom* Wycoller Village, Pendle.

1 ACCOUNTING STANDARDS ISSUED, BUT NOT YET ADOPTED

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2016 but not yet adopted by the Code.

- *Highways Network Asset (HNA)*

The CIPFA Code of Practice on Transport Infrastructure Assets takes effect from 1 April 2016. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of property, plant and equipment measured at depreciated replacement cost. This will consist of 7 components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a change in valuation due to the change from depreciated historic cost to depreciated replacement cost basis. Thus the new valuation will reflect the current cost of replacement rather than the original cost of works, which would have been built up over a significant time period.

The code does not impose a requirement to restate 2015/16 accounts, but an opening value for the depreciated replacement cost of the HNA will be required for 1 April 2016.

In addition there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)

2 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Funding

There continues to be a high degree of uncertainty 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 the need to close facilities, and reduce levels of service provision.

Private Finance Initiative

The County Council is deemed to control the services provided under the private finance initiative (PFI) agreement for 14 schools and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings have been recognised as property, plant and equipment on the Council's Balance Sheet. The buildings have been valued at £121.4 million as at 31 March 2016 (£239.8 million as at 31 March 2015).

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.

Asset valuations

The 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 and follow best practice. In addition to valuations which are undertaken in year, the valuer uses the knowledge of local market conditions and available data to assess whether there have been changes which would require a review of all asset values held at 31 March 2016. After consideration no requirement had arisen in 2015/16.

School assets

In assessing the most appropriate accounting treatment for balances and transactions in relation to schools, the Council has considered the circumstances of each of the categories of school, such as ownership, control and access to economic benefits and service potential. Further details are included in Note 20.

The property, plant and equipment balance includes properties valued at £1,382 million which are not owned by the Council. These are principally voluntary aided (VA), voluntary controlled (VC) and foundation schools which form approximately 50% of schools in Lancashire. Historically it has been the Council's policy to include foundation, community, VA and VC schools assets on the Balance Sheet in line with accounting guidance and the CIPFA code of practice. In Lancashire there are a significant number of school buildings for which trustees have legal ownership rights but the Council benefits from using these properties in terms of delivery of service and the Council also meets the costs of service provision. The Council has considered *Appendix E 'Accounting for schools in local authorities in England and Wales' to the 2015/16 Code update* and has concluded that the changes do not impact on the existing accounting treatment for schools. They are consequently retained on the Balance Sheet of the Council to fairly reflect the value of assets used in providing the service.

Interests in companies and other entities

Lancashire County Council conducts activities through a variety of undertakings, either under ultimate control of, or in partnership with, other organisations. An assessment of all of the Council's interests has been carried out to determine whether a group relationship between the Council and other entities.

The Council's relationships with other entities can be found within the Related Parties note. (Note 35).

Group accounts have been produced to reflect Lancashire County Council's relationship with Lancashire County Developments Limited. The other companies have been excluded from the group accounts as they are not considered to be material.

The omission of these companies from the Group Accounts will not affect the ability of a user of the accounts to determine the financial position and performance of the County Council, or its exposure to risk.

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

3 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequences if actual results differ from assumptions
Property, plant and equipment – valuation	The Code prescribes the detailed bases for measuring the different classes of property, plant and equipment. Valuations are undertaken by qualified valuers within LCC's Estates section. The valuations are undertaken in accordance with the Royal Institute of Chartered Surveyors professional standards using recognised measurement techniques The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation. The Council commissions a rolling programme of valuations, with a maximum revaluation period for any individual asset of 5 years to meet the Code requirements. As part of the process at least 20% of assets are valued in any year. Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices.	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. Economic condition could lead to an increase or decrease in the value of property, plant and equipment. However, the overall valuation is considered to ensure that the assets are not materially misstated at 31 March 2016.
Fair value estimations	The fair values of investment properties, surplus assets and assets held for sale are principally based on the available market evidence for the sale and purchase of similar assets. Under IFRS 13 fair value hierarchy these have been shown as a level 2 input namely using quoted prices for similar assets or liabilities in active markets at the balance sheet date. If this information is not	Most estimates are based on current market information therefore material changes are not expected. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets.

	available estimates are undertaken in accordance with RICS professional guidelines.	
Property, plant and equipment/intangible assets – depreciation/amortisation	Depreciation/amortisation is the systematic allocation of the cost/fair value of an asset, less its residual value, over its useful life. The calculation of amounts for the year are generated by the Council's asset register software system. For property assets, the valuation, residual value and useful life are all estimates. Valuation has been considered in the note above. Residual values are assessed as part of the valuation process. Useful lives are estimated based on professional guidance and are reviewed on revaluation of the asset. For non-property assets, only the residual value and useful life are estimates because the assets are held at cost.	For property assets, since useful lives are estimated by an expert based on professional guidance, the scope to use judgement and change assumptions is limited. Also, given that property assets have relatively long asset lives, the estimates are less sensitive to changes in assumptions. For non-property assets, the estimated short term nature of the useful lives means the risk of misstatement is unlikely to be material. If there is a potential for a material misstatement advice is sought on the latest value and remaining life of the assets.
Impairment of debtors	In this context, the concept of "impairment" involves the assessment of the likelihood of a debt being recovered. Where it is considered likely that a debt will not be paid then the carrying amount will be adjusted to the probable recoverable amount of zero. The Council carries out a regular assessment of aged debt information from the sundry debtors system.	Although the provision for likely bad debts (£41.8 million) is material in relation to total debtors (£109.2 million), the year on year assessments based on aged debt analysis have not highlighted the need for any significant in year movements and the assumptions appear reasonable in the light of subsequent events. As such, the degree of estimation uncertainty is not considered to be high.
Provisions	There are 10 provisions included within the Council's Balance Sheet, of which one is a	The main cause of estimation uncertainty relates to the timing and outcome of claims made against

	general insurance provision in respect of potential damage or injury claims being made against the Council. A further provision relates to a loan guarantee made by the Council. Since the introduction of the Business Rates Retention Scheme from 1 April 2013, billing authorities are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. The total provision is calculated by the billing authority on behalf of the major preceptor (Lancashire County Council), central government and itself. The amount appearing in the Council's Balance Sheet has been adjusted to include only its share (9%) of the provision.	the Council. In order to mitigate this level of uncertainty: • detailed monitoring of outstanding / potential highways third party claims is carried out throughout the year. • the Council's future estimated liability under the MMI Scheme of arrangement is based on expert information provided by the scheme administrator. • the potential refunds to business ratepayers has been calculated using the Valuation Office (VOA) ratings list of appeals and the analysis of successful appeals to date. The total value of provisions is not considered to be material (£31.2 million at 31 March 2016 and £31.8 million at 31 March 2015), therefore the degree of estimation uncertainty is considered to be low.
Pensions liability	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. (Note 31).	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 £300 million. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £153 million and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £66 million.

4 EVENTS AFTER THE REPORTING PERIOD

EU referendum

On 23 June 2016, the United Kingdom voted to leave the European Union in a referendum. The long term impact of this decision on the economy and the County Council are at this stage uncertain.

One immediate reaction to the referendum has been a fall in long-term interest rates which will increase the fair value of the Authority's long-term financial liabilities. However, the Authority also holds interest bearing long-term assets and the fair value of these will also have increased. The County Council's Treasury Management Strategy has been developed on the assumption of historically low interest rates and the referendum result has not changed this forecast.

The fall in interest rates has also increased the value of the Authority’s defined benefit pension liability, although this has been partly offset by an increase in the value of pension fund assets. Any long term impact will be included in the next valuation.

In addition, nationally there has been an estimated 4% fall in the value of commercial property since the referendum. This will have a downward pressure on some of the Authority’s land and buildings. However, the precise impact will depend on the individual property including the date of the last valuation and local market conditions which to date don't seem to have been greatly affected by the referendum result.

Property strategy

In light of the government's continuing programme of austerity, the Council is currently considering proposals for the future configuration of its property portfolio.

The Council's property portfolio (excluding schools) comprises in the order of 500 operational sites. As part of the approved property strategy a total of 222 premises have been identified to form part of the review.

5 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The reportable segments within the Comprehensive Income and Expenditure Statement are those specified by the CIPFA Service Reporting Code of Practice (SeRCOP). However, throughout the year the Council's internal management reporting is based on budgets analysed across the departments shown in the outturn report on page 8. The Departmental Income and Expenditure table overleaf provides further analysis and the following tables show the reconciliation between the Departmental Analysis and the Comprehensive Income and Expenditure Statement, which includes the following differences in accounting treatment:

- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year
- No accrual is made for the cost of holiday entitlements (or flexi-leave or time off in lieu) earned by employees but not taken before year end which employees can carry forward to the next financial year

Departmental Income and Expenditure 2015/16

	Children's Services £m	Adult Services £m	Public Health and Wellbeing £m	Community Services £m	Lancashire Pension Fund £m	Development and Corporate Services £m	Commissioning £m	Chief Executives £m	Total £m
Fees, charges and other service income	(11.5)	(97.2)	(9.4)	(40.4)	(6.2)	(55.6)	(20.1)	(40.9)	**(281.3)**
Government grants and contributions	(7.5)	(38.5)	(69.5)	(5.2)	0	(11.8)	(19.2)	(0.4)	**(152.1)**
Total income	**(19.0)**	**(135.7)**	**(78.9)**	**(45.6)**	**(6.2)**	**(67.4)**	**(39.3)**	**(41.3)**	**(433.4)**
Employee expenses	81.3	69.6	31.5	53.8	3.2	51.5	37.4	38.1	**366.4**
Other service expenses	42.7	374.9	78.1	155.8	1.0	55.2	42.7	42.7	**793.1**
Total expenditure	**124.0**	**444.5**	**109.6**	**209.6**	**4.2**	**106.7**	**80.1**	**80.8**	**1,159.5**
Net expenditure	**105.0**	**308.8**	**30.7**	**164.0**	**(2.0)**	**39.3**	**40.8**	**39.5**	**726.1**

The Council adopted a new internal structure with effect from 1 April 2015, therefore, the prior year information shown overleaf is not directly comparable.

The Schools' revenue budget is reported separately to the Schools Forum and is not included in the table above. The 2015/16 schools outturn position is shown below:

	Total expenditure £m	Total income £m	Net expenditure £m
Schools	909.8	(900.3)	**9.5**

Departmental Income and Expenditure 2014/15

	Adult Social, Health and Wellbeing £m	Children and Young People £m	Environment £m	Other Departments £m	Total £m
Fees, charges and other service income	(89.3)	(62.0)	(61.0)	(161.5)	**(373.8)**
Government grants and contributions	(53.2)	(910.2)	(10.0)	(131.2)	**(1,104.6)**
Total income	**(142.5)**	**(972.2)**	**(71.0)**	**(292.7)**	**(1,478.4)**
Employee expenses	83.9	700.0	45.0	174.3	**1,003.2**
Other service expenses	386.1	439.5	194.8	236.4	**1,256.8**
Total expenditure	**470.0**	**1,139.5**	**239.8**	**410.7**	**2,260.0**
Net expenditure	**327.5**	**167.3**	**168.8**	**118.0**	**781.6**

Reconciliation of Departmental Income and Expenditure to cost of services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Departmental Income and Expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

31 March 2015 £m		31 March 2016 £m
781.6	**Net expenditure in the departmental analysis**	**726.1**
187.1	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	218.5
(97.1)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(12.5)
871.6	**Cost of services in the Comprehensive Income and Expenditure Statement**	**932.1**

Reconciliation to subjective analysis 2015/16

This reconciliation shows how the figures in the analysis of Departmental Income and Expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(253.3)	(118.4)	89.3	**(282.4)**	(20.5)	**(302.9)**
Interest and investment income	(28.0)	28.0	0	**0**	(28.0)	**(28.0)**
Income from council tax precept	0	0	0	**0**	(394.4)	**(394.4)**
Income from business rates precept	0	0	0	**0**	(33.4)	**(33.4)**
Government grants and contributions	(152.1)	(847.2)	0	**(999.3)**	(495.1)	**(1,494.4)**
Total income	**(433.4)**	**(937.6)**	**89.3**	**(1,281.7)**	**(971.4)**	**(2,253.1)**
Employee expenses	366.4	624.6	0	**991.0**	0	**991.0**
Other service expenses	722.8	532.6	(101.8)	**1,153.6**	0	**1,153.6**
Depreciation, amortisation and impairment	50.1	0	0	**50.1**	0	**50.1**
Interest payments	19.1	0	0	**19.1**	35.4	**54.5**
Levies	1.1	(1.1)	0	**0**	1.1	**1.1**
Net pension interest costs	0	0	0	**0**	38.0	**38.0**
Gain or loss on disposal of non-current assets	0	0	0	**0**	4.7	**4.7**
Total expenditure	**1,159.5**	**1,156.1**	**(101.8)**	**2,213.8**	**79.2**	**2,293.0**
(Surplus)/deficit on the provision of services	**726.1**	**218.5**	**(12.5)**	**932.1**	**(892.2)**	**39.9**

Reconciliation to subjective analysis 2014/15

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(291.3)	0	0	**(291.3)**	(13.5)	**(304.8)**
Interest and investment income	(82.4)	0	82.4	**0**	(82.4)	**(82.4)**
Income from council tax precept	0	0	0	**0**	(380.2)	**(380.2)**
Income from business rates precept	0	0	0	**0**	(32.9)	**(32.9)**
Government grants and contributions	(1,104.6)	0	117.3	**(987.3)**	(524.3)	**(1,511.6)**
Total income	**(1,478.3)**	**0**	**199.7**	**(1,278.6)**	**(1,033.3)**	**(2,311.9)**
Employee expenses	1,003.2	(12.9)	0	**990.3**	0	**990.3**
Other service expenses	1,187.3	0	(227.4)	**959.9**	0	**959.9**
Depreciation, amortisation and impairment	0	200.0	0	**200.0**	0	**200.0**
Interest payments	68.4	0	(68.4)	**0**	68.4	**68.4**
Levies	1.0	0	(1.0)	**0**	1.0	**1.0**
Net pension interest costs	0	0	0	**0**	37.6	**37.6**
Gain or loss on disposal of non-current assets	0	0	0	**0**	6.1	**6.1**
Total expenditure	**2,259.9**	**187.1**	**(296.8)**	**2,150.2**	**113.1**	**2,263.3**
(Surplus)/deficit on the provision of services	**781.6**	**187.1**	**(97.1)**	**871.6**	**(920.2)**	**(48.6)**

6 OTHER OPERATING INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
1.0	Levies for flood defences and inshore fisheries and conservation authorities	1.1
(7.0)	Net (gains)/losses on the disposal of non-current assets	(7.2)
(0.3)	Other operating income/expenditure	(6.5)
(6.3)	**Total**	**(12.6)**

7 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
17.9	Interest payable and other similar charges	19.1
26.2	Interest payable on PFI unitary payments	16.3
[1] 24.3	Premium on early repayment of debt [1]	0
37.6	Net interest of the net defined benefit liability	38.0
[2] (82.2)	Interest receivable and similar income [2]	(27.9)
(1.9)	Changes in the fair value of investment properties	(2.2)
21.9	**Total**	**43.3**

[1] Relates to the refinancing of Waste Treatment Facilities

[2] The sale of bonds in 2014/15 has been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

8 TAXATION AND NON-SPECIFIC GRANT INCOME

The Council credited the following to the Comprehensive Income and Expenditure Statement.

2014/15 £m		2015/16 £m
(372.2)	Non-ringfenced Government grants	(317.9)
(152.2)	Capital grants and contributions	(177.2)
(524.4)	**Total non-specific grant income**	**(495.1)**
(380.2)	Council tax income	(394.4)
(32.9)	Non-domestic rates income	(33.4)
(937.5)	**Total**	**(922.9)**

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

Non-ringfenced Government grants

2014/15 £m		2015/16 £m
(212.6)	Revenue support grant	(158.9)
(136.3)	Top-up grant (business rates retention scheme)	(138.9)
(20.1)	Education services grant	(16.2)
(3.2)	Other	(3.9)
(372.2)	**Total**	**(317.9)**

Capital grants and contributions

2014/15 £m		2015/16 £m
(91.9)	Department for transport	(82.7)
(26.0)	Department of education	(22.4)
(0.8)	Other government grants	(4.3)
(6.6)	Department for communities and local government	(39.4)
(4.0)	Department of health	(9.0)
(7.0)	European union grants	(0.3)
(15.9)	Other grants	(19.1)
(152.2)	**Total**	**(177.2)**

9 GRANT INCOME AND CONTRIBUTIONS CREDITED TO COST OF SERVICES

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

2014/15 £m		2015/16 £m
(762.9)	Dedicated schools grant	(762.8)
(46.4)	Pupil premium grant	(46.2)
(68.0)	Other Government grants	(74.7)
(21.8)	PFI grant	(21.9)
(59.8)	Public health grant	(64.6)
(1.2)	Other grants	(3.8)
(27.2)	Other contributions	(25.3)
(987.3)	**Total**	**(999.3)**

10 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011.

The Schools Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2015/16 before academy recoupment			(849.3)
Academy figure recouped for 2015/16			86.5
Total DSG after academy recoupment for 2015/16			**(762.8)**
Brought forward from 2014/15			(27.9)
Agreed initial budgeted distribution for 2015/16	**(46.2)**	**(744.5)**	**(790.7)**
In-year adjustments	**0**	**6.4**	6.4
Final budget distribution for 2015/16	**(46.2)**	**(738.1)**	**(784.3)**
Actual central expenditure relating to DSG	26.1	0	26.1
Actual ISB deployed to schools	0	738.1	738.1
Carry forward to 2016/17	**(20.1)**	**0**	**(20.1)**

11 OFFICERS' REMUNERATION

The Council is required to disclose remuneration for all employees earning over £50,000 with additional disclosures for senior officers. The number of other employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out in the following tables.

2015/16

Postholder	Note	Salary, Fees and Allowances £	Benefits in Kind (Lease car payments / excess mileage) £	Total Remuneration excluding Pension Contributions £	Pension Contribution £	Total Remuneration including Pension Contribution £
Chief Executive - J Turton		170,000	5,300	175,300	21,420	196,720
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)		124,044	7,927	131,971	15,630	147,601
Corporate Director Operations and Delivery		126,624	4,163	130,787	15,955	146,742
Director Public Health and Wellbeing		110,000	5,300	115,300	15,730	131,030
Director of Development & Corporate Services		105,000	8,605	113,605	13,230	126,835
Director Governance, Finance and Public Services		107,500	5,059	112,559	13,545	126,104
Director of Children's Services		105,032	6,956	111,988	13,230	125,218
Director of Adult Services		105,046	3,435	108,481	13,256	121,737
Director Lancashire Pension Fund	1	85,717	0	85,717	10,800	96,517
Head of Service - Communications		70,007	0	70,007	8,821	78,828
Director of Financial Resources	2	20,507	1,249	21,756	2,584	24,340

[1] The Director Lancashire Pension Fund held the position for the full 12 month period. This position was disestablished on 31 March 2016.
[2] The Director of Financial Resources acted as interim director to cover sickness absence for the period of October and November 2015 and was appointed to the post permanently on the 29 February 2016. This position was previously held by an external consultant who was appointed from March 2015 to March 2016. Payments totalling £140,270.30 excluding VAT were made to the company DDL Consultancy Limited in 2015/16.

2014/15

Postholder	Note	Salary, Fees and Allowances £	Benefits in Kind (Lease car payments / excess mileage) £	Compensation for Loss of Office £	Total Remuneration excluding Pension Contributions £	Pension Contribution £	Total Remuneration including Pension Contribution £
Chief Executive - J Turton		170,000	5,848	0	175,848	21,420	197,268
Interim Executive Director for Children & Young People		125,378	3,881	0	129,259	15,798	145,057
County Treasurer	1	115,000	5,563	81,162	201,725	14,490	216,215
Executive Director for Adult Services, Health & Wellbeing		121,467	7,121	0	128,588	15,305	143,893
Interim Executive Director for Environment		121,369	6,708	0	128,077	15,260	143,337
Assistant Chief Executive		93,646	8,023	0	101,669	11,799	113,468
Director of Economic Development		93,646	6,980	0	100,626	11,799	112,425
Director for Public Health		107,083	7,508	0	114,591	14,991	129,582
Head of Communications		72,078	0	0	72,078	9,082	81,160
County Secretary & Solicitor	2	70,000	2,196	0	72,196	8,820	81,016
County Secretary & Solicitor	3	47,275	1,427	107,042	155,744	5,427	161,171

[1] The County Treasurer's employment with the Council ceased on 27 March 2015.
[2] The Deputy County Secretary & Solicitor took up the post of County Secretary & Solicitor on 1 August 2014. The total remuneration shown relates only to the post of County Secretary & Solicitor.
[3] The County Secretary & Solicitor ceased employment with the Council on 31 July 2014.
The interim Director of Financial Resources was appointed in March 2015 on a consultancy basis. Payments totalling £14,286.88 excluding VAT were made to the company DDL Consultancy Limited in 2014/15.

Number of Employees 2015/16

Remuneration Banding [1]	LCC Non Teaching Staff [2]	Seconded Staff	Schools [3]	LCC Network Staff	Total	Redundancies
50,000 to 54,999	62	6	305	0	373	16
55,000 to 59,999	39	5	237	0	281	18
60,000 to 64,999	59	3	140	0	202	17
65,000 to 69,999	42	3	49	0	94	15
70,000 to 74,999	13	0	26	0	39	11
75,000 to 79,999	14	0	21	0	35	13
80,000 to 84,999	7	0	10	0	17	5
85,000 to 89,999	6	0	10	1	17	5
90,000 to 94,999	6	0	7	0	13	2
95,000 to 99,999	9	1	6	0	16	10
100,000 to 104,999	12	0	4	0	16	9
105,000 to 109,999	2	0	1	0	3	2
110,000 to 114,999	4	0	0	0	4	2
115,000 to 119,999	1	0	0	0	1	0
120,000 to 124,999	3	0	0	0	3	2
125,000 to 129,999	1	0	0	0	1	1
160,000 to 164,999	1	0	0	0	1	1
Total	**281**	**18**	**816**	**1**	**1,116**	**129**

[1] Remuneration bands have been removed in cases where the entry for every column was zero.
[2] This table only includes amounts paid to staff in non senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.
[3] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

Number of Employees 2014/15

Remuneration Banding [1]	LCC Non Teaching Staff [2]	Seconded Staff	Schools [3]	LCC Network Staff	Total	Redundancies
50,000 to 54,999	79	8	294	0	381	13
55,000 to 59,999	50	7	238	0	295	12
60,000 to 64,999	51	4	122	0	177	16
65,000 to 69,999	30	1	49	0	80	7
70,000 to 74,999	13	1	25	0	39	12
75,000 to 79,999	11	0	18	1	30	11
80,000 to 84,999	11	0	11	0	22	10
85,000 to 89,999	6	0	11	0	17	5
90,000 to 94,999	3	0	7	0	10	1
95,000 to 99,999	9	1	8	0	18	3
100,000 to 104,999	4	0	2	0	6	3
105,000 to 109,999	2	0	1	0	3	2
115,000 to 119,999	3	0	0	0	3	1
120,000 to 124,999	1	0	0	0	1	1
125,000 to 129,999	4	0	0	0	4	4
130,000 to 134,999	1	0	0	0	1	1
145,000 to 149,999	0	1	0	0	1	0
150,000 to 154,999	0	0	0	1	1	1
180,000 to 184,999	1	0	0	0	1	1
Total	**279**	**23**	**786**	**2**	**1,090**	**104**

[1] Remuneration bands have been removed in cases where the entry for every column was zero.
[2] This table only includes amounts paid to staff in non senior officer positions. If officers have held senior positions during the period, this element of their remuneration will be included in the Senior Officers note.
[3] School leadership salaries are regulated by the School Teachers Pay and Conditions document. As Governing Bodies of maintained schools are responsible for appointing leadership staff and for annual performance related pay increases information at an authority level is unavailable.

Exit packages

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 not 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).

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**
0-20,000	20	42	576	406	596	448	5,223	3,545
20,001-40,000	2	3	190	91	192	94	5,287	2,578
40,001-60,000	0	1	55	22	55	23	2,611	1,129
60,001-80,000	0	0	48	6	48	6	3,266	407
80,001-100,000	0	0	41	4	41	4	3,654	355
100,001-150,000	0	0	55	5	55	5	6,684	567
150,001-200,000	0	0	15	1	15	1	2,496	191
200,001-250,000	0	0	4	0	4	0	845	0
250,001-300,000	0	0	1	0	1	0	258	0
400,001-450,000	0	0	1	0	1	0	406	0
Total	**22**	**46**	**986**	**535**	**1,008**	**581**	**30,730**	**8,772**

12 MEMBERS' ALLOWANCES

2014/15 £m		2015/16 £m
1.2	Allowances payable to Members	1.2
0.1	Expenses payable to Members	0.1
1.3	**Total**	**1.3**

13 FEES PAYABLE TO AUDITORS

The Council incurred the following fees relating to external audit.

2014/15 £000		2015/16 £000
151	Fees incurred with regard to external audit services provided by Grant Thornton	113
3	Fees incurred for the certification of grant claims and returns by Grant Thornton	0
4	Fees incurred for other audit work undertaken by Grant Thornton	8
0	Fees payable in respect of other services provided by Grant Thornton during the year	4
158	**Total**	**125**

14 POOLED BUDGETS

The Council is the host partner of the pooled funds in respect of learning disability services and the Better Care Fund. The arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and allows budgets to be pooled between authorities and health and social care organisations.

Pooled budget for learning disabilities

The Council has a pooled budget arrangement with the Lancashire Clinical Commissioning Groups for the provision of support for people with learning disabilities.

Any surplus or deficit generated is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

2014/15 £m		2015/16 £m
	Funding provided to the pooled budget	
(105.3)	Lancashire County Council	(113.8)
(1.4)	NHS North Lancashire CCG	(1.4)
(1.4)	NHS Fylde and Wyre CCG	(1.4)
(0.2)	NHS Blackpool CCG	(0.2)
(0.1)	NHS Greater Preston CCG	(0.1)
(2.1)	NHS Chorley and South Ribble CCG	(2.1)
(1.1)	NHS Greater Preston – central pool	(1.1)
(1.1)	NHS West Lancashire CCG	(1.1)
(1.9)	NHS East Lancashire CCG	(1.9)
(8.9)	Other	(0.4)
(123.5)	**Total**	**(123.5)**
	Expenditure met from the pooled budget	

125.4	Lancashire County Council	124.4
1.5	NHS North Lancashire CCG	1.5
1.5	NHS Fylde and Wyre CCG	1.5
0.2	NHS Blackpool CCG	0.2
0.1	NHS Greater Preston CCG	0.1
2.3	NHS Chorley and South Ribble CCG	2.4
1.2	NHS Greater Preston – central pool	1.3
1.2	NHS West Lancashire CCG	1.2
2.1	NHS East Lancashire CCG	2.0
135.5	**Total**	**134.6**
12.0	**Net (surplus)/deficit arising on the pooled budget during the year**	**11.1**
11.1	**Council share of the net (surplus)/deficit**	**10.2**

Better Care Fund

Highlighted as a key element of public service reform, the Better Care Fund (BCF) has a primary aim to *'drive closer integration and improve outcomes for patients and service users and carers'*. The fund is a partnership arrangement whereby Clinical Commissioning Groups and the Council contribute an agreed level of resource into a single pooled budget that is then used to commission or deliver health and social care services.

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

	2015/16 £m
Funding provided to the pooled budget	
Lancashire County Council	(9.4)
NHS East Lancashire CCG	(26.4)
NHS Greater Preston CCG	(13.2)
NHS Chorley and South Ribble CCG	(11.3)
NHS Fylde and Wyre CCG	(11.0)
NHS Lancashire North CCG	(10.5)
NHS West Lancashire CCG	(7.4)
Total	**(89.2)**
Expenditure met from the pooled budget	
Lancashire County Council (Revenue)	25.3
Lancashire County Council (Capital)	3.1
NHS East Lancashire CCG	18.2

NHS Greater Preston CCG	8.9
NHS Chorley and South Ribble CCG	7.9
NHS Fylde and Wyre CCG	7.3
NHS Lancashire North CCG	7.1
NHS West Lancashire CCG	5.0
Disabled Facilities Grant	6.4
Total	**89.2**
Net surplus/(deficit) arising on the pooled budget during the year	**0**

15 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments made to the comprehensive income and expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2015/16

	Usable Reserves				Unusable Reserves
	County Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total £m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the Pensions Reserve)	(40.4)	0	0	(40.4)	40.4
Financial instruments (transferred to the Financial Instruments Adjustments Account)	3.2	0	0	3.2	(3.2)
Council tax and NDR (transfers to or from the Collection Fund)	(2.9)	0	0	(2.9)	2.9
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the Capital Adjustment Account):	(53.8)	0	18.2	(35.6)	35.6
Total adjustments to revenue resources	**(93.9)**	**0**	**18.2**	**(75.7)**	**75.7**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	11.2	(11.2)	0	0	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	24.1	0	0	24.1	(24.1)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	0	26.5	0	26.5	(26.5)
Total adjustments between revenue and capital resources	**35.3**	**15.3**	**0**	**50.6**	**(50.6)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	42.7	0	(42.7)	0	0
Total adjustments to capital resources	**42.7**	**0**	**(42.7)**	**0**	**0**
Total adjustments	**(15.9)**	**15.3**	**(24.5)**	**(25.1)**	**25.1**

2014/15

	Usable Reserves				Unusable Reserves
	County Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total £m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the Pensions Reserve)	(31.2)	0	0	(31.2)	31.2
Financial instruments (transferred to the Financial Instruments Adjustments Account)	(21.1)	0	0	(21.1)	21.1
Council tax and NDR (transfers to or from the Collection Fund)	3.7	0	0	3.7	(3.7)
Holiday pay (transferred to the Accumulated Absences Reserve)	6.4	0	0	6.4	(6.4)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the Capital Adjustment Account):	(64.3)	0	25.3	(39.0)	39.0
Total adjustments to revenue resources	**(106.5)**	**0**	**25.3**	**(81.2)**	**81.2**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	13.1	(1.7)	0	11.4	(11.4)
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	36.5	0	0	36.5	(36.5)
Total adjustments between revenue and capital resources	**49.6**	**(1.7)**	**0**	**47.9**	**(47.9)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	26.7	0	(26.7)	0	0
Total adjustments to capital resources	**26.7**	**0**	**(26.7)**	**0**	**0**
Total adjustments	**(30.2)**	**(1.7)**	**(1.4)**	**(33.3)**	**33.3**

Further information is provided in Note 30 which details the movements on unusable reserves.

16 TRANSFERS TO/FROM EARMARKED RESERVES

The Council sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover contingencies (unallocated balances). 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 in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund balance in the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

This note sets out the amounts set aside from the County Fund in earmarked reserves to provide financing for future spending plans and the amounts posted back from earmarked reserves to meet county fund expenditure in 2015/16.

The Council's reserves are detailed below:

Reserves held to meet spending pressures

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.

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 2016/17 and develops its strategy to reduce costs over the following 2 years.

Transitional Reserve: All reserves have been extensively reviewed to ascertain whether the need for them remains and whether their scale continues to be appropriate. This led to many reserves being closed or significantly reduced and their balances transferred to the new Transitional Reserve as part of the 2016/17 budget setting process in February 2016.

Risk Management Reserve: This reserve was set up to record extra ordinary income such as the underspend on capital financing due to the sale of bonds, and one off resources available such as council tax surplus. This reserve is intended to help the Council manage risks to funding and service delivery going forward.

Reserves held to pay for expenditure commitments

Funding of capital projects: This reserve is comprised of revenue monies earmarked to support committed capital projects in the Council's 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, the Council holds it as a reserve for them to use in the future. This reserve cannot be used for any other purpose.

Reserves held to meet service priorities (directorate reserves)

These earmarked reserves consist of amounts carried forward for specifically agreed projects within directorates.

	Balance at 31 March 2014 £m	Transfers out 2014/15 £m	Transfers in 2014/15 £m	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m
Reserves held to meet spending pressures							
Business Rates volatility reserve	(5.0)	0	0	(5.0)	5.0	0	0
Reserves held to deliver corporate priorities							
Strategic investment reserve	(26.8)	5.4	0	(21.4)	10.4	0	(11.0)
Modern apprentices	(0.2)	0.2	0	0	0	0	0
Local welfare reserve	(1.8)	1.8	0	0	0	0	0
Reserves held to deliver organisational change							
Downsizing reserve	(99.2)	25.5	(6.9)	(80.6)	20.7	(5.0)	(64.9)
Risk management reserve	0	0	(82.0)	(82.0)	73.4	(7.2)	(15.8)
LAA PRG monies – Lancashire	(3.9)	3.9	0	0	0	0	0
Transitional Reserve	0	0	0	0	0	(141.8)	(141.8)
Reserves held to pay for expenditure commitments							
Equal pay review reserve	(0.4)	0.4	0	0	0	0	0
CC election reserve	(0.5)	0	(0.3)	(0.8)	0	(0.4)	(1.2)
Funding of capital projects	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
School reserves							
Individual school reserves	(55.9)	0.3	(0.8)	(56.4)	10.6	(7.9)	(53.7)
Other school reserves	(31.2)	20.7	(23.0)	(33.5)	25.3	(17.9)	(26.1)
Centrally managed schools maintenance reserve	(4.2)	4.2	(6.1)	(6.1)	6.1	(6.2)	(6.2)
Reserves held to meet service priorities (directorate reserves)							
Corporate reserves	(0.6)	0.5	0	(0.1)	0	0	(0.1)
Directorate reserves	(65.8)	37.6	(60.9)	(89.1)	60.4	(15.0)	(43.7)
Building repairs & maintenance reserve	(1.1)	0	0	(1.1)	1.1	0	0
Total earmarked revenue and capital reserves	**(309.8)**	**107.0**	**(185.8)**	**(388.6)**	**225.7**	**(201.7)**	**(364.6)**
Earmarked capital reserves	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
Earmarked revenue reserves	(296.6)	100.5	(180.0)	(376.1)	213.0	(201.4)	(364.5)

17 CAPITAL EXPENDITURE AND CAPITAL FINANCING

Capital expenditure and income result from transactions in respect of the following:

- Buying or selling land or property
- Building new infrastructure assets
- Purchasing plant or equipment
- Significantly enhancing the value of our property
- Providing grants to others for the above

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

This statement incorporates details of the movements in the capital financing requirement (CFR). This is a measure of the capital expenditure historically incurred by the Council that has yet to be financed. This will be discharged by future charges to revenue.

31 March 2015 £m		31 March 2016 £m
1,039.0	**Opening capital financing requirement**	**1,002.5**
	Capital investment	
156.7	Property, plant and equipment	148.8
2.5	Intangible assets	7.2
18.9	Revenue expenditure funded from capital under statute	30.1
178.1	**Total capital investment**	**186.1**
	Sources of finance	
(11.4)	Capital receipts	(26.5)
(150.9)	Government grants and other contributions	(152.7)
	Sums set aside from revenue:	
(15.8)	Direct revenue contributions	(6.9)
(6.3)	Write down of PFI liability	(4.7)
(30.2)	Minimum revenue provision (MRP) for debt repayment	(19.4)
1,002.5	**Closing capital financing requirement**	**978.4**
	Explanation of movement in year	
(23.8)	Increase in underlying need to borrow (supported by Government financial assistance)	(14.5)
(6.4)	Increase in underlying need to borrow (unsupported by Government financial assistance)	(4.9)
(6.3)	Write down of PFI liability	(4.7)
(36.5)	**Total movement**	**(24.1)**

18 CAPITAL CONTRACTUAL COMMITMENTS

At 31 March 2016 the Council had entered into numerous contracts for the construction or enhancement of property, plant and equipment in 2016/17 or future years.

The major contractual commitments are as follows:

PFI schemes

Capital payments remaining under the PFI contracts are £167.7 million (Note 28).

Department for Transport – Challenge Fund Street Lighting

2016/17 - £8.5 million, 2017/18 - £6.6 million to;

- replace 67,000 energy inefficient street lighting lanterns with modern LED equivalents across Lancashire
- replace up to 4,000 lighting columns that have reached the end of their service life across Lancashire
- fund 150 charging points to encourage a greater uptake of Ultra Low Emission Vehicles (ULEV) in Lancashire.

Heysham to M6 link road

2016/17 - £40.0 million to complete structures, road works and motorway communications.

19 PROPERTY, PLANT AND EQUIPMENT

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 the current Code of Practice on Local Authority Accounting. Valuations are undertaken internally by Lancashire County Council's estates service. All valuations have been undertaken by qualified chartered surveyors who are members of the Royal Institution of Chartered Surveyors.

Properties regarded by the Council as operational are 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 valued on the basis of market value.

The Council commissions a rolling programme of valuations, with a maximum revaluation period for any individual asset of 5 years to meet the Code requirements. As part of the process at least 20% of assets are valued in any year. In addition, during the financial year valuations will be required in the following circumstances:

- Potential sales
- Purchases
- Building extensions and improvements (including major refurbishments)
- Building demolitions

- Changes of use or occupation
- Changes in estimates of remaining useful life
- New planning consents
- Political decisions which affect the asset's use
- Impairment
- Assets requiring revaluation as part of a review to ensure that carrying amounts are reasonable at year end

Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices.

The basis of valuation is set out in the accounting policies.

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:

- Land is not depreciated.
- 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 10 to 50 years depending upon the nature of the asset.

Where a property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

	Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Infrastructure £m	Assets Under Construction £m	Total £m
Carried at historical cost	**138.2**	**83.3**	**907.0**	**8.0**	**1,136.5**
31 March 2016	925.3	0	0	0	925.3
31 March 2015	335.7	0	0	0	335.7
31 March 2014	239.8	0	0	0	239.8
31 March 2013	226.1	0	0	0	226.1
31 March 2012	71.5	0	0	0	71.5
Total cost or valuation	**1,936.6**	**83.3**	**907.0**	**8.0**	**2,934.9**

Property, plant and equipment - movements in 2015/16

	Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Infrastructure Assets £m	Assets Under Construction £m	Total £m	PFI Assets included in Property, Plant and Equipment £m
Cost or valuation						
At 1 April 2015	**1,960.9**	**80.8**	**794.3**	**39.8**	**2,875.8**	**244.8**
Additions	23.9	6.0	112.7	6.2	148.8	0.4
Derecognition – disposals	(3.8)	0	0	0	(3.8)	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	38.2	0	0	0	38.2	(10.2)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(124.4)	0	0	0	(124.4)	(81.1)
Assets reclassified	41.8	(3.5)	0	(38.0)	0.3	(31.2)
At 31 March 2016	**1,936.6**	**83.3**	**907.0**	**8.0**	**2,934.9**	**122.7**
Depreciation and Impairment						
At 1 April 2015	**(91.4)**	**(49.5)**	**(96.7)**	**0**	**(237.6)**	**(5.0)**
Depreciation charge	(24.4)	(6.7)	(14.6)	0	(45.7)	(1.9)
Depreciation written out to Revaluation Reserve	25.2	0	0	0	25.2	2.5
Depreciation written out to the surplus/deficit on provision of services	4.8	0	0	0	4.8	3.1
De-recognition – disposals	0.1	0	0	0	0.1	0
Reclassification	(3.9)	3.9	0	0	0	0
At 31 March 2016	**(89.6)**	**(52.3)**	**(111.3)**	**0**	**(253.2)**	**(1.3)**
At 1 April 2015	**1,869.5**	**31.3**	**697.6**	**39.8**	**2,638.2**	**239.8**
At 31 March 2016	**1,847.0**	**31.0**	**795.7**	**8.0**	**2,681.7**	**121.4**

Comparative movements in 2014/15

	Land and Buildings £m	Vehicles, Plant, Furniture and Equipment £m	Infrastructure Assets £m	Assets Under Construction £m	Total £m	PFI Assets included in Property, Plant and Equipment £m
Cost or valuation						
At 1 April 2014	**2,081.3**	**75.4**	**687.8**	**28.9**	**2,873.4**	**246.5**
Additions	33.7	5.4	106.5	10.9	156.5	0
Derecognition – disposals	(3.8)	0	0	0	(3.8)	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	15.5	0	0	0	15.5	0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(167.4)	0	0	0	(167.4)	(1.7)
Assets reclassified	1.6	0	0	0	1.6	0
At 31 March 2015	**1,960.9**	**80.8**	**794.3**	**39.8**	**2,875.8**	**244.8**
Depreciation and Impairment						
At 1 April 2014	**(110.5)**	**(42.4)**	**(80.5)**	**0**	**(233.4)**	**(4.2)**
Depreciation charge	(24.7)	(7.1)	(16.2)	0	(48.0)	(2.5)
Depreciation written out to the Revaluation Reserve	5.0	0	0	0	5.0	0
Depreciation written out to the surplus/deficit on the provision of services	38.6	0	0	0	38.6	1.7
Derecognition – disposals	0.2	0	0	0	0.2	0
At 31 March 2015	**(91.4)**	**(49.5)**	**(96.7)**	**0**	**(237.6)**	**(5.0)**
At 1 April 2014	**1,970.8**	**33.0**	**607.3**	**28.9**	**2,640.0**	**242.3**
At 31 March 2015	**1,869.5**	**31.3**	**697.6**	**39.8**	**2,638.2**	**239.8**

The waste treatment facilities figure within land and buildings also includes the value of equipment which is considered to be integral to the overall facility rather than the separate items of loose equipment.

20 SCHOOLS

At the beginning of the financial year the Council had 14 schools subject to PFI contracts, the buildings for which are shown on the Council's Balance Sheet together with the related liability.

Capital expenditure on schools is added to the balances for those schools as reported in the property, plant and equipment note.

Dedicated Schools Grant (DSG) is credited to the Comprehensive Income and Expenditure Statement based on amounts due from the Department for Education. (Further details are provided in Note 10).

DSG is allocated to budgets delegated to individual schools and centrally retained Council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the Comprehensive Income and Expenditure Statement under Children's and Education Services.

Schools included on the Council's Balance Sheet

31 March 2015			31 March 2016	
Number of Schools	Value of Land and Buildings £m		Number of Schools	Value of Land and Buildings £m
273	759.9	Community schools (excluding PFI schools)	269	711.3
11	131.8	Foundation schools (excluding PFI schools)	11	87.8
270	470.6	Voluntary- Aided Schools	269	495.3
50	84.7	Voluntary- Controlled Schools	50	88.0
604	**1,447.0**	**Total**	**599**	**1,382.4**
14	239.8	Schools included in the above subject to PFI contracts	14	121.4

21 HERITAGE ASSETS

Heritage assets are those non-current assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge or culture. The collections have been valued by in-house professionals.

Paintings, furniture and other artefacts

The Council's heritage assets are mainly contained within the Museum Service and the Libraries Special Collection. The museum service contains around 140,000 items which cover a variety of artefacts which are relevant to Lancashire's heritage including pictures, furniture, toys, medals and archaeological objects.

Manuscripts and books

Lancashire also holds a Libraries Special Collection which consists of publications held for their historical and cultural importance. Where these do not form part of the normal operations of the library service they are treated as heritage assets and a valuation made.

There have been no additions or disposals during the year and the values remain unchanged from 2014/15.

In addition, Lancashire County Council has an interest in 2 properties which are considered heritage assets but due to their nature it is not considered appropriate to place a value on them and therefore they are included at a nominal value of £1. These properties are Gawthorpe Hall a 17th century country house held on a long term lease from the National Trust and part of Ribchester Roman Bath House.

Lancashire County Council maintains accession registers for its heritage assets. Some of these records are published on the internet for as broad access as possible. Work is ongoing to migrate any paper records that accompany existing collections onto the computerised system. Access to collections (assets) and their records can be affected in a number of ways from virtual access to physical examination – either on display in temporary or longer term displays and exhibitions or on request from those held in store. For the latter a mutually convenient appointment is needed to view the item(s) concerned.

	Paintings and Furniture £m	Other Museum Artefacts £m	Manuscripts and Books £m	Total Heritage Assets £m
Cost or valuation				
At 31 March 2016	**3.0**	**11.1**	**14.6**	**28.7**

22 LONG TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
39.1	Transferred Debt [1]	35.6
35.1	Finance Lease Debtor [2]	33.3
74.2	**Total**	**68.9**

[1] Transferred debt is managed for other authorities as a result of various local government reorganisations, which is being repaid over time.
[2] Finance lease debtor is a long term debtor due to the Council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 29).

23 SHORT TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
23.0	Central Government bodies	13.3
25.0	Other local authorities	31.7
16.2	NHS bodies	7.6
0.1	Public corporations	0.1
16.7	Council tax	16.2
1.0	Non-domestic rates	0.8
53.8	Other entities and individuals	39.5
135.8	**Total**	**109.2**

Other debtors mainly comprise low value high volume debtors for supply of goods and services.

The figures in the above table represent the net debtor values after deduction for impairment allowances. The total deduction for impairment allowances was £41.8 million in 2015/16 (£34.8 million in 2014/15). The impairment allowance covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

24 CASH AND CASH EQUIVALENTS

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

31 March 2015 £m		31 March 2016 £m
0.8	Cash held by the Council	0.7
22.2	Bank current accounts	33.3
107.3	Short term deposits under 3 months	10.7
130.3	**Total**	**44.7**

25 SHORT TERM CREDITORS

31 March 2015 £m		31 March 2016 £m
(19.8)	Central Government bodies	(19.9)
(14.8)	Other local authorities	(17.4)
(5.3)	NHS bodies	(7.2)
(0.2)	Public corporations and trading funds	(0.4)
(164.4)	Other entities and individuals	(128.4)
(204.5)	**Total**	**(173.3)**

Central Government bodies include creditors in respect of PAYE and NI of £13.2 million (£14.0 million in 2014/15).

Other creditors mainly comprise low value high volume creditors for the purchase of goods and services with the exception of £4.5 million (£7.5 million 2014/15) for capital creditors, waste payments £4.8 million (£4.3 million in 2014/15) and adult social care non-residential placements £12.1 million (£12.0 million in 2014/15).

26 PROVISIONS

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

	Balance at 1 April 2015 £m	Additional provision made in 2015/16 £m	Spending met from the provision in 2015/16 £m	Unused amounts reversed in 2015/16 £m	Balance at 31 March 2016 £m
Long term provisions					
Insurance provision	(10.4)	(12.7)	7.8	0	(15.3)
MMI provision	(3.2)	(0.3)	0	0	(3.5)
Other long term provisions	(0.2)	0	0	0	(0.2)
Total long term provisions	**(13.8)**	**(13.0)**	**7.8**	**0**	**(19.0)**
Short term provisions					
NNDR appeals	(5.2)	(7.6)	5.2	0	(7.6)
Early retirement	(10.0)	(1.4)	5.6	2.9	(2.9)
Other short term provisions	(2.8)	(0.1)	0.6	0.6	(1.7)
Total short term provisions	**(18.0)**	**(9.1)**	**11.4**	**3.5**	**(12.2)**
Total provisions	**(31.8)**	**(22.1)**	**19.2**	**3.5**	**(31.2)**

Insurance provision

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

Municipal Mutual Insurance (MMI)

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

NNDR appeals

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

Early retirement provision

This provision is for future voluntary redundancy costs.

Other Provisions

All other provisions are individually insignificant.

27 FINANCIAL INSTRUMENTS

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and Government grants do not give rise to financial instruments.

Financial assets

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
63.8	74.6	138.4	Loans and receivables	53.0	10.3	**63.3**
198.4	0	198.4	Available for sale financial assets	392.0	0	**392.0**
0	193.2	193.2	Financial assets at fair value through profit and loss	0	109.4	**109.4**
262.2	**267.8**	**530.0**	**Total investments**	**445.0**	**119.7**	**564.7**
0	130.3	130.3	Cash and cash equivalents	0	44.7	**44.7**
74.2	108.3	182.5	Debtors *	68.9	76.3	**145.2**
336.4	**506.4**	**842.8**	**Total financial assets**	**513.9**	**240.7**	**754.6**
***** *The debtors figure stated is lower than the debtors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial asset – receipts in advance and non-exchange transactions*						
0	*27.5*	*27.5*		*0*	*32.9*	*32.9*

Financial liabilities

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(467.6)	(574.1)	(1,041.7)	Financial liabilities at amortised cost	(583.4)	(399.2)	**(982.6)**
0	# (161.5)	(161.5)	Creditors *	0	(127.0)	**(127.0)**
(167.8)	(4.6)	(172.4)	Other financial liabilities (PFI) at amortised cost	(163.1)	(4.6)	**(167.7)**
(635.4)	**(740.2)**	**(1,375.6)**	**Total financial liabilities**	**(746.5)**	**(530.8)**	**(1,277.3)**
***** *The creditors figure stated is lower than the creditors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions*						
0	*43.0*	*43.0*		*0*	*46.3*	*46.3*

The prior year creditors figure has been restated.

Income, expense, gains and losses on financial instruments

The gains and losses on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following tables:

2015/16

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans and Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m
Interest expense	34.7	0	0	0	34.7
Fee expense	0.7	0	0	0	0.7
Total expense in surplus on the provision of services	**35.4**	**0**	**0**	**0**	**35.4**
Interest income	0	(4.9)	(6.5)	(1.6)	(13.0)
Decreases in fair value	0	0	0	0.4	0.4
Gains on de-recognition	0	0	(11.5)	(6.7)	(18.2)
Loss on de-recognition	0	0.8	1.6	0.5	2.9
Total income in surplus on the provision of services	**0**	**(4.1)**	**(16.4)**	**(7.4)**	**(27.9)**
(Gain)/loss on revaluation	0	0	2.2	0	2.2
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**2.2**	**0**	**2.2**
Total net (gain)/loss for the year	**35.4**	**(4.1)**	**(14.2)**	**(7.4)**	**9.7**

2014/15

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans and Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit and Loss £m	Total £m
Interest expense [1]	67.9	0	0	0	67.9
Fee expense	0.5	0	0	0	0.5
Total expense in surplus on the provision of services	**68.4**	**0**	**0**	**0**	**68.4**
Interest income	0	(4.9)	(5.1)	(1.1)	(11.1)
Decreases in fair value	0	0	0	0.1	0.1
Gains on de-recognition	0	0	(14.7)	(66.0)	(80.7)
Loss on de-recognition	0	0.5	1.2	7.6	9.3
Total income in surplus on the provision of services	**0**	**(4.4)**	**(18.6)**	**(59.4)**	**(82.4)**
(Gain)/loss on revaluation	0	0	(20.8)	0	(20.8)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**(20.8)**	**0**	**(20.8)**
Total net (gain)/loss for the year	**68.4**	**(4.4)**	**(39.4)**	**(59.4)**	**(34.8)**

[1] This includes a premium of £24.3 million in relation to the refinancing of waste treatment facilities

Fair value of financial assets and liabilities

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

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

Fair value of financial assets

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial assets held at fair value			
		Available for sale financial assets			
38.1	38.1	Local authority bonds	2	37.8	37.8
160.3	160.3	Bond, equity and property funds	1	354.2	354.2
198.4	**198.4**	**Sub total**		**392.0**	**392.0**
		Financial assets at fair value through profit and loss			
193.2	193.2	Bond, equity and property funds	1	109.4	109.4
		Financial assets held at amortised cost			
56.9	59.0	Long term bank deposits	2	46.9	49.1
35.1	39.6	Lease receivables	3	33.3	37.2
39.1	34.8	Transferred debt receivables	2	35.6	35.5
6.9	7.9	Long term loans to companies	3	6.1	6.9
138.0	**141.3**	**Sub total**		**121.9**	**128.7**
529.6	**532.9**	**Total**		**623.3**	**630.1**
313.1		**Assets for which fair value is not disclosed ***		131.3	
842.8		**Total financial assets**		**754.6**	
		Recorded on Balance Sheet as:			
74.2		Long term debtors		68.9	
262.2		Long term investments		445.0	
108.3		Short term debtors		76.3	
267.8		Short term investments		119.7	
130.3		Cash and cash equivalents		44.7	
842.8		**Total financial assets**		**754.6**	

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

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made. This shows a notional future profit (based on economic conditions at 31 March 2016) attributable to the commitment to receive interest above current market rates.

Fair value of financial liabilities

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial liabilities held at amortised cost			
338.9	385.9	Long term PWLB loans	2	338.9	389.8
52.2	106.9	Long term LOBO loans	2	52.1	106.9
76.5	79.1	Other long term loans	2	192.5	195.7
172.4	283.7	PFI liabilities	3	167.7	263.9
640.0	**855.6**	**Total**		**751.2**	**956.3**
735.6		**Liabilities for which fair value is not disclosed ***		526.1	
1,375.6	**855.6**	**Total financial liabilities**		**1,277.3**	**956.3**
		Recorded on Balance Sheet as:-			
161.5		Short term creditors		127.0	
574.1		Short term borrowings		399.2	
467.6		Long term borrowings		583.4	
172.4		Other long term liabilities		167.7	
1,375.6		**Total financial liabilities**		**1,277.3**	

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

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the Authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the balance sheet date.

This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

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 3 main credit rating agencies. The strategy also imposes a maximum sum and duration which the County Council can invest in an institution. This is dependent upon the quality of credit rating and in 2015/16 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 2015/16 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 2016 and summarises the Council's investments as at 31 March 2016 (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 £1.91 million in £441.9 million or 0.43% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	**<1m**	**<3m**	**<6m**	**<1yr**	**<2yr**	**<5yr**	**<10yr**	**>10yr**	**Total**
Total Investments (£m)	**10.7**	**4.0**	**10.0**	**0.0**	**39.9**	**122.5**	**16.1**	**238.7**	**441.9**
Historic default rate (AA-, %)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.72	
Historic default rate (A+, %)	0.0	0.0	0.0	0.0	0.07	0.29	0.09	0.74	
Historic default rate (A, %)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Exposure to default (£m)	**0.0**	**0.0**	**0.0**	**0.00**	**0.07**	**0.29**	**0.09**	**1.46**	**1.91**

Comparative data for 2014/15 can be seen below:

Credit Risk	**<1m**	**<3m**	**<6m**	**<1yr**	**<2yr**	**<5yr**	**<10yr**	**>10yr**	**Total**
Total Investments (£m)	107.2	35.0	0.0	55.0	55.3	171.5	33.4	128.8	586.2
Exposure to default (£m)	**0.0**	**0.01**	**0.0**	**0.08**	**0.05**	**0.58**	**0.23**	**0.85**	**1.8**

The maximum single commercial exposure is to London Greater Authority at £25.0 million (2014/15 £87.0 million to Svenska Handelsbanken), which is lower than the individual counterparty limit of £100 million for investments. Overall the portfolio is diversified by the use of counterparties.

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

Liquidity risk

Liquidity risk is the danger that, at any time, the Council will have insufficient funds in its bank account to make the payments necessary to meet its 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 Council has ready access to borrowings from the money markets and the Public Works Loans Board and access to the investment portfolio which is also considered to be liquid. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. 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 Director of Financial Resources 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 Council is exposed in its financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that the Council holds are affected in different ways by changes in market interest rates.

Movement in interest rates have a complex impact on the 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 a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by 2 factors:

- Maturing and available for sale short term investments which could be used to pay down debt, should it become cost effective to do so.
- A long term £50 million loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is 7.5% 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.

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 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 following table attempts to quantify the interest rate risk looking back at the 31 March 2016 position.

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

	2015/16 £m
Increase in interest payable on variable rate borrowings	3.6
Increase in interest receivable on variable rate investments	(0.2)
Decrease in fair value of investments held for trading*	0.0
Impact on surplus on the provision of services	**3.4**
Decrease in fair value of fixed rate available for sale investment assets	(91.1)
Impact on other comprehensive income and expenditure	
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus on the Provision of Services or Other Comprehensive Income and Expenditure)	(7.8)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the surplus 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 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 PRIVATE FINANCE INITIATIVE (PFI)

Fleetwood High School

The Council signed a PFI contract with Fleetwood PPP Limited in 2001 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 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 1.37% is made for future inflation within the model.

Payments remaining to be made under the PFI contract at 31 March 2016 (excluding any availability/performance deductions) are as follows:

	Payment for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m
Payment in 2016/17	0.4	0.3	1.1	1.8
Payment within 2 to 5 years	1.3	2.2	3.9	7.4
Payment within 6 to 10 years	2.2	3.7	3.5	9.4
Payment within 11 to 15 years	0.4	1.5	0.7	2.6
Total	**4.3**	**7.7**	**9.2**	**21.2**

The Council received the following contributions towards the cost of the PFI scheme:

31 March 2015 £m		31 March 2016 £m
(1.3)	PFI grant from the Government	(1.3)
(0.4)	Contributions from the school	(0.4)
(1.7)	**Total**	**(1.7)**

Building Schools for the Future (BSF)

The Building Schools for the Future programme aimed to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 4 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 1.37% is made for future inflation within the model.

Consolidated payments remaining to be made under the PFI contract as at 31 March 2016 for the 4 phases above (excluding any availability/performance deductions) are as shown in the following table:

	Payment for Services £m	Repayment of Liability £m	Interest Charges £m	Total Payments Due £m
Payment in 2016/17	8.5	5.0	15.0	28.5
Payment within 2 to 5 years	39.7	20.8	55.3	115.8
Payment within 6 to 10 years	57.6	33.9	57.3	148.8
Payment within 11 to 15 years	64.3	49.2	40.3	153.8
Payment within 16 to 20 years	39.7	51.1	16.3	107.1
Total	**209.8**	**160.0**	**184.2**	**554.0**

The Council received the following contributions towards the cost of the PFI scheme:

31 March 2015 £m		31 March 2016 £m
(20.5)	PFI grant from the Government	(20.5)
(8.8)	Contributions from the school	(8.9)
(0.1)	Contributions from the local authority	(0.1)
(29.4)	**Total**	**(29.5)**

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 the contractor for capital expenditure incurred is as follows:

31 March 2015 £m		31 March 2016 £m
(177.1)	**Balance outstanding at start of year**	(172.4)
4.7	Payments during the year	4.7
(172.4)	**Balance outstanding at year end**	(167.7)

Under all these contracts (Fleetwood High School 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, and (iii) third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

The 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 PFIs are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, by either the Council or by the contractor. This may be in the form of voluntary termination by the Council, termination by the contractor on Council default, or termination by the Council on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

29 LEASES

Council as lessor – finance leases

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

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

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

31 March 2015 £m		31 March 2016 £m
0.9	Current	0.9
34.2	Non-current	33.3
20.0	Unearned finance income	18.7
55.1	**Gross investment in the finance lease**	**52.9**

The gross investment in the finance lease will be received over the following periods:

31 March 2015			31 March 2016	
Gross Investment £m	Minimum Lease Payments £m		Gross Investment £m	Minimum Lease Payments £m
2.2	0.9	Not later than one year	2.2	0.9
9.0	3.8	Later than one year and not later than 5 years	9.0	4.0
43.9	30.4	Later than 5 years	41.7	29.3
55.1	**35.1**	**Total**	**52.9**	**34.2**

30 RESERVES

Usable reserves

Movements in the Council's usable reserves are shown in the Movement in Reserves Statement and further details on the earmarked reserves are shown in Note 16.

Unusable reserves

The table below gives details of the Council's unusable reserves:

31 March 2015 £m		31 March 2016 £m
6.6	Available for Sale Financial Instruments Reserve	8.8
48.2	Financial Instruments Adjustment Account	45.0
(674.2)	Revaluation Reserve	(724.9)
(1,020.0)	Capital Adjustment Account	(1,047.5)
1,238.2	Pensions Reserve	1,049.9
(6.4)	Collection Fund Adjustment Account	(3.6)
23.2	Accumulated Absences Adjustment Account	23.2
(384.4)	**Total**	**(649.1)**

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.

2014/15 £m		2015/16 £m
27.4	**Balance at 1 April**	**6.6**
(20.8)	Upward revaluation of investments	0
0	Downward revaluation of investments not charged to the surplus/deficit on the provision of services	2.2
6.6	**Balance at 31 March**	**8.8**

Financial Instruments Adjustment Reserve

The Financial Instruments Adjustment Account absorbs the timing 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.

2014/15 £m		2015/16 £m
27.1	**Balance at 1 April**	**48.2**
24.3	Premiums incurred in year and charged to the Comprehensive Income & Expenditure Statement [1]	0
(3.2)	Proportion of premiums incurred in previous financial years to be charged against County Fund balance	(3.2)
48.2	**Balance at 31 March**	**45.0**

[1] Relates to the refinancing of waste treatment facilities.

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.

2014/15 £m		2015/16 £m
(665.0)	**Balance at 1 April**	**(674.2)**
(59.4)	Upward revaluation of assets	(164.2)
38.9	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	100.9
(20.5)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(63.3)**
10.1	Difference between fair value depreciation and historical cost depreciation	10.7
1.2	Accumulated gains on assets sold or scrapped	1.9
11.3	**Amount written off to the Capital Adjustment Account**	**12.6**
(674.2)	**Balance at 31 March**	**(724.9)**

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 enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

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

2014/15 £m		2015/16 £m
(999.8)	**Balance at 1 April**	**(1,020.0)**
	Reversal of items relating to capital expenditure charged to the Comprehensive Income and Expenditure Statement	
48.0	Charges for depreciation and impairment of non-current assets	45.7
128.8	Revaluation losses on property, plant and equipment including assets held for sale	112.5
3.9	Amortisation of intangible assets	4.4
18.9	Revenue expenditure funded from capital under statute	30.1
6.0	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	4.8
(6.3)	Write down of PFI liability	(4.7)
(11.3)	Adjusting amount written out of the Revaluation Reserve	(12.6)
(811.8)	**Net written out amount of the cost of non-current assets consumed in the year**	**(839.8)**
	Capital financing applied in the year	
(125.5)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(134.6)
(25.3)	Application of capital grants to capital financing from the Capital Grants Unapplied Account	(18.1)
(11.4)	Application of capital receipts to capital financing from the Capital Receipts Reserve	(26.5)
(30.2)	Statutory provision for the financing of capital investment charged against the County Fund	(19.4)
(15.8)	Capital expenditure charged against the County Fund	(6.9)
(208.2)		**(205.5)**
0	Movements in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement	(2.2)
(1,020.0)	**Balance at 31 March**	**(1,047.5)**

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 the pension fund.

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.

2014/15 £m		2015/16 £m
905.1	**Balance at 1 April**	**1,238.2**
301.9	Remeasurement of the net defined benefit liability/(asset)	(228.7)
125.0	Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	132.4
(93.8)	Employer's pension contributions and direct payments to pensioners payable in the year	(92.0)
1,238.2	**Balance at 31 March**	**1,049.9**

31 POST-EMPLOYMENT BENEFITS

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 2014 and on revalued average salary (a "career average" scheme) for service from 1 April 2014 onwards.

At 31 March 2016 the Council'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 3 years. The latest actuarial valuation of the Fund was carried out at 31 March 2013, and at that date showed a funding level of 78% (assets of £5.0 billion against accrued liabilities of about £6.4 billion). 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 Council 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 Council's costs in relation to this arrangement are set by central government as a percentage of contributing members' pay. The related funding risks are borne by central government. The Council is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement.

Health workers

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

Government and risk management

The liability associated with the Council's pension arrangements is material to the Council, 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 3 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 18 years in order to meet the shortfall.

The weighted average duration of the Council'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 Council'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 outlined above for service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. 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 Council's assets and liabilities as a result of employing members who have accrued benefits with the Council.

Schemes for teachers and transferred NHS staff

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the Council. Again, the Council 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 Council 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		Teachers' Pension Scheme	
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m
Comprehensive Income and Expenditure Statement				
Cost of services				
Current service cost	73.0	91.0	0	0
Past service cost	0.1	0	0	0
(Gain)/loss from settlements and curtailments	12.9	2.1	0	0
Administration expenses	1.5	1.4	0	0
Financing and Investment Income and Expenditure				
Net Interest expense	31.8	33.6	5.8	4.3
Total post-employment benefit charged to the surplus or deficit on the provision of services	**119.3**	**128.1**	**5.8**	
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(172.3)	(38.1)	0	0
Actuarial (gains)/losses arising on changes in financial assumptions	463.8	(186.8)	10.4	(3.8)
Total re-measurement recognised in Other Comprehensive Income				
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**410.8**	**96.8**	**16.2**	**0.5**
Movement in Reserves Statement				
Reversal of net charges made to the (surplus)/deficit on the provision of services for post-employment benefits in accordance with the Code	119.3	128.1	5.8	4.3
Actual amount charged against the General Fund balance for pensions in the year				
Employers' contributions payable to the scheme	**82.9**	**81.2**	**10.9**	**10.7**

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 Council'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

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

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

In 2015/16 £50.3 million was paid to the Department for Education for teachers' pension costs. This represents 14.1% of teachers' pensionable pay (£45.9 million and 14.1% in 2014/15).

In 2015/16 the Council paid £0.4 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14% of pensionable pay (£0.5m and 14% in 2014/15)

The Council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2015/16 these amounted to £8.3 million, representing 2.6% of pensionable pay (£8.5 million and 2.6% in 2014/15).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, a re-measurement of the net defined liability gain of £228.7 million (£301.9 million loss in 2014/15) was included. The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss £249.6 million.

Assets and liabilities in relation to retirement benefits

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

Lancashire County Pension Fund

2014/15 £m		2015/16 £m
2,093.0	**Opening balance as at 1 April**	**2,353.6**
172.3	Re-measurement (assets)	75.2
92.0	Interest on plan assets	38.1
(1.4)	Admin expenses	(1.4)
0	Settlements	(0.8)
82.9	Employer contributions	81.2
22.5	Contributions from scheme participants	21.8
(107.7)	Benefits/transfers paid	(110.8)
2,353.6	**Closing balance as at 31 March**	**2,456.9**

Reconciliation of present value of the scheme liabilities

	Funded liabilities: Lancashire County Pension Fund		Unfunded liabilities: Teachers' Pension Scheme	
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m
Opening balance as at 1 April	**(2,858.0)**	**(3446.4)**	**(140.0)**	**(145.3)**
Current service cost	(73.0)	(91.0)	0	0
Interest on pension liabilities	(123.9)	(108.8)	(5.8)	(4.3)
Contributions from scheme participants	(22.5)	(21.8)	0	0
Benefits/Transfers paid	107.8	110.8	10.9	0
Curtailment cost	(12.9)	(3.4)	0	0
- Gain/loss from settlements	0	2.1	0	0
- Past service cost	(0.1)	0	0	10.7
Re-measurement gains and (losses):				
- Actuarial gains/(losses) arising from changes in financial assumptions	(463.8)	186.8	(10.4)	3.8
Closing balance as at 31 March	**(3,446.4)**	**(3,371.7)**	**(145.3)**	**(135.1)**

Local Government Pension Scheme assets comprised:

31 March 2015 £m	Asset category	Quoted in active markets (Y/N)	31 March 2016 £m
114.0	**Cash and cash equivalents**	N	**84.5**
	Equity instruments (by industry type):		
260.2	Consumer	Y	266.8
144.8	Manufacturing	Y	136.9
52.6	Energy and utilities	Y	51.3
139.5	Financial institutions	Y	149.0
80.0	Health and care	Y	89.1
133.1	Information technology	Y	151.2
810.2	**Sub-total equity**		**844.3**
	Bonds (by sector):		
32.7	Corporate	Y	50.0
73.9	Government	Y	49.4
106.6	**Sub-total bonds**		**99.4**
	Property (by type):		
95.7	Retail	N	84.2
125.9	Commercial	N	152.0

221.6	**Sub-total property**		**236.2**
	Private equity:		
59.1	UK	N	40.1
83.7	Overseas	N	107.9
142.8	**Sub-total private equity**		**148.0**
	Other investment funds:		
131.0	Infrastructure	N	196.3
17.2	Property	N	33.9
810.2	Miscellaneous	N	814.3
958.4	**Sub-total other investment funds**		**1,044.5**
2,353.6	**Total assets**		**2,456.9**

Scheme history

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

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Present value of scheme liabilities					
Local Government Pensions Scheme	(2,555.4)	(2,986.1)	(2,858.0)	(3,446.4)	(3,371.7)
Teachers' Pensions Scheme	(137.4)	(150.1)	(140.1)	(145.4)	(135.1)
Fair value of assets in the Lancashire County Pension Fund	**1,753.2**	**2,009.1**	**2,093.0**	**2,353.6**	**2,456.9**
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(802.2)	(977.0)	(765.0)	(1,092.8)	(914.8)
Teachers' Pensions Scheme	(137.4)	(150.1)	(140.1)	(145.4)	(135.1)
Total	**(939.6)**	**(1,127.1)**	**(905.1)**	**(1,238.2)**	**(1,049.9)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,049.9 million in 2015/16 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in net assets of £1,138.2 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 2017 are £55 million. Expected contributions for the Teachers and Health Workers in the year to 31 March 2017 are £46.3 million and £0.3 million 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 2013.

The principal assumptions used by the actuary have been as follows:

2014/15		2015/16
Mortality assumptions		
Longevity at 65 for current pensioners		
22.9 years	Male	23.0 years
25.4 years	Female	25.6 years
Longevity at 65 for future pensioners		
25.1 years	Male	25.2 years
27.8 years	Female	27.9 years
Financial assumptions		
2.00%	Rate of CPI inflation	2.00%
3.50%	Rate of increase in salaries	3.50%
2.00%	Rate of increase in pensions	2.00%
3.20%	Rate for discounting scheme liabilities	3.50%

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 March 2015 %		31 March 2016 %
49.2	Equity investments	48.4
4.5	Bonds	4.0
46.3	Other assets	47.6
100.0	**Total**	**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 Council 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 £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	66.0	(66.0)
Rate of inflation (increase or decrease by 1%)	611.2	(611.2)
Rate of increase in salaries (increase or decrease by 1%)	137.2	(137.2)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(600.3)	600.3

32 CASH FLOWS FROM OPERATING ACTIVITIES

The net surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement has been subject to the following adjustments in order to arrive at the net cash flows from operating activities:

The cash flows for operating activities include the following items:

31 March 2015 £m		31 March 2016 £m
(83.9)	Interest received	(28.7)
41.2	Interest paid	35.1

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

31 March 2015 £m		31 March 2016 £m
(48.0)	Depreciation	(43.5)
(128.8)	Impairment and downward valuations	(117.5)
(3.9)	Amortisation of intangible assets	(3.3)
3.8	Increase/(decrease) in provision for bad debts	7.0
21.1	(Increase)/decrease in creditors	1.4
15.0	Increase/(decrease) in debtors	(19.8)
(0.2)	Increase/(decrease) in inventories	(0.3)
(31.2)	Movement in pension liability	(40.4)
(6.0)	Carrying amount of non-current assets sold	(4.7)
(5.3)	Other non-cash items charged to the surplus or deficit on the provision of services	(1.0)
(183.5)	**Total**	**(222.1)**

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

31 March 2015 £m		31 March 2016 £m
71.9	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	16.1
13.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11.2
152.2	Capital grants credited to the surplus on the provision of services	177.2
237.2	**Total**	**204.5**

33 CASH FLOWS FROM INVESTING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
166.3	Purchase of property, plant and equipment, investment property and intangible assets	159.0
12,186.0	Purchase of short term and long term investments	6,280.6
35.5	Other payments for investing activities	0
(13.1)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.5)
(12,282.0)	Proceeds from the sale of short term and long term investments	(6,235.7)
(151.6)	Other capital grants and receipts from investing activities	(195.3)
(58.9)	**Net cash flows from investing activities**	**2.1**

34 CASH FLOWS FROM FINANCING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
(1,275.5)	Cash receipts from short term and long term borrowing	(1,104.5)
3.7	Appropriate to/from Collection Fund Adjustment Account	(2.9)
1,059.1	Repayment of short term and long term borrowing	1,163.9
227.6	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	4.7
14.9	**Net cash flows from financing activities**	**61.2**

35 RELATED PARTIES

The Council is required to disclose material transactions with related parties - bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

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

Members

Members of the County Council have direct control over the Council's financial and operating policies.

The total of Members' allowances paid in 2015/16 is shown in Note 12.

Under Section 81 the Local Government Act 2000, their outside interests are recorded in a formal register, The Register of Interest, which is available for public 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://www.lancashire.gov.uk/council/transparency/registers/county-councillors-register-of-interests/

The Council's 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.

All councillors are required to complete a declaration regarding any interests which they or a family member has in any organisations that has dealings with the Council. These interests include:

- Roles with voluntary organisations and charities which receive grants from the Council.
- Roles where they have significant influence/control within limited companies that hold contracts with the Council
- Family members that have significant influence/control within any organisation that has dealings with the Council.

There were a number of transactions that were identified between Lancashire County Council and these organisations.

None of the transactions were considered to be significant to Lancashire County Council.

- County Councillor Jackie Oakes is a board member of Rosso (Rossendale Transport Limited), the organisation received payments totalling £1,361,458.
- County Councillor Jennifer Mein is a member of the Council of Governors for Lancashire Teaching Hospitals NHS Foundation Trust and is a trustee at Emmaus Preston. Lancashire Teaching Hospitals NHS Foundation Trust received payments totalling £271,039 and Emmaus Preston received payments totalling £7,240.
- County Councillor Susie Charles is a board member of Dukes Playhouse, the organisation received payments totalling £164,607.
- County Councillor Ian Brown is a board member of Ribble Valley Homes, the organisation received payments totalling £92,306.
- County Councillor Alyson Barnes is the chair of RTB Partnership, the organisation received payments totalling £72,661.
- County Councillors David O'Toole, Liz Oades, Jeff Sumner, Miles Parkinson and John Shedwick are board members of Lancashire Fire & Rescue, the organisation received payments totalling £45,171.
- County Councillor John Shedwick is a board member of Blackpool Grand Theatre Trust Limited, the organisation received payments totalling £10,654.
- County Councillor Carl Crompton is a board member of Gift 92, the charity received payments totalling £5,237.
- County Councillor Jackie Oakes is a trustee at Stacksteads Countryside Park Group, the organisation received payments totalling £2,150.
- County Councillor Mike Otter is a trustee at Community Futures, the organisation received payments totalling £521.
- County Councillor Peter Buckley provided music workshops to Lancashire County Council, he received two payments totalling £510.

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

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

In 2015/16 the following interests were declared:

- Steve Browne, Corporate Director of Commissioning and Deputy Chief Executive is also chairman of the board of Preston's College. The College received payments totalling £757,829.
- Damon Lawrenson was appointed as interim Director of Financial Resources from March 2015 until March 2016. Payments totalling £140,270.30 excluding VAT were made to the company DDL Consultancy Limited in 2015/16 of which Damon was a director.

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 (£4.5 million in 2014/15) 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 £81.4 million to the fund in 2015/16 (£79.5 million in 2014/15). 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 County Council.

On 8 April 2016 Lancashire County Council entered into a joint venture with the London Pensions Fund Authority for the pooling of the executive functions of the 2 organisations together with the investment assets of the 2 funds.

The staff involved in the operation of the 2 funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April.

LPP will operate the 2 pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

Interests in companies and other entities

Lancashire County Council has chosen to conduct activities through a variety of undertakings, either through ultimate control of or in partnership with other organisations. Copies of the company accounts are available from the following address (unless otherwise stated):

PO Box 78
County Hall
Preston
Lancashire
PR1 8XJ

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity.

An assessment of all of the Council's interests has been carried out to determine which of the following categories they fall under. Where an entity is considered to be immaterial, they are not included in the group accounts.

Subsidiaries

Subsidiaries are entities that the authority controls subject to the following applying:

- power over the entity
- exposure, or rights, to variable returns from its involvement with entity, and

- the ability to use its power over the entity to affect the amount of the authority's returns.

The following companies are considered subsidiaries of Lancashire County Council, however, the majority are not considered to be material and have been excluded from the Council's group accounts with the exception of Lancashire County Developments Limited.

Lancashire County Developments Limited

Lancashire County Developments Limited (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 Lancashire County Council. The transactions of LCDL are included within the Council's group accounts on page 145.

Global Renewables Lancashire Operations Limited

Global Renewables Lancashire Limited (GRLL) is a private sector special purpose vehicle that was established to design, build, finance and operate a network of waste management facilities in the county for the reception, treatment, transportation and disposal of waste, along with a number of related services on behalf of Lancashire County Council and Blackpool Council in connection with the Councils' waste PFI project.

The services were delivered under the terms of a subcontract between GRLL and an operating company, Global Renewables Lancashire Operations Limited (GRLOL). On 31 July 2014 the operating company's entire issued share capital (3,600,001 shares) was acquired by Lancashire County Council for £1, with the intention that a 12.5% shareholding would subsequently be transferred to Blackpool Council. The company's board of directors currently comprises 5 County councillors and one Blackpool councillor.

Lancashire County Council and Blackpool Council make bi-monthly payments to fund the running of GRLOL and reimburse GRLOL monthly for payments to third party specialist waste disposal companies.

Payments to GRLOL from 1 April 2015 to 31 March 2016 were £23,200,738 for the running and lifecycle costs and £16,229,314 for the reimbursed costs. Payments to Lancashire County Council from GLROL for the year to 31 March 2016 were £90,915. At 31 March 2016 the amount owed by Lancashire County Council to GRLOL was £2,202,878. The amount owed to Lancashire County Council from GLROL at 31 March 2016 was £2,526,899. These all exclude Blackpool Council's 12.5% share where relevant.

Lancashire Sports Partnership Limited

Lancashire Sports Partnership Limited is a County Sports Partnership and a leading grassroots sports and physical activity charity covering the 15 local authorities of the sub region in Lancashire. The aim of the organisation is to increase and sustain participation in, and widen access to sport and physical activity across the county and support the improving of the health and wellbeing of its Communities. The organisation has been established since 2001 and in March 2009 became a company limited by guarantee with a board of trustees. In January 2015 the organisation was incorporated as a charity. Lancashire County Council is the sole owner and has 100% of the voting rights.

During the year, the company received £12,000 of funding (£15,000 in 2014) from its member, Lancashire County Council. The company paid £22,441 (£6,106 in 2014) to Lancashire County Council for the use of various services and facilities.

A copy of the accounts can be obtained from:

Lancashire Sport Partnership Limited
Farington House
Lancashire Business Park
Leyland
Preston
PR26 6TW

Lancashire Workforce Development Partnership Limited

Lancashire Workforce Development Partnership Limited is a company limited by guarantee providing support through products and services designed to improve the skills and knowledge of the independent and private social care sector workforce within the Lancashire County Council boundaries. It is controlled by Lancashire County Council within the meaning of Part V of the Government and Housing Act (1989) with a liability limited to £1. Lancashire County Council is the sole owner and has 100% of the voting rights.

An amount of £500,000 (£700,000 in 2014/15) was received in the year under a service agreement with Lancashire County Council. Lancashire Workforce Development Partnership also paid £52,221 in contributions (£45,446 in 2014/15) to the Local Government Pension Scheme administered by Lancashire County Council.

Lancashire Enterprise Partnership Limited

The Lancashire Enterprise Partnership Limited (LEP) was incorporated in September 2010 and is wholly owned by Lancashire County Council. The LEP is a strategic organisation which directs economic development growth and drives job creation.

LCC Building Schools for the Future

LCC Building Schools for the Future (LCC BSF) was incorporated in December 2006 to facilitate the Council's investment in the East Lancashire Local Education Partnership. The investment in the East Lancashire Local Education Partnership was sold during 2015/16.

Lancashire County Council is the sole member of LCC BSF and has 100% of the voting rights.

The amount owed by Lancashire County Council to LCC BSF at 31 March 2016 was £16,203 and the amount owed to Lancashire County Council from LCC BSF at 31 March 2016 was £182,732.

Marketing Lancashire Limited (formerly Lancashire and Blackpool Tourist Board Limited)

Marketing Lancashire Limited was created in 2004. It is one of 4 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. Lancashire County Council is the sole owner and has 100% of the voting rights.

During the year, the company declared purchases of £1,331 (£22,085 in 2014/15) from Lancashire County Council. Sales for the year to Lancashire County Council were £272,983 (£82,766 in 2014/15). Amounts owed by Lancashire County Council to Marketing Lancashire as at 31 March 2016 amounted to £14,850 (£1,382 in 2014/15).

Healthwatch Lancashire Limited

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

Healthwatch is the independent consumer champion for both health and social care. It exists in 2 distinct forms – local Healthwatch, at local level, and Healthwatch England at national level. The aim of Healthwatch Lancashire is 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 also provides or signposts people to information to help them make choices about health and care services.

During the year, Healthwatch Lancashire Limited received funding of £638,000 (£788,000 in 2014/15) from Lancashire County Council.

Associates

Associates are entities for which the authority is an investor that has significant influence.

Significant influence is the power to participate in the financial and operating policy decisions of the investee. It is presumed that holding more than 20% of the voting power of an investee brings significant influence.

The following companies are associate companies of Lancashire County Council, however, they are not considered to be material and are, therefore, excluded from the group accounts.

Lancashire Environmental Fund Limited

Lancashire Environmental Fund Limited 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 and has 25% voting rights. The other shareholders in Lancashire Environmental Fund Limited are SITA, Community Futures Limited and Lancashire Wildlife Trust. County Councillor J Hanson was the Chairman of the charitable company.

Public Transport Information Limited

Public Transport Information (PTI) Limited 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 members is limited to £1. The members of this company are Lancashire County Council 40%, Blackpool Council 5%, Blackburn with Darwen Borough Council 5% and Public Transport Operators 50%.

Lancashire County Council made contributions to the company of £40,788 (£47,778 in 2014) during the year. During the year Public Transport Information Limited issued a rebate of prior periods contributions totalling £21,600. Public Transport Information Limited acquired licences with a total cost of £3,455 (£3,400 in 2014) on behalf of Lancashire County Council which were subsequently recharged at cost, to the County Council. Lancashire County Council were also reimbursed expenses incurred on behalf of Public Transport Information Limited, these expenses totalled £28,633 (£nil in 2014). At the year end, Lancashire County Council were owed £25,920 (£nil in 2014) by Public Transport Information Limited. No amounts were owed to Lancashire County Council at the end of the year.

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

Joint ventures

Joint ventures are arrangements under which two or more parties have contractually agreed to share control, such that decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control, and joint venturers have rights to the net assets of the arrangement.

The following companies are considered to be joint ventures:

New Era Trust Limited

New Era Trust Limited provides community services to the residents of Hyndburn. It is a company limited by guarantee and the liability of members is limited to £1. The members are Lancashire County Council and Hyndburn Borough Council, each with a 50% share.
Lancashire County Council, currently has one representative on the board of the Trust. During the year, there were no transactions between Lancashire County Council and New Era Trust Limited.

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.

Via Partnership Limited (formerly CXL and CX Limited)

CXL was incorporated on 11 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. Senior representatives of the 3 councils are members of the board.

In 2013/14 the 3 shareholders of Via Partnership Limited provided an interest bearing commercial loan of £1 million for working capital purposes to be repaid over the next 8 to 10 years, based on their respective shareholding. (Lancashire County Council £400,000, Blackburn with Darwen Borough Council £300,000 and Blackpool Council £300,000).

During the period April 2015 to December 2015, the company declared purchases of £7,288 (£50,631 in 2014/15) from Lancashire County Council. Sales for the period April 2015 to December 2015 to Lancashire County Council were £43,872 (£472,743 in 2014/15).

The Via Partnership Limited were placed in administration on 10 December 2015 and Deloitte LLP have been appointed as administrators.

Lancashire Partnership Against Crime Limited

The Lancashire Partnership Against Crime is a registered charity and a company limited by guarantee. Lancashire Partnership Against Crime Limited works in partnership with other organisations, to secure funding for additional community safety and crime reduction measures across the county.

The members of this company are Lancashire County Council, Lancashire Constabulary, the Lancashire branch of the Association of District Councils and the Police and Crime Commissioner, each with a 25% shareholding. Lancashire Constabulary perform all accounting functions.

Regenerate Pennine Lancashire

The Council is one of 6 local authorities with an interest in Regenerate Pennine Lancashire, an economic development company designed to help increase prosperity and life choices for people living and working in Pennine Lancashire. The other member authorities are Burnley, Blackburn with Darwen, Pendle, Hyndburn and Rossendale. By working alongside businesses to boost Lancashire's economy, the company is able to create new job opportunities and access local funds, Government grants and European funding. The company is limited by guarantee. Lancashire County Council is the accountable body and Blackburn with Darwen Borough Council acts as the employing body for staff and provides HR, IT and related support.

36 TRUST FUNDS

The Council administers several small trust and special funds. Most of the trust funds are 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.

Trust funds 2015/16

	Adult Services, Health and Wellbeing £000	Children and Young People £000	Other £000	Total £000	* 2014/15 Total £000
Capital accounts					
Balance as at 1 April	(3.8)	(214.6)	(0.8)	**(219.2)**	(200.7)
Net Movement in funds	0.2	8.3	0	**8.5**	(18.5)
Balance as at 31 March	**(3.6)**	**(206.4)**	**(0.8)**	**(210.8)**	**(219.2)**
Revenue accounts					
Balance as at 1 April	(6.7)	(70.4)	(14.3)	**(91.5)**	(89.5)
Income received	(0.1)	(7.5)	(15.5)	**(23.1)**	(20.4)
Less payments during the year	0	0	10.3	**10.3**	18.4
Balance as at 31 March	**(6.9)**	**(77.9)**	**(19.5)**	**(104.3)**	**(91.5)**
Aggregate balance as at 31 March	**(10.5)**	**(284.3)**	**(20.3)**	**(315.1)**	**(310.7)**

* 2014/15 balance restated

Policy	Page No.

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the financial year 2015/16 and its position at the year end of 31 March 2016. The Accounts and Audit (England) Regulations 2011 require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice for Local Authorities 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis and the accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

ACCRUALS OF EXPENDITURE AND INCOME

The expenditure and income of the Council is accounted for in the financial year in which the activity it relates to takes place, regardless of when cash payments are 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. are 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.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue 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. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category will include cash on call and 3 months or less term deposit and also instant access money market funds.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

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.

COLLECTION FUND 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.

EMPLOYEE BENEFITS

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 in the Comprehensive Income and Expenditure Statement, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the 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.

Post-employment benefits - Pension arrangements

Employees of the Council are members of 3 separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pension Scheme, administered by Lancashire County Council; and
- The NHS Pension Scheme administered by NHS Business Services Authority on behalf of The 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.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council.

The teachers' 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:

- Lancashire County Council paid an employer's contribution of 12.6% for non-school employees and 20% for schools employees during 2015/16; plus a separate contribution of £16 million towards the pension fund deficit.
- 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 3.6%. 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

This 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 Comprehensive Income and Expenditure Statement in cost of services;

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 "Re-measurements". 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 is 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.

Re-measurements (assets)

These are set out in IAS19 as being the return on assets net of interest on assets. 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".

Re-measurements (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

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 when the 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.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period 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.

FINANCIAL INSTRUMENTS

Financial instruments arise when contracts create financial assets and liabilities, and these are recognised on the Council's Balance Sheet. Typical financial assets include bank deposits, investments and loans by the Council and amounts receivable whilst financial liabilities include amounts borrowed by the Council and amounts payable.

Financial assets

Financial assets are classified into 3 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 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 against 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.

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.

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.

GOVERNMENT GRANTS AND OTHER CONTRIBUTIONS

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

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-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.

HERITAGE ASSETS

The CIPFA Code of Practice defines Heritage Assets as any asset that is held as a contribution to knowledge or culture. The Council has a number of assets which are held and maintained principally for their contribution to knowledge and culture and therefore they are considered to meet the definition of Heritage Assets. These assets are carried at valuation as permitted by the Code.

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 Council. In broad terms any acquisition by the Council must relate to the County Palatine of Lancaster. Consideration is also given to the ability of the 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. However, no collection is static and Lancashire County Museum Service is currently reviewing the collections to identify any areas that are not appropriate to the formal Acquisition and Disposals Policy or are not in a fit state for long term preservation. If any items are thought to be appropriate for rationalisation the Museums Association Code of Practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location of an item before any consideration of final disposal is made.

The valuation of the Council's heritage assets has included a degree of estimation. With respect to the museum's collection those assets considered to have a value of £50,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items. It is not considered to be economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the Council's holding.

As part of the valuation process for heritage assets consideration is given as to whether there has been any physical damage or any factors which are likely to significantly affect the market value. Where there is a change in the value of the heritage assets the normal accounting policy for the change as outlined in the accounting policy for property, plant and equipment will be followed.

LEASES

Leases are classified as either finance or operating leases based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee. The decision depends on the substance of the transaction rather than the contract. Leases are classed as finance leases where the terms of the lease transfer the majority of the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance lease debtors are recognised in the Balance Sheet on commencement at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

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.

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 2015/16 (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 2 cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the net cost of services.

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.

PRIVATE FINANCE INITIATIVE (PFI)

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operation to pay for the capital investment.

The amounts payable to the PFI operators each year are analysed into 5 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 recognised as property, plant and equipment 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 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.

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 benefit(s) 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

The valuation basis of operational property, plant and equipment has not changed with the incorporation of International Financial Reporting Standard (IFRS) 13 'Fair Value Measurement' into the 2015/16 Code of Practice on Local Authority Accounting.

Assets that are purchased, 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.

- All other assets including surplus assets and asset held for sale – fair value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost 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 5 years in accordance with Code of Practice requirements. Each year an estimate of the total fair value of all operational land and building assets is calculated by applying local movement in valuation for similar assets and a range of indices to the carrying amounts of those assets. Indices are used to support market-based evidence that valuations are kept up to date rather than being used to calculate the carrying value of the assets. The revaluation programme is managed so that this estimate is not materially different to the carrying amount in the Balance Sheet.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. 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 evaluated at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line 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 10 to 50 years depending upon the nature of the asset.

Where a property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Surplus assets are defined as assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale. Only when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction within the coming year, it is reclassified as an asset held for sale. The 2015/16 Code of Practice on Local Authority Accounting has revised the requirements for valuation of surplus and available for sale assets. Under the new code surplus assets must be held at fair value which is defined as 'the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.' 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 property, plant and equipment 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.

Property, plant and equipment not owned by the Council

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

PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions

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

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

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

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

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Contingent liabilities

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

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

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 notes.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

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

VALUE ADDED TAX (VAT)

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

Supplementary Accounts and Explanatory Notes

Avenham Park, Preston

INTRODUCTION

The standard financial statements consider the County Council only as a single entity, accounting for its interests in other organisations only to the extent of its investment, and not current performance and balances. Thus a full picture of the Council's economic activities, financial position, service position, accountability for resources and exposure to risk is not presented in the Council's single entity financial statements.

As a result, group financial statements are produced to reflect the extent of Lancashire County Council's involvement with its group undertakings in order to provide a clearer picture of the Council's activities as a group.

The group accounts contain core financial statements similar to those included in the Council's single entity statements, consolidated with figures from organisations considered to be part of the group.

The following pages include:

- Group Comprehensive Income and Expenditure Statement
- Group Movement in Reserves Statement
- Group Balance Sheet
- Group Cash Flow Statement
- Notes to the Group Financial Statements

The group financial statements are presented in accordance with the IFRS based Code.

Lancashire County Developments Limited
Company registration number: 1624144

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

Lancashire County Developments Limited (LCDL) 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, with the other 2 members of the company (Blackburn with Darwen Borough Council and Blackpool Borough Council) having 10% of voting rights each. It is classed as a subsidiary of the County Council.

Lancashire County Developments Limited is the holding company in the group structure, the subsidiary companies are Lancashire County Developments (Property) Limited which owns and manages 3 commercial estates in Lancashire and Lancashire County Developments (Investments) Limited which has an investment portfolio of business loans to companies operating in Lancashire within key sectors to enable start up and growth.

There are 6 other dormant companies within the group structure which are subsidiaries of LCDL:

Preston Technology Management Centre Limited
Lancashire County Enterprises (Leasing) Limited
Lancashire Enterprises (Investments) Limited
Lancashire Business and Innovation Centre Limited
The Lancashire Rosebud (small firms) Fund Company Limited
North West Regional Fund Limited

County Councillors have been appointed as directors 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.

Consolidation of subsidiaries

Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated

Due to the timing, this information is based on unaudited accounts.

Principal risks and uncertainties

The group uses financial instruments; these include cash and various other items, such as trade debtors and trade creditors that arise directly from its operations. The existence of these financial instruments exposes the group to a number of financial risks, which are described in more detail below.

- ***Liquidity risk*** - The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.
- ***Credit risk*** - The group's principal financial assets are cash deposits, cash and trade debtors. The credit risk associated with cash is limited. The principal credit risk arises, therefore, from its trade debtors. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

2014/15				2015/16		
Gross Expenditure £m	**Gross Income £m**	**Net Expenditure £m**		**Gross Expenditure £m**	**Gross Income £m**	**Net Expenditure £m**
7.9	(5.7)	2.2	Central services to the public	4.7	(0.6)	4.1
1,136.1	(955.6)	180.5	Children's and education services	1,226.7	(949.7)	277.0
27.0	(3.7)	23.3	Cultural and related services	24.5	(3.6)	20.9
211.3	(36.4)	174.9	Environmental and regulatory services	102.6	(12.9)	89.7
114.1	(27.5)	86.6	Highways and transport services	97.3	(26.3)	71.0
0.2	0	0.2	Other housing services	0	0	0
444.1	(114.9)	329.2	Adult social care	516.9	(173.0)	343.9
31.9	(23.6)	8.3	Planning services	40.1	(7.8)	32.3
52.9	(56.2)	(3.3)	Public health	62.4	(65.4)	(3.0)
8.8	(19.6)	(10.8)	Corporate and democratic core	5.4	0	5.4
117.2	(37.2)	80.0	Non distributed costs	133.7	(43.5)	90.2
2,151.5	**(1,280.4)**	**871.1**	**Cost of services**	**2,214.3**	**(1,282.8)**	**931.5**
7.1	(13.8)	(6.7)	Other operating income and expenditure (Note 2)	5.8	(18.4)	(12.6)
106.0	(84.1)	21.9	Financing and investment income and expenditure (Note 3)	73.4	(35.2)	38.2
0	(937.5)	(937.5)	Taxation and non-specific grant income	0	(922.9)	(922.9)
2,264.6	**(2,315.8)**	**(51.2)**	**(Surplus)/deficit on provision of services**	**2,293.5**	**(2,259.3)**	**34.2**
0.1	0	0.1	Taxation on profit on ordinary activities (Note 5)	0	0	0
2,264.7	**(2,315.8)**	**(51.1)**	**Group (surplus)/deficit**	**2,293.5**	**(2,259.3)**	**34.2**
		(20.5)	(Surplus)/deficit on revaluation of non-current assets			(63.3)
		301.9	Remeasurement of the net defined benefit pension liability/(asset)			(228.7)
		5.1	Other adjustments			(2.2)
		(20.8)	(Surplus)/deficit on revaluation of available for sale assets			2.2
		265.7	**Other comprehensive income and expenditure**			**(292.0)**
		214.6	**Total comprehensive income and expenditure**			**(257.8)**

2015/16

	County Fund	Earmarked Revenue Reserves	Earmarked Capital Funding Reserves (Revenue)	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves of the Authority	Reserves of Subsidiaries	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**	**(34.8)**	**(920.9)**
Movement in 2015/16										
(Surplus)/deficit on the provision of services	39.9	0	0	0	0	**39.9**	0	**39.9**	(5.7)	**34.2**
Other comprehensive income and expenditure	0	0	0	0	(2.2)	**(2.2)**	(289.8)	**(292.0)**	0	**(292.0)**
Total comprehensive income and expenditure	**39.9**	**0**	**0**	**0**	**(2.2)**	**37.7**	**(289.8)**	**(252.1)**	**(5.7)**	**(257.8)**
Adjustment between accounting basis and funding basis under regulation	(15.9)	0	0	15.3	(24.5)	**(25.1)**	25.1	**0**	0	**0**
Net (increase)/decrease before transfers to earmarked reserves	**24.0**	**0**	**0**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**	**(5.7)**	**(257.8)**
Transfers (to)/from earmarked reserves (Note 6)	(24.0)	11.6	12.4	0	0	**0**	0	**0**	0	**0**
(Increase)/decrease in year	**0**	**11.6**	**12.4**	**15.3**	**(26.7)**	**12.6**	**(264.7)**	**(252.1)**	**(5.7)**	**(257.8)**
Balance at 31 March 2016	**(36.0)**	**(364.5)**	**(0.1)**	**(17.7)**	**(70.8)**	**(489.1)**	**(649.1)**	**(1,138.2)**	**(40.5)**	**(1,178.7)**

2014/15

	County Fund	Earmarked Revenue Reserves	Earmarked Capital Funding Reserves (Revenue)	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves of the Authority	Reserves of Subsidiaries	Total Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2014	**(36.0)**	**(296.6)**	**(13.2)**	**(31.3)**	**(47.8)**	**(424.9)**	**(678.3)**	**(1,103.2)**	**(32.3)**	**(1,135.5)**
Movement in 2014/15										
(Surplus)/deficit on the provision of services	(48.6)	0	0	0	0	**(48.6)**	0	**(48.6)**	(2.5)	**(51.1)**
Other comprehensive income and expenditure	0	0	0	0	5.1	**5.1**	260.6	**265.7**	0	**265.7**
Total comprehensive income and expenditure	**(48.6)**	**0**	**0**	**0**	**5.1**	**(43.5)**	**260.6**	**217.1**	**(2.5)**	**214.6**
Adjustment between accounting basis and funding basis under regulation	(30.2)	0	0	(1.7)	(1.4)	**(33.3)**	33.3	**0**	0	**0**
Net (increase)/decrease before transfers to earmarked reserves	**(78.8)**	**0**	**0**	**(1.7)**	**3.7**	**(76.8)**	**293.9**	**217.1**	**(2.5)**	**214.6**
Transfers (to)/from earmarked reserves (Note 6)	78.8	(79.5)	0.7	0	0	**0**	0	**0**	0	**0**
(Increase)/decrease in year	0	(79.5)	0.7	(1.7)	3.7	**(76.8)**	293.9	**217.1**	**(2.5)**	**214.6**
Balance at 31 March 2015	**(36.0)**	**(376.1)**	**(12.5)**	**(33.0)**	**(44.1)**	**(501.7)**	**(384.4)**	**(886.1)**	**(34.8)**	**(920.9)**

31 March 2015 £m		Note	31 March 2016 £m
2,638.2	Property, plant and equipment		2,681.7
28.7	Heritage assets		28.7
38.1	Investment properties	7	45.4
21.7	Intangible assets		24.6
257.4	Long term investments	12	440.4
78.3	Long term debtors	8	72.8
3,062.4	**Long term assets**		**3,293.6**
267.8	Short term investments	12	119.7
3.0	Inventories		2.7
137.6	Short term debtors	9	109.2
12.6	Payments in advance		13.2
137.4	Cash and cash equivalents	10	51.1
5.2	Assets held for sale		11.3
563.6	**Current assets**		**307.2**
(574.2)	Short term borrowing		(399.2)
(203.9)	Short term creditors	11	(172.5)
(15.4)	Receipts in advance		(16.5)
(18.0)	Short term provisions		(12.2)
(4.6)	Other current liabilities		(4.6)
(816.1)	**Current liabilities**		**(605.0)**
(13.8)	Long term provisions		(19.0)
(0.1)	Deferred tax liability	13	(0.1)
(469.0)	Long term borrowing	12	(584.8)
(1,406.1)	Other long term liabilities	12	(1,213.2)
(1,889.0)	**Long term liabilities**		**(1,817.1)**
920.9	**Net assets**		**1,178.7**
(501.7)	Usable reserves		(489.1)
(384.4)	Unusable reserves	14	(649.1)
(27.2)	Subsidiary usable reserves		(27.6)
(7.6)	Subsidiary unusable reserves	14	(12.9)
(920.9)	**Total reserves**		**(1,178.7)**

2014/15 £m		Note	2015/16 £m
(51.1)	Net surplus/(deficit) on the provision of services		34.2
(180.3)	Adjustments to net surplus/deficit on the provision of services for non-cash movements		(216.2)
238.6	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities		204.6
0.2	Taxation paid		0
7.4	**Net cash flows from operating activities**	15	**22.6**
(60.0)	Investing activities	16	2.5
14.9	Financing activities	17	61.2
(37.7)	**Net increase/(decrease) in cash or cash equivalents**		**86.3**
(99.7)	Cash and cash equivalents at the beginning of the reporting period		(137.4)
(137.4)	**Cash and cash equivalents at the end of the reporting period**	10	**(51.1)**

1 GROUP AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

Reconciliation of Departmental Income and Expenditure to cost of services in the Comprehensive Income and Expenditure Statement

31 March 2015 £m		31 March 2016 £m
781.6	**Net expenditure in the departmental analysis**	**726.1**
186.6	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	217.9
(97.1)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(12.5)
871.1	**Cost of services in the Comprehensive Income and Expenditure Statement**	**931.5**

Reconciliation to subjective analysis 2015/16

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(253.3)	(119.5)	89.3	**(283.5)**	(20.5)	**(304.0)**
Interest and investment income	(28.0)	28.0	0	**0**	(33.1)	**(33.1)**
Income from council tax precept	0	0	0	**0**	(394.4)	**(394.4)**
Income from business rates precept	0	0	0	**0**	(33.4)	**(33.4)**
Government grants and contributions	(152.1)	(847.2)	0	**(999.3)**	(495.1)	**(1,494.4)**
Total income	**(433.4)**	**(938.7)**	**89.3**	**(1,282.8)**	**(976.5)**	**(2,259.3)**
Employee expenses	366.4	624.5	0	**990.9**	0	**990.9**
Other service expenses	722.8	533.2	(101.8)	**1,154.2**	0	**1,154.2**
Depreciation, amortisation and impairment	50.1	0	0	**50.1**	0	**50.1**
Interest payments	19.1	0	0	**19.1**	35.4	**54.5**
Levies	1.1	(1.1)	0	**0**	1.1	**1.1**
Net pension interest costs	0	0	0	**0**	38.0	**38.0**
Gain or loss on disposal of non-current assets	0	0	0	**0**	4.7	**4.7**
Total expenditure	**1,159.5**	**1,156.6**	**(101.8)**	**2,214.3**	**79.2**	**2,293.5**
(Surplus)/deficit on the provision of services	**726.1**	**217.9**	**(12.5)**	**931.5**	**(897.3)**	**34.2**

Reconciliation to subjective analysis 2014/15

	Departmental Analysis £m	Amounts not reported to management for decision making £m	Amounts not in CI&ES £m	Cost of Services in the CI&ES £m	Corporate Amounts £m	Total £m
Fees, charges and other service income	(291.3)	(1.8)	0	**(293.1)**	(13.5)	**(306.6)**
Interest and investment income	(82.4)	0	82.4	**0**	(84.5)	**(84.5)**
Income from council tax precept	0	0	0	**0**	(380.2)	**(380.2)**
Income from business rates precept	0	0	0	**0**	(32.9)	**(32.9)**
Government grants and contributions	(1,104.6)	0	117.3	**(987.3)**	(524.3)	**(1,511.6)**
Total income	**(1,478.3)**	**(1.8)**	**199.7**	**(1,280.4)**	**(1,035.4)**	**(2,315.8)**
Employee expenses	1,003.2	(12.9)	0	**990.3**	0	**990.3**
Other service expenses	1,187.3	1.2	(227.4)	**961.2**	0	**961.2**
Support service recharges	0	0	0	**0**	0	**0**
Depreciation, amortisation and impairment	0	200.0	0	**200.0**	0	**200.0**
Interest payments	68.4	0	(68.4)	**0**	68.4	**68.4**
Levies	1.0	0	(1.0)	**0**	1.0	**1.0**
Net pension interest costs	0	0	0	**0**	37.6	**37.6**
Gain or loss on disposal of non-current assets	0	0	0	**0**	6.2	**6.2**
Total expenditure	**2,259.9**	**188.4**	**(296.8)**	**2,151.5**	**113.2**	**2,264.7**
(Surplus)/deficit on the provision of services	**781.6**	**186.6**	**(97.1)**	**871.1**	**(922.2)**	**(51.1)**

2 GROUP OTHER OPERATING INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
1.0	Levies for flood defences and inshore fisheries and conservation authorities	1.1
(7.4)	Net (gains)/losses on the disposal of non-current assets	(7.2)
(0.3)	Other operating income/expenditure	(6.5)
(6.7)	**Total**	**(12.6)**

3 GROUP FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15 £m		2015/16 £m
17.9	Interest payable and other similar charges	19.1
26.2	Interest payable on PFI unitary payments	16.3
[1] 24.3	Premium on early repayment of debt	0
37.6	Net interest of the net defined benefit liability	38.0
[2] (82.6)	Interest receivable and similar income	(27.8)
(1.9)	Changes in the fair value of investment properties	(7.4)
21.5	**Total**	**38.2**

[1] Relates to the refinancing of waste treatment facilities
[2] The sale of bonds by LCC has been in response to the economic uncertainty during the year and the UK Treasury decision to redeem war loan bonds. This additional income is considered to be a one-off gain.

4 GROUP FEES PAYABLE TO AUDITORS

2014/15 £000		2015/16 £000
182	Fees incurred with regard to external audit services provided by Grant Thornton	143
3	Fees incurred for the certification of grant claims and returns by Grant Thornton	0
4	Fees incurred for other audit work undertaken by Grant Thornton	8
20	Fees payable in respect of other services provided by Grant Thornton during the year	24
209	**Total**	**175**

5 GROUP TAXATION

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

31 March 2015 £m		31 March 2016 £m
0.6	Deferred tax: origination and reversal of timing differences	0.9
0.6	**Total deferred tax**	**0.9**
0.6	**Taxation on profit on ordinary activities**	**0.9**

Factors affecting the tax charge for the year

The tax assessed for the year is £1 million. The standard rate of corporation tax in the UK is 20%. The differences are explained below:

31 March 2015 £m		31 March 2016 £m
5.7	**Profit on ordinary activities before taxation**	**5.2**
1.2	Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	1.0
	Effect of:	
(0.1)	Capital allowances for year in excess of depreciation	0
(0.1)	Adjustments to tax charge in respect of prior periods	0
0	Other short term timing differences	(0.2)
(1.1)	Tax on fair value movements	(1.0)
0.5	Capital gains	0.9
0	Fixed asset differences	0.1
0.6	**Tax charge for year**	**0.9**

6 GROUP TRANSFERS TO/FROM EARMARKED RESERVES

i. Detailed below are the transfers to and from earmarked reserves for Lancashire County Council

	Balance at 31 March 2014 £m	Transfers out 2014/15 £m	Transfers in 2014/15 £m	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m
Reserves held to meet spending pressures							
Business Rates volatility reserve	(5.0)	0	0	(5.0)	5.0	0	0
Reserves held to deliver corporate priorities							
Strategic investment reserve	(26.8)	5.4	0	(21.4)	10.4	0	(11.0)
Modern apprentices	(0.2)	0.2	0	0	0	0	0
Local welfare reserve	(1.8)	1.8	0	0	0	0	0
Reserves held to deliver organisational change							
Downsizing reserve	(99.2)	25.5	(6.9)	(80.6)	20.7	(5.0)	(64.9)
Risk management reserve	0	0	(82.0)	(82.0)	73.4	(7.2)	(15.8)
LAA PRG monies – Lancashire	(3.9)	3.9	0	0	0	0	0
Transitional reserve	0	0	0	0	0	(141.8)	(141.8)
Reserves held to pay for expenditure commitments							
Equal pay review reserve	(0.4)	0.4	0	0	0	0	0
CC election reserve	(0.5)	0	(0.3)	(0.8)	0	(0.4)	(1.2)
Funding of capital projects	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
School reserves							
Individual school reserves	(55.9)	0.3	(0.8)	(56.4)	10.6	(7.9)	(53.7)
Other school reserves	(31.2)	20.7	(23.0)	(33.5)	25.3	(17.9)	(26.1)
Centrally managed schools maintenance reserve	(4.2)	4.2	(6.1)	(6.1)	6.1	(6.2)	(6.2)
Reserves held to meet service priorities (directorate reserves)							
Corporate reserves	(0.6)	0.5	0	(0.1)	0	0	(0.1)
Directorate reserves	(65.8)	37.6	(60.9)	(89.1)	60.4	(15.0)	(43.7)
Building repairs and maintenance reserve	(1.1)	0	0	(1.1)	1.1	0	0
Total earmarked revenue and capital reserves	**(309.8)**	**107.0**	**(185.8)**	**(388.6)**	**225.7**	**(201.7)**	**(364.6)**
Earmarked capital reserves	(13.2)	6.5	(5.8)	(12.5)	12.7	(0.3)	(0.1)
Earmarked revenue reserves	(296.6)	100.5	(180.0)	(376.1)	213.0	(201.4)	(364.5)

ii. Detailed below are the reserves of the subsidiaries of the Authority

	Balance at 31 March 2014 £m	Transfers out 2014/15 £m	Transfers in 2014/15 £m	Balance at 31 March 2015 £m	Transfers out 2015/16 £m	Transfers in 2015/16 £m	Balance at 31 March 2016 £m
Earmarked reserves of subsidiaries							
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(21.0)	2.5	0	(18.5)	5.3	(5.7)	(18.9)
Total revenue and capital reserves	**(29.7)**	**2.5**	**0**	**(27.2)**	**5.3**	**(5.7)**	**(27.6)**

7 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

31 March 2015 £m		31 March 2016 £m
(3.2)	Rental Income from investment property	(3.2)
1.9	Direct operating expenses arising from investment property	2.0
1.3	**Total**	**1.2**

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

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

31 March 2015 £m		31 March 2016 £m
37.4	**Balance as at 1 April**	**38.1**
0	Additions	2.6
(1.2)	Disposals	(0.6)
1.9	Net gains/(losses) from fair value adjustments	5.3
38.1	**Balance as at 31 March**	**45.4**

Fair Value Hierarchy

Details of the Authority's investment properties and information about the fair value hierarchy as at 31 March 2016 are as follows.

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
2.8	2.8	Residential Properties	2	4.4	4.4
35.3	35.3	Commercial Units	2	41.0	40.6
38.1	**38.1**	**Total**		**45.4**	**45.0**

Significant Observable Inputs – Level 2

The fair value for the residential properties (at market rents) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The fair value for the commercial units (at market rents) have been valued by Cushman and Wakefield commercial real estate agents in accordance with the appropriate sections of the RICS Professional Standards ("PS"), RICS Global Valuation Practice Statements ("VPS"), RICS Global Valuation Practice Guidance – Applications ("VPGAs") and United Kingdom Valuation Standards ("UKVS") contained within the RICS Valuation - Professional Standards 2014, (the "Red Book"). It follows that the valuations are compliant with International Valuation Standards.

8 GROUP LONG TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
39.1	Transferred Debt [1]	35.6
35.1	Finance Lease Debtor [2]	33.3
4.1	Other Loan	3.9
78.3	**Total**	**72.8**

[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.

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

9 GROUP SHORT TERM DEBTORS

31 March 2015 £m		31 March 2016 £m
23.0	Central Government bodies	13.3
25.0	Other local authorities	31.7
16.2	NHS bodies	7.6
0.1	Public corporations	0.1
16.7	Council tax	16.2
1.0	Non-domestic rates	0.8
55.6	Other entities and individuals	39.5
137.6	**Total**	**109.2**

10 GROUP CASH AND CASH EQUIVALENTS

31 March 2015 £m		31 March 2016 £m
0.8	Cash held by the Council	0.7
29.3	Bank current accounts	39.7
107.3	Short term deposits under 3 months	10.7
137.4	**Total**	**51.1**

11 GROUP SHORT TERM CREDITORS

31 March 2015 £m		31 March 2016 £m
(19.8)	Central Government bodies	(19.9)
(14.8)	Other local authorities	(17.4)
(5.3)	NHS bodies	(7.2)
(0.2)	Public corporations and trading funds	(0.4)
(163.8)	Other creditors	(127.6)
(203.9)	**Total**	**(172.5)**

12 GROUP FINANCIAL INSTRUMENTS

Financial assets

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
58.0	74.6	132.6	Loans and receivables	47.2	10.3	**57.5**
198.4	0	198.4	Available for sale financial assets	392.0	0	**392.0**
1.0	193.2	194.2	Financial assets at fair value through profit and loss	1.2	109.4	**110.6**
257.4	**267.8**	**525.2**	**Total investments**	**440.4**	**119.7**	**560.1**
0	137.4	137.4	Cash and cash equivalents	0	51.1	**51.1**
78.3	110.1	188.4	Debtors *	72.8	76.1	**148.9**
335.7	**515.3**	**851.0**	**Total financial assets**	**513.2**	**246.9**	**760.1**
***** *The debtors figure stated is lower than the debtors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial asset – receipts in advance and non-exchange transactions*						
0	*27.5*	*27.5*		*0*	*33.1*	*33.1*

Financial liabilities

31 March 2015 £m				31 March 2016 £m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(469.0)	(574.2)	(1,043.2)	Financial liabilities at amortised cost	(584.8)	(399.2)	**(984.0)**
0	# (160.9)	(160.9)	Creditors *	0	(126.2)	**(126.2)**
(167.8)	(4.6)	(172.4)	Other financial liabilities (PFI) at amortised cost	(163.1)	(4.6)	**(167.7)**
(636.8)	**(739.7)**	**(1,376.5)**	**Total financial liabilities**	**(747.9)**	**(530.0)**	**(1,277.9)**
***** *The creditors figure stated is lower than the creditors shown on the Balance Sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions*						
0	*43.0*	*43.0*		*0*	*46.3*	*46.3*

The prior year creditors figure has been restated following further analysis.

Income, expense, gains and losses on financial instruments

2015/16

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans & Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit & Loss £m	Total £m
Interest expense	34.7	0	0	0	34.7
Fee expense	0.7	0	0	0	0.7
Total expense in surplus on the provision of services	**35.4**	**0**	**0**	**0**	**35.4**
Interest income	0	(4.7)	(6.5)	(1.6)	(12.8)
Decreases in fair value	0	0	0	0.4	0.4
Gains on de-recognition	0	0	(11.5)	(6.7)	(18.2)
Loss on de-recognition	0	0.8	1.6	0.5	2.9
Total income in surplus on the provision of services	**0**	**(3.9)**	**(16.4)**	**(7.4)**	**(27.7)**
(Gain)/loss on revaluation	0	0	2.2	0	2.2
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**2.2**	**0**	**2.2**
Total net (gain)/loss for the year	**35.4**	**(3.9)**	**(14.2)**	**(7.4)**	**9.9**

2014/15

	Financial Liabilities at Amortised Cost £m	Financial Assets: Loans & Receivables £m	Financial Assets: Available for Sale £m	Assets and Liabilities at Fair Value through Profit & Loss £m	Total £m
Interest expense [1]	67.9	0	0	0	67.9
Fee expense	0.5	0	0	0	0.5
Total expense in surplus on the provision of services	**68.4**	**0**	**0**	**0**	**68.4**
Interest income	0	(4.7)	(5.1)	(1.1)	(10.9)
Decreases in fair value	0	0	0	0.1	0.1
Gains on de-recognition	0	0	(14.8)	(65.9)	(80.7)
Loss on de-recognition	0	0.5	1.2	7.6	9.3
Total income in surplus on the provision of services	**0**	**(4.2)**	**(18.7)**	**(59.3)**	**(82.2)**
(Gain)/loss on revaluation	0	0	(20.8)	0	(20.8)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income & expenditure	**0**	**0**	**(20.8)**	**0**	**(20.8)**
Total net (gain)/loss for the year	**68.4**	**(4.2)**	**(39.5)**	**(59.3)**	**(34.6)**

[1] This includes a premium of £24.3 million in relation to the refinancing of waste treatment facilities

Fair value of financial assets

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial assets held at fair value			
		Available for sale financial assets			
38.1	38.1	Local authority bonds	2	37.8	37.8
160.3	160.3	Bond, equity and property funds	1	354.2	354.2
1.0	1.0	Equity investment in companies	3	1.1	1.1
199.4	**199.4**	**Sub total**		**393.1**	**393.1**
		Financial assets at fair value through profit and loss			
193.2	193.2	Bond, equity and property funds	1	109.4	109.4
193.2	**193.2**	**Sub total**		**109.4**	**109.4**
		Financial assets held at amortised cost			
56.9	59.0	Long term bank deposits	2	46.9	49.1
35.1	39.6	Lease receivables	3	33.3	37.2
39.1	34.8	Transferred debt receivables	2	35.6	35.5
5.2	5.4	Long term loans to companies	3	4.2	4.0
136.3	**138.8**	**Sub total**		**120.0**	**125.8**
528.9	**531.4**	**Total**		**622.5**	**628.3**
322.1		**Assets for which fair value is not disclosed ***		137.6	
851.0		**Total financial assets**		**760.1**	
		Recorded on Balance Sheet as:			
78.3		Long term debtors		72.8	
257.4		Long term investments		440.4	
110.1		Short term debtors		76.1	
267.8		Short term investments		119.7	
137.4		Cash and cash equivalents		51.1	
851.0		**Total financial assets**		**760.1**	

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

Fair value of financial liabilities

31 March 2015				31 March 2016	
Balance Sheet Value £m	Fair Value £m		Fair Value Level	Balance Sheet Value £m	Fair Value £m
		Financial liabilities held at amortised cost			
338.9	385.9	Long term PWLB loans	2	338.9	389.8
52.2	106.9	Long term LOBO loans	2	52.1	106.9
77.9	80.5	Other long term loans	2	193.9	197.1
172.4	283.7	PFI liabilities	3	167.7	263.9
641.4	**857.0**	**Total**		**752.6**	**957.7**
735.1		**Liabilities for which fair value is not disclosed ***		525.3	
1,376.5		**Total financial liabilities**		**1,277.9**	
		Recorded on Balance Sheet as:-			
160.9		Short term creditors		126.2	
574.2		Short term borrowings		399.2	
469.0		Long term borrowings		584.8	
172.4		Other long term liabilities		167.7	
1,376.5		**Total financial liabilities**		**1,277.9**	

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

13 DEFERRED TAXATION

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

31 March 2015 £m		31 March 2016 £m
0.1	**Balance as at 1 April**	**0.1**
0	Charge for the year	0
0.1	**Balance as at 31 March**	**0.1**

14 GROUP UNUSABLE RESERVES

The table below gives details of the Council's unusable reserves:

31 March 2015 £m		31 March 2016 £m
6.6	Available for Sale Financial Instruments Reserve	8.8
48.2	Financial Instruments Adjustment Account	45.0
(674.2)	Revaluation Reserve	(724.9)
(1,020.0)	Capital Adjustment Account	(1,047.5)
1,238.2	Pensions Reserve	1,049.9
(6.4)	Collection Fund Adjustment Account	(3.7)
23.2	Accumulated Absences Adjustment Account	23.3
(384.4)	**Total unusable reserves of the Authority**	**(649.1)**
(7.6)	Revaluation reserve for subsidiary	**(12.9)**
(392.0)	**Total group unusable reserves**	**(662.0)**

The revaluation reserve for the subsidiary is detailed below.

31 March 2015 £m		31 March 2016 £m
(2.6)	**Balance as at 1 April**	**(7.6)**
(5.0)	Upward revaluation of assets	(5.3)
(5.0)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**(5.3)**
(7.6)	**Balance as at 31 March**	**(12.9)**

15 GROUP CASH FLOWS FROM OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

31 March 2015 £m		31 March 2016 £m
(83.7)	Interest received	(28.5)
41.2	Interest paid	35.1

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

31 March 2015 £m		31 March 2016 £m
(48.0)	Depreciation	(43.5)
(128.8)	Impairment and downward valuations	(117.5)
(3.9)	Amortisation of intangible assets	(3.3)
4.0	Increase/(decrease) in provision for bad debts	7.1
24.2	(Increase)/decrease in creditors	3.7
13.8	Increase/(decrease) in debtors	(21.6)
(0.2)	Increase/(decrease) in inventories	(0.3)
(31.2)	Movement in pension liability	(40.4)
(7.0)	Carrying amount of non-current assets sold	(4.7)
(3.2)	Other non-cash items charged to the surplus or deficit on the provision of services	4.3
(180.3)	**Total**	**(216.2)**

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

31 March 2015 £m		31 March 2016 £m
71.9	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	16.2
14.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11.2
152.2	Capital grants credited to the surplus on the provision of services	177.2
238.6	**Total**	**204.6**

16 GROUP CASH FLOWS FROM INVESTING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
166.3	Purchase of property, plant and equipment, investment property and intangible assets	159.4
12,188.0	Purchase of short term and long term investments	6,282.3
35.5	Other payments for investing activities	0
(14.5)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.5)
(12,283.7)	Proceeds from the sale of short term and long term investments	(6,237.4)
(151.6)	Other capital grants and receipts from investing activities	(195.3)
(60.0)	**Net cash flows from investing activities**	**2.5**

17 GROUP CASH FLOWS FROM FINANCING ACTIVITIES

31 March 2015 £m		31 March 2016 £m
(1,275.5)	Cash receipts from short term and long term borrowing	(1,104.5)
3.7	Appropriate to/from Collection Fund Adjustment Account	(2.9)
1,059.1	Repayment of short term and long term borrowing	1,163.9
227.6	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	4.7
14.9	**Net cash flows from financing activities**	**61.2**

ACCOUNTS OF THE FUND

Responsibilities for the Statement of Accounts

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 Director of Financial Resources, who is also the Director of Financial Resources to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The responsibilities of the Director of Financial Resources to the Pension Fund

The Director of Financial Resources 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 Director of Financial Resources 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 Director of Financial Resources 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 2016 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.

Neil Kissock
Director of Financial Resources
26 September 2016

ANNUAL GOVERNANCE STATEMENT 2015/16

Introduction

The Lancashire County Pension Fund is a Pension Fund within the Local Government Pension Scheme (LGPS) which is a funded pension scheme created under the terms of the Superannuation Act 1972. Lancashire County Council is the body appointed under statute to act as the Administering Authority for the Fund.

At 31st March 2016 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 162,466 members across 261 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

While the Fund is technically not a separate legal entity it does have its own specific governance arrangements and controls which sit within Lancashire County Council's overall governance framework. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Pension Fund and this statement sets out that review.

The Pension Fund's Responsibilities

The Pension Fund is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that what is, in effect, pensioners' money provided in large part from the public purse is safeguarded and properly accounted for. The Fund has a responsibility under local government legislation to make arrangements which secure continuous improvement in the way in which its functions are delivered.

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

The Fund has adopted its own Governance Policy Statement in line with the relevant regulations concerning the governance of funds within the LGPS. This statement has regard to relevant standards such as the Myners' principles. The Governance Policy Statement is available through the following link

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Pension Fund is directed and controlled and the activities through which it engages with and informs stakeholders, including both fund members and employers. It enables the Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective outcomes.

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2016.

The Fund's Governance Framework

The key elements of the systems and processes that comprise the Fund's governance framework are:

The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

Review of the Fund's objectives and intended outcomes and implications for the Fund's governance arrangements.

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.
A six monthly report on the performance of the administration service is presented to the Pension Fund Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

Development communication and embedding codes of conduct, definition of the standards of behaviour for members and staff.

These matters are defined in law and the various codes of conduct and protocols contained within the County Council's constitution. Staff are reminded of the requirements of these codes on a regular basis, while specific training in relation to matters such as declarations of interest is provided to elected members following each set of County Council elections.

Review of the effectiveness of the Fund's decision making framework including delegation arrangements and robustness of data.

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals which define how decisions are taken and the processes and controls required to manage risks.

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery
- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pensions administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer providing advice on the impact of legislative changes when necessary.

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

Whistle blowing and receiving and investigating complaints from the public

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually in the Annual Administration Report.

Identifying the development needs of members and senior officers in relation to their roles and supporting them through appropriate training.

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. Following a restructure of the County Council's management the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund. These functions were transferred to the interim Head of Fund on 24 March 2016. This was as a result of establishing the Local Pensions Partnership and the Director of the Fund transferring into this new arrangement.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.
The key planned activities of the Fund during 2015/16 were:

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pensions Fund Authority that could require fundamental changes to the Fund's Governance arrangements.

- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.

- The further review of the Fund's policies and discretions in the light of LGPS 2014.

- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.

- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved the arrangements for the pooling of assets and sharing of services with the London Pensions Fund Authority.
The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The Director of Finance, Governance and Public Services as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Head of Internal Audit who is managerially accountable to the Director of Legal and Democratic Services. The Head of Internal Audit provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.

- During the year the Head of Internal audit's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Head of Internal Audit's Annual Report for 2015/16 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.

- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.

- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.

- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2016/17

The following specific actions are proposed for completion during 2016/17.

- Working with the Fund's Actuary and engaging with the employer's throughout the valuation process to ensure that risks to the longer term sustainability of the fund and costs to employers are dealt with in a balanced and transparent manner.
- Finalise a review of the investment strategy, and in particular the Strategic Asset Allocation for the fund based on the actuarial valuation.
- A further review of the Fund's governance arrangements as the relationship with Local Pensions Partnership (LPP) becomes more established.
- A review of the effectiveness of the Local Pensions Board.
- Preparing for the injection of new committee members following the 2017 elections by designing an induction and training program.

County Councillor Kevin Ellard
Chair of the Pension Fund Committee

Abigail Leech
Head of Fund
Lancashire County Pension Fund

Independent auditor's statement to the members of Lancashire County Council on the Pension Fund financial statements included in the Pension Fund annual report

The published version will include the Audit Certification on this page.

LANCASHIRE COUNTY PENSION FUND

Fund account

2014/15 £m		Note	2015/16 £m
	Dealing with members, employers and others directly involved in the Fund		
238.0	Contributions	6	238.6
4.8	Transfers in from other pension funds	7	5.5
242.8			**244.1**
(240.2)	Benefits	8	(245.8)
(100.1)	Payments to and on account of leavers	9	(12.5)
(35.4)	Management expenses	10	(45.3)
(375.7)			**(303.6)**
(132.9)	**Net withdrawals from dealings with members**		**(59.5)**
	Returns on investments		
90.7	Investment income	11	99.1
684.7	Profit and losses on disposal of investments and changes in the market value of investments	14	165.9
775.4	**Net return on investments**		**265.0**
642.5	**Net increase / (decrease) in the net assets available for benefits during the year**		**205.5**

LANCASHIRE COUNTY PENSION FUND

Net assets statement as at 31 March 2016

31 March 2015 £m		Note	31 March 2016 £m
6,383.1	Investment assets	14	6,108.0
60.0	Cash deposits	14	210.3
6,443.1			**6,318.3**
(629.6)	Investment liabilities	14	(291.0)
28.1	Current assets	20	27.7
(10.9)	Current liabilities	21	(18.8)
5,830.7	**Net assets of the Fund available to fund benefits at the period end**		**6,036.2**

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 as at 31 March 2016 and its income and expenditure for the year then ended.

Neil Kissock
Director of Financial Resources

County Councillor Terry Brown
Chair of the Audit and Governance 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 2015/16 cash inflows during the year consisted of £343.2 million and cash outflows were £303.6 million, representing a net cash inflow of £39.6 million (compared with an outflow of £42.2 million in the previous year). Benefits payable amounted to £245.8 million and were partially offset by net investment income of £99.1 million (including £13.1 million accrued dividends); contributions of £238.6 million and transfers in of £5.5 million.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) regulations.

1.1 General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

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 Fund is overseen by the Lancashire Pension Fund Committee, which is a committee of Lancashire County Council.

The investments of the Pension Fund are managed by both external and in-house 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

Your Pension Service - Lancashire Fund Information

On 8 April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11th April.
LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

1.2 Membership

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Organisations participating in the Lancashire County Pension Fund include:

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

There are 369 employer organisations (2014/15: 320 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 261 have active members (2014/15: 218) as detailed below:

31 March 2015	Lancashire County Pension Fund	31 March 2016
320	Total number of employers	369
218	Number of employers with active members	261
	Number of active scheme members	
27,405	County Council	27,106
26,774	Other employers	29,223
54,179	**Total**	**56,329**
	Number of pensioners	
21,765	County Council	22,414
21,446	Other employers	22,093
43,211	**Total**	**44,507**
	Number of deferred pensioners	

29,148	County Council	33,253
26,665	Other employers	28,377
55,813	**Total**	**61,630**
153,203	**Total membership**	**162,466**

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.0% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31 March 2016 was done at 31 March 2013. Currently employer contributions range from 3.0% to 25.8% of pensionable pay.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**	**Service post 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2015/16 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 25 of these accounts.

3. ACCOUNTING POLICIES

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

Normal contributions both from the members and from the employer are accounted for on an accruals basis. Member contributions are in accordance with the LGPS Regulations 2013 and employer contributions are at the percentage rate recommended by the scheme actuary, in the payroll period to which they relate.

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

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

3.1.2 Transfers to and from other schemes

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

3.1.3 Investment income

3.1.3.1 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.

3.1.3.2 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 assets statement as a current financial asset.

3.1.3.3 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 assets statement as a current financial asset.

3.1.3.4 Property–related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 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.

3.2 Fund account – expense items

3.2.1 Benefits payable

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

3.2.2 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.

3.2.3 Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Costs".

Management expenses have now been broken down across the following three categories:

- 3.2.4 - Administrative expenses
- 3.2.5 - Oversight and governance expenses
- 3.2.6 - Investment management expenses

3.2.4 Administrative expenses

Administration expenses consist of the following :

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

All administrative expenses are accounted for on an accruals basis. 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.

3.2.5 Oversight and governance expenses

Oversight and governance expenses include the following costs:

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

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

3.2.6 Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers and any fees payable to fund managers which are deducted from fund assets.

All investment management expenses are accounted for on an accruals basis.

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.

The Fund has negotiated performance related fees with a number of managers.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2015/16, £4.7m of fees is based on such estimates (2014/15: £2.3m).

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.

3.3 Net assets statement

3.3.1 Financial assets

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

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

3.3.2 Market-quoted investments

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

3.3.3 Fixed interest securities

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

3.3.4 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.

Where securities are subject to takeover offer, the valuation is based on the consideration offered, less 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 International Private Equity and Venture Capital Valuation Guidelines 2012.

3.3.5 Limited partnerships

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

3.3.6 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.

3.3.7 Freehold and leasehold properties

The properties were valued at open market value at 31 March 2016 by Simon Smith MRICS of independent valuers Cushman and Wakefield LLP in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.8 Acquisition costs of investments

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

3.3.9 Valuation of investments

Investments are shown at their fair value as at 31 March 2016. The fair value is the current bid price for quoted securities and unitised securities.

3.3.10 Foreign currency transactions

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

3.3.11 Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

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.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

3.3.12 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.

3.3.13 Cash and cash equivalents

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

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

3.3.14 Financial liabilities

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

3.3.15 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 or loss.

3.3.16 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 assets statement (note 25).

3.3.17 Additional voluntary contributions

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

AVCs are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 19).

3.3.18 Securities lending

Investments lent under securities lending arrangements continue to be recognised in the net assets 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.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

4.1 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 the International Private Equity and Venture Capital Valuation Guidelines 2012.

4.2 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 IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 24. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the Pension Fund's net assets statement at 31 March 2016 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 the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £917.7 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will comprise level three assets whose valuations involve a degree of management judgement.	The market value of long-term credit investments in the financial statements totals £1,454.2m. There is a risk that these investments might be under or overstated in the accounts.
Bonds secured on affordable housing assets	The bonds are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority bonds totals £83.6m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £80.5m. 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 £380m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £200m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £165m.

6. CONTRIBUTIONS RECEIVABLE

2014/15 £m		2015/16 £m
	By category	
183.2	Employers	183.7
54.8	Members	54.9
238.0		**238.6**
	By authority	
102.1	County Council	104.2
115.4	Scheduled bodies	113.2
20.5	Admitted bodies	21.2
238.0		**238.6**
	By type	
54.8	Employee's normal contributions	54.8
124.4	Employer's normal contributions	122.5
47.3	Employer's deficit recovery contributions	49.0
11.5	Employer's augmentation contributions	12.3
238.0		**238.6**

Augmentation contributions comprise additional pension benefits awarded to scheme members in line with the general conditions of employment.

Within the employee contributions figure for 2015/16, £0.4m is voluntary and additional regular contributions (2014/15: £0.4m).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

2014/15 £m		2015/16 £m
4.8	Individual transfers in from other schemes	5.5
4.8		**5.5**

8. BENEFITS PAYABLE

2014/15 £m		2015/16 £m
	By category	
192.0	Pensions	200.2
41.7	Lump sum retirement benefits	40.5
6.5	Lump sum death benefits	5.1
240.2		**245.8**
	By authority	
106.3	County Council	107.2
118.5	Scheduled bodies	120.4
15.4	Admitted bodies	18.2
240.2		**245.8**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014/15 £m		2015/16 £m
0.2	Refunds to members leaving service	0.7
10.3	Individual transfers	11.2
89.6	Group transfers	0.6
100.1		**12.5**

10. MANAGEMENT EXPENSES

2014/15 £m		2015/16 £m
3.5	Administrative costs	4.1
29.4	Investment management expenses	32.5
2.5	Oversight and governance costs	8.7
35.4		**45.3**

Oversight and governance costs rose during the year due to legal and advisory costs arising from the implementation of infrastructure opportunities in line with the Funds investment strategy as well costs associated with the Funds partnership with the LPFA for the pooling of the executive and investment assets of the two organisations.

10.1 Investment management expenses

2014/15 £m		2015/16 £m
1.8	Transaction costs	1.5
26.4	Management fees	27.9
1.0	Performance related fees	2.9
0.2	Custody fees	0.2
29.4		**32.5**

The analysis of costs of managing the Fund has been prepared in accordance with CIPFA guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

11. INVESTMENT INCOME

2014/15 £m		2015/16 £m
2.9	Fixed interest securities	3.3
40.6	Equity dividends	41.6
0.0	Index linked securities	1.1
15.0	Pooled investment vehicles	22.3
24.3	Net rents from properties	29.2
0.5	Interest on cash deposits	0.5
7.4	Other	1.1
90.7		**99.1**

12. PROPERTY INCOME

2014/15 £m		2015/16 £m
29.7	Rental income	32.3
(5.4)	Direct operating expenses	(3.1)
24.3	**Net income**	**29.2**

13. 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 2015/16 was £1.5m (2015/16: £2.2m)

Securities on loan at the 31 March 2016 were £76.2m (2015: £86m) and are included in the net assets statement to reflect the scheme's continuing economic interest in the securities. This consisted of £76.2m of equities (2015: £86m equities).

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 £81.6m of bonds (2015: £92m of equities).

14. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2015/16

	Market value as at 1 April 2015 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2016 £m
Fixed interest securities	148.8	103.2	(126.8)	(2.1)	123.1
Equities	2,000.7	377.7	(347.6)	39.1	2,069.9
Index linked securities	317.9	865.0	(1,115.5)	(3.7)	63.7
Pooled investment vehicles	2,740.2	950.4	(842.7)	87.7	2,935.6
Direct property	531.4	84.4	(52.6)	44.9	608.1
	5,739.0	**2,380.7**	**(2,485.2)**	**165.9**	**5,800.4**
Derivative contracts:					
Forward currency contracts asset value	632.4				294.5
Cash deposits	60.0				210.3
Investment accruals	11.7				13.1
Investment assets	**6,443.1**				**6,318.3**
Forward currency contracts liability value	(629.6)				(291.0)
Portfolio value	**5,813.5**				**6,027.3**

2014/15

	Market value as at 1 April 2014 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value as at 31 March 2015 £m
Fixed interest securities	233.0	328.1	(411.6)	(0.7)	148.8
Equities	1,921.1	356.8	(611.0)	333.8	2,000.7
Index linked securities	0.0	1,133.4	(873.3)	57.8	317.9
Pooled investment vehicles	2,238.9	761.1	(503.0)	243.2	2,740.2
Direct property	450.5	59.7	(29.4)	50.6	531.4
	4,843.5	**2,639.1**	**(2,428.3)**	**684.7**	**5,739.0**
Derivative contracts:					
Forward currency contracts asset value	21.4				632.4
Cash deposits	315.5				60.0
Investment accruals	12.4				11.7
Investment assets	**5,192.8**				**6,443.1**
Forward currency contracts liability value	(21.3)				(629.6)
Portfolio value	**5,171.5**				**5,813.5**

Investments analysed by fund manager

31 March 2015				31 March 2016	
£m	%			£m	%
Public equity					
734.1	12.6%	External managers	Baillie Gifford	733.3	12.1%
334.2	5.7%		MFS	350.1	5.8%
283.5	4.9%		Morgan Stanley	324.6	5.4%
230.8	4.0%		NGAM	209.7	3.5%
448.5	7.7%		Robeco	496.0	8.2%
266.9	4.6%	UCITS funds	AGF	234.5	3.9%
238.1	4.1%		MFG (Magellan)	251.2	4.2%
2,536.1	**43.6%**			**2,599.4**	**43.1%**
Private equity					
269.9	4.7%	External managers	Capital Dynamics	336.5	5.6%
7.6	0.1%	Direct	Standard Life	11.7	0.2%
277.5	**4.8%**			**348.2**	**5.8%**
Long term credit investments					
123.2	2.1%	Senior secured loans	Ares Institutional	56.0	0.9%
72.8	1.3%		Babson	74.5	1.2%
44.2	0.8%		Hayfin	73.0	1.2%
57.1	1.0%		Highbridge	0.0	0.0%
0.0	0.0%		Kreos	4.9	0.1%
0.0	0.0%		Muzinich Private Debt Fund	5.9	0.1%
0.0	0.0%		Permira Credit Solutions	47.3	0.8%
55.8	1.0%		THL	57.0	0.9%
0.0	0.0%		White Oak	18.4	0.3%
42.6	0.7%	Loans secured on real assets	Heylo Housing	83.6	1.4%
153.5	2.6%		Prima	214.6	3.5%
0.0	0.0%		Venn Commercial Real Estate	83.0	1.4%

11.7	0.2%		Westmill	11.4	0.2%
128.8	2.2%	Emerging market debt	Bluebay	125.0	2.1%
58.2	1.0%		HSBC	60.0	1.0%
83.5	1.4%		Investec	83.1	1.4%
129.6	2.2%		Pictet	134.0	2.2%
34.4	0.6%	Credit opportunities	CRC-Christofferson Robb & Co	89.2	1.5%
44.3	0.8%		EQT	53.0	0.9%
54.8	1.0%		MFO King Street	109.9	1.8%
53.8	0.9%		Monarch	52.4	0.9%
58.8	1.0%		Neuberger Berman	54.0	0.9%
28.9	0.5%		Pimco Bravo	47.6	0.8%
1,236.0	**21.3%**			**1,537.8**	**25.5%**
Liquid credit (cash and bonds)					
226.9	3.9%	External managers	Babson	0.0	0.0%
181.9	3.1%		ING	0.0	0.0%
457.0	7.9%		In-house	283.8	4.7%
865.8	**14.9%**			**283.8**	**4.7%**
Infrastructure					
35.9	0.6%	Direct	Arclight Energy	62.6	1.0%
65.6	1.1%		Capital Dynamics Cape Byron	66.4	1.1%
32.9	0.6%		Capital Dynamics Clean Energy	31.7	0.5%
92.8	1.6%		Capital Dynamics Red Rose	76.0	1.3%
0.0	0.0%		Capital Dynamics US Solar	0.7	0.0%
13.1	0.2%		EQT Infrastructure	9.6	0.2%
15.9	0.3%		Global Infrastructure Partners	34.3	0.6%
0.0	0.0%		Guild Investments Ltd	70.4	1.1%
33.4	0.6%		Highstar Capital	35.2	0.6%

29.8	0.5%		Icon Infrastructure	34.0	0.6%
4.3	0.1%		ISQ Global Infrastructure	7.5	0.1%
0.0	0.0%		Madrilena Red de Gas (MRG)	135.9	2.3%
0.0	0.0%		Stonepeak Infrastructure	5.2	0.1%
323.7	**5.6%**			**569.5**	**9.5%**
Property					
531.4	9.1%	Direct	Knight Frank	608.1	10.1%
12.9	0.2%	Indirect	Gatefold Hayes	30.4	0.5%
0.0	0.0%		Kames Target	14.0	0.2%
30.1	0.5%		M&G Europe fund	36.1	0.6%
574.4	**9.8%**			**688.6**	**11.4%**
5,813.5	**100.0%**	**Portfolio value**		**6,027.3**	**100.0%**

Fixed interest securities

31 March 2015 £m		31 March 2016 £m
94.2	UK corporate bonds quoted	85.3
54.6	Overseas corporate bonds quoted	37.8
148.8		**123.1**

Equities

31 March 2015 £m		31 March 2016 £m
212.3	UK quoted	191.3
1,788.4	Overseas quoted	1,878.6
2,000.7		**2,069.9**

Index linked securities

31 March 2015 £m		31 March 2016 £m
317.9	UK quoted	63.7
317.9		**63.7**

Pooled investment vehicles

31 March 2015 £m		31 March 2016 £m
	UK managed funds:	
58.2	Fixed income funds	60.0
278.5	Venture capital	369.4
12.9	Property funds	44.5
	Overseas managed funds:	
505.0	Equity funds	485.7
1,443.8	Fixed income funds	1,097.3
0.5	Cash funds	0.6
30.1	Property funds	36.1
411.2	Venture capital	842.0
2,740.2		**2,935.6**

Properties

31 March 2015 £m		31 March 2016 £m
460.6	UK – freehold	515.7
70.8	UK – long leasehold	92.4
531.4		**608.1**

Property holdings

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

Details of these directly owned properties are as follows.

31 March 2015 £m		31 March 2016 £m
450.5	**Balance as at start of the year**	**531.4**
	Additions:	
57.3	Purchases	75.5
2.4	Construction	8.9
(26.1)	Disposals	(52.6)
47.3	Net gain/loss on fair value	44.9
531.4	**Balance as at the end of the year**	**608.1**

Operating leases

The Fund leases out property under operating leases.

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

2014/15 * £m		2015/16 £m
28.6	Leases expiring in the following year	29.5
98.2	Leases expiring in 2 to 5 years	87.0
105.8	Leases expiring after 5 years	87.6
232.6	**Total**	**204.1**

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

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

* Figures for 2014/15 have been restated due to more detailed information becoming available to the Fund.

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place which is managed by the global custodian and the Fund's internal managers.

Derivative contracts (forward currency positions)

Settlements	Currency bought*	Local value m	Currency sold*	Local value m	Asset value £m	Liability value £m
Up to one month	GBP	286.0	USD	(405.6)	286.0	(282.2)
Up to one month	JPY	35.5	USD	(0.3)	0.2	(0.2)
One to six months	USD	11.2	CHF	(10.9)	7.7	(8.0)
One to six months	USD	0.8	AUD	(1.1)	0.6	(0.6)
Open forward currency contracts at 31 March 2016					**294.5**	**(291.0)**
Net forward currency contracts at 31 March 2016						**3.5**

Prior year comparative

					Asset value £m	Liability value £m
Open forward currency contracts at 31 March 2015					**632.4**	**(629.6)**
Net forward currency contracts at 31 March 2015						**2.8**

* Currencies are referred to above using International Standards Organisation codes.

GBP – British Pound
USD – US Dollar
CHF – Swiss Franc
AUD – Australian Dollar
JPY – Japanese Yen

Cash deposits

31 March 2015 £m		31 March 2016 £m
35.0	Sterling	114.9
25.0	Foreign currency	95.4
60.0		**210.3**

15. 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.

Direct property, although included in the total market value of net assets, is excluded from the table since this is categorised as investment property under IAS40 rather than as a financial instrument.

31 March 2016	**Fair value through profit or loss £m**	**Loans and receivables £m**	**Financial liabilities at amortised cost £m**
Financial assets			
Fixed interest securities	123.1	0	0
Equities	2,069.9	0	0
Index linked securities	63.7	0	0
Pooled investment vehicles	2,935.6	0	0
Derivative contracts	294.5	0	0
Cash deposits	0	210.3	0
Investment accruals	13.1	0	0
Debtors	0	27.7	0
Total financial assets	**5,499.9**	**238.0**	**0**
Financial liabilities			
Derivative contracts	291.0	0	0
Creditors	0	0	18.8
Total financial liabilities	**291.0**	**0**	**18.8**

31 March 2015	Fair value through profit or loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	148.8	0	0
Equities	2,000.7	0	0
Index linked securities	317.9	0	0
Pooled investment vehicles	2,740.2	0	0
Derivative contracts	632.4	0	0
Cash deposits	0	60.0	0
Investment accruals	11.7	0	0
Debtors	0	28.1	0
Total financial assets	**5,851.7**	**88.1**	**0**
Financial liabilities			
Derivative contracts	629.6	0	0
Creditors	0	0	10.9
Total financial liabilities	**629.6**	**0**	**10.9**

16. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The net gain on financial assets at fair value through profit and loss is £121.0m (2014/15: £634.1m)

17. FINANCIAL INSTRUMENTS – VALUATION

17.1 Valuation of financial instruments carried at fair value

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

17.1.1 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.

17.1.2 Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

17.1.3 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 and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

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

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

The following table provides an analysis of the financial assets and liabilities (excluding direct property and cash) of the Pension Fund grouped into level 1 to 3 based on the level of which the fair value is observable. Loans and receivables are excluded from this table as they are held at amortised cost.

31 March 2016	**Level 1** **£m**	**Level 2** **£m**	**Level 3** **£m**	**Total** **£m**
Financial assets				
Financial assets at fair value through profit and loss	3,341.1	245.6	1,913.2	5,499.9
Total financial assets	**3,341.1**	**245.6**	**1,913.2**	**5,499.9**
Financial liabilities				
Financial liabilities at fair value through profit and loss	291.0	0	0	291.0
Total financial liabilities	**291.0**	**0**	**0**	**291.0**

31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,047.9	368.8	1,420.5	5,837.2
Total financial assets	**4,047.9**	**368.8**	**1,420.5**	**5,837.2**
Financial liabilities				
Financial liabilities at fair value through profit and loss	629.6	0	0	629.6
Total financial liabilities	**629.6**	**0**	**0**	**629.6**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

18.1 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.

18.2 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.

18.3 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.

18.3.1 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 2015/16 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.4%
Total equities	9.6%
Alternatives	6.4%
Total property	2.4%

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 also shown):

Asset type	31 March 2016 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,233.0	6.4%	1,311.9	1,154.1
Total equities	2,902.9	9.6%	3,181.6	2,624.2
Alternatives	975.7	6.4%	1,038.1	913.3
Total property	688.8	2.4%	705.3	672.3
Total assets available to pay benefits	**5,800.4**		**6,236.9**	**5,363.9**

Asset type	31 March 2015 £m	Percentage change %	Value on increase £m	Value on decrease £m
Investment portfolio assets:				
Total bonds (including index linked)	1,968.6	6.0%	2,086.7	1,850.5
Total equities	2,871.7	9.6%	3,147.4	2,596.0
Alternatives	324.3	9.6%	355.4	293.2
Total property	574.4	2.1%	586.4	562.3
Total assets available to pay benefits	**5,739.0**		**6,175.9**	**5,302.0**

18.4 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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2015 £m	Asset type	31 March 2016 £m
60.0	Cash and cash equivalents	210.3
1,650.8	Fixed interest securities	1,280.3
1,710.8	**Total**	**1,490.6**

18.4.1 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 (1BPS = 0.01%). 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 March 2016 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	210.3	2.1	(2.1)
Fixed interest securities	1,280.3	12.8	(12.8)
Total change in assets available	**1,490.6**	**14.9**	**(14.9)**

Asset type		Change in year in net assets available to pay benefits	
	31 March 2015 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	60.0	0.6	(0.6)
Fixed interest securities	1,650.8	16.5	(16.5)
Total change in assets available	**1,710.8**	**17.1**	**(17.1)**

18.5 Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2016 and as at the previous year end:

31 March 2015 £m	Currency exposure – asset type	31 March 2016 £m
1,498.3	Overseas bonds (including index linked)	850.9
2,513.8	Overseas equities	2,622.9
191.4	Overseas alternatives	868.0
30.1	Overseas property	36.1
4,233.6	**Total overseas assets**	**4,377.9**

18.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1% (as measured by one standard deviation).

A 6.1% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (previous year = 6.2%).

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

Currency exposure - asset type	31 March 2016	Change in year in net assets available to pay benefits	
		+6.1%	-6.1%
	£m	£m	£m
Overseas bonds (including index linked)	850.9	902.8	799.0
Overseas equities	2,622.9	2,782.9	2,462.9
Overseas alternatives	868.0	920.9	815.0
Overseas property	36.1	38.3	33.9
Total change in assets available	**4,377.9**	**4,644.9**	**4,110.8**

Currency exposure - asset type	31 March 2015	Change in year in net assets available to pay benefits	
		+6.2%	-6.2%
	£m	£m	£m
Overseas bonds (including index linked)	1,498.3	1,591.2	1,405.4
Overseas equities	2,513.8	2,669.6	2,357.9
Overseas alternatives	191.4	203.3	179.5
Overseas property	30.1	32.0	28.2
Total change in assets available	**4,233.6**	**4,496.1**	**3,971.0**

18.6 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 31 March 2016 was £210.3m (31 March 2015: £60m.) This was held with the following institutions:

Summary	Rating	31 March 2016 £m	31 March 2015 £m
Bank deposit accounts			
Northern Trust	A+	154.8	30.8
Svenska Handelsbanken	AA-	55.4	30.0
Bank current accounts			
Natwest account	BBB-	0.1	(0.8)
Total		**210.3**	**60.0**

18.7 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 2016 are due within the one year.

19. 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 2015 to 31 March 2016 for Prudential and 1 September 2014 to 31 August 2015 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.

	Equitable Life £m	Prudential £m	Total £m
Value at start of the year	1.0	21.1	22.1
Income (incl. contributions, bonuses, interest & transfers in)	0.0	4.8	4.8
Expenditure (incl. benefits, transfers out & change in market value)	(0.2)	(3.9)	(4.1)
Value at the end of the year	**0.8**	**22.0**	**22.8**

20. CURRENT ASSETS

31 March 2015 £m		31 March 2016 £m
14.4	Contributions due – employers	13.9
4.6	Contributions due – members	4.6
9.1	Debtors - bodies external to general government	9.2
28.1		**27.7**

31 March 2015 £m	Analysis of debtors	31 March 2016 £m
15.6	Other local authorities	14.9
12.5	Other entities and individuals	12.8
28.1		**27.7**

21. CURRENT LIABILITIES

31 March 2015 £m		31 March 2016 £m
0.1	Unpaid benefits	1.1
10.8	Accrued expenses	17.7
10.9		**18.8**

31 March 2015 £m	Analysis of creditors	31 March 2016 £m
4.2	Other local authorities	2.1
6.7	Other entities and individuals	16.7
10.9		**18.8**

22. 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 £665.3m. The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of 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.

Commitments to outstanding call payments due to certain credit strategies stood at £497.2m. The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £19.9m at 31 March 2016. These amounts are expected to be drawn down over the next 12 months based on valuation certificates.

The commitment on indirect property of £13.8m at 31 March 2016. These amounts are expected to be drawn down over the next few months.

23. RELATED PARTY TRANSACTIONS

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

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

23.1 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 m (2014/15: £4.5m) 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 £81.4m to the fund in 2015/16 (2014/15: £79.5m). All monies owing to and due from the Fund were paid in year.

23.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2016 payroll, are included within the debtors figure in note 20.

23.3 Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2015/16 regarding membership of, and transactions with such persons or their related parties and as such the following related party transactions have been declared:

George Graham, Director of the Lancashire Pension Fund acts in an un-remunerated Chair capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

George Graham was appointed as Executive Director of the Local Pensions Partnership Ltd and Local Pensions Partnership (Administration) Ltd prior to the staff transfer on the 8 April 2016.

Mike Jensen, Chief Investment Officer acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m),

Mike Jensen was appointed as an Executive Director of the Local Pensions Partnership (Investments) Ltd prior to the staff transfer on the 8 April 2016.

Richard Tomlinson, Investment Manager acts in an un-remunerated director capacity on Guild Investments Ltd, which is used as a vehicle for holding infrastructure investments (£70.4m).

Trevor Castledine, Deputy Chief Investment Officer acts in an un-remunerated non-executive director capacity of Heylo Housing Ltd in which the Fund has an interest (£83.6m).

Damon Lawrenson was appointed as interim Director of Financial Resources from March 2015 until March 2016. Payments totalling £7,764.54 excluding VAT were made to the company DDL Consultancy Limited in 2015/16 of which Damon was a director. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

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

23.4 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 Fund does not employ any staff directly. Lancashire County Council employs the staff involved in providing the duties of the administering authority for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Lancashire County Council Statement of Accounts 2015/16.

In the interests of transparency the Fund has incorporated disclosure of the remuneration awarded of senior officers employed by Lancashire County Council who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

The remuneration as charged to Lancashire County Pension Fund of senior officers of Lancashire County Council who have significant management responsibilities for Lancashire County Pension Fund.

2015/16	**Employment period**	**Salary** **£**	**Pension contributions** **£**	**Total including pension contributions** **£**
*Director of Lancashire Pension Fund	01/04/15 - 31/03/16	86,199	10,800	96,999
**Head of Service Pension Fund Client	01/12/15 – 31/03/16	16,316	2,167	18,483
***Director of Financial Resources (Section 151 officer)	29/02/16 – 31/03/16	401	25	426
Chief Investment Officer	01/04/15 - 31/03/16	120,150	13,230	133,380

*The Director of Lancashire Pension fund held the position for the full 12 month period. This position was terminated on 31/03/2016

**The Head of Service Pension Fund client, took up this new post on the 1st of December 2015

***The Director of Financial Resources was appointed on the 29th of February 2016. This position was previously held by an interim consultant. Payments totalling £7,764.54 excluding VAT were made to the company DDL Consultancy Limited in 2015/16. The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

Senior Officers (unless stated above) took up their new posts after a council wide management restructure commencing on 1/4/15 and therefore no comparison has been done for the prior year.

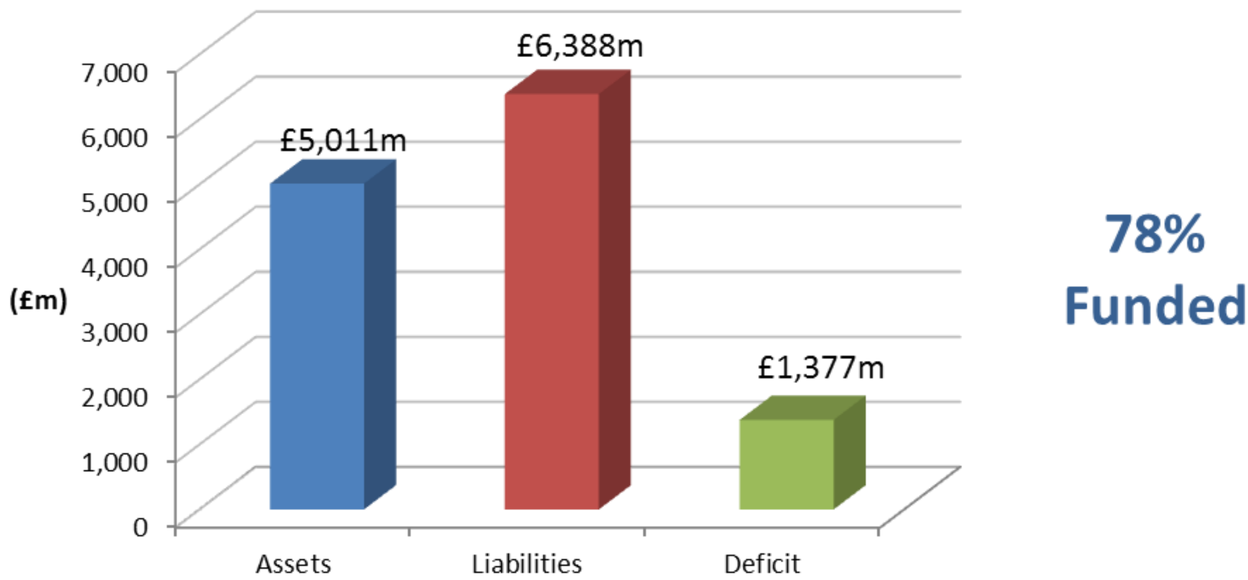
24. FUNDING ARRANGEMENTS

Accounts for the year ended 31 March 2016 - 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.

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.

25. 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 2016 (the 31 March 2015 assumptions are included for comparison):

31 March 2015		31 March 2016
3.3% per annum	Rate of return on investments (discount rate)	3.6% per annum
3.5% per annum	Rate of pay increases *	3.5% per annum*
2.0% per annum	Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £8,370m. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by approximately £570m. Adding interest over the year increases the liabilities by approximately £276m, and allowing for net benefits accrued/paid over the period increases the liabilities by approximately £30m (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is £8,106m.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2016

26. EVENTS AFTER THE NET ASSETS STATEMENT DATE

On 8 April 2016 Lancashire County Council entered into a Joint Venture with the London Pensions Fund Authority for the pooling of the executive functions of the two organisations together with the investment assets of the two funds.

The staff involved in the operation of the two funds transferred to the new organisation, the Local Pensions Partnership (LPP) on 8 April 2016 and the investment operations within the company received regulatory approval from the Financial Conduct Authority on 11 April.

LPP will operate the two pension funds under legal agreements with the administering authorities in line with the strategies and policies agreed by the relevant governing bodies, in the case of the Lancashire County Pension Fund the Pension Fund Committee.

Glossary of Terms and Contact Information

Eric Morecambe Statue, Morecambe

Accounting policies

Those principles, bases, conventions, rules and practices applied by the Council, which define the process by which transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or loss is to be recognised, the basis on which it is to be measured and where in the revenue account or Balance Sheet it is to be presented.

Accruals concept

The concept that income is recorded when it is earned rather than when it is received and expenditure is recorded when goods or services are received rather than when payment is made.

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 3 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.

Approved 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 charges

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads, and computer equipment

Capital grant

Grant monies received to fund expenditure on capital items (see 'capital expenditure' above).

Capital Grants Unapplied Account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the Comprehensive Income and Expenditure Statement and transferred into Capital Grants Unapplied via the Movement in Reserves Statement.

Capital receipts

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 Receipts Reserve

A usable reserve on the Balance Sheet holding recognised capital receipts. Capital receipts are credited to the Comprehensive Income and Expenditure Statement and then reversed through the Movement in Reserves Statement into the Capital Receipts Reserve. When used for financing, receipts are debited from this reserve into the Capital Adjustment Account.

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.

CIPFA (Chartered Institute of Public Finance and Accounting)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code, which defines proper accounting practice for local authorities.

Collection Fund

The Collection Fund is administered by district and borough councils to record the receipts from council tax and non-domestic rates; and payments to other preceptors including Lancashire County Council and Central Government. The accounts are kept separate from their own. The balance on the fund at the end of the year is carried forward in to 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.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- a present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Corporate and democratic core

Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.

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. Details of the movements in county fund during the year are shown in the Movement in Reserve Statement.

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.

Debtors

Amounts owed to the County Council which had not been paid by the date of the Balance Sheet.

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.

Employer's pension contributions

Payments to the pension scheme made by the County Council for current employees.

Expected return on pension 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.

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 purchased.

Impairment

A reduction in the value of a non-current asset below its carrying amount in the Balance Sheet (due to obsolescence, damage or an adverse change in the statutory environment).

Infrastructure assets

Highways non-current 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.

Net book value

The amount at which non current assets are included in the Balance Sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net current replacement cost

The cost of replacing or recreating the particular asset in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net expenditure

The cost of providing a service after the deduction of any 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 open market value of the asset in its existing use (or market value in the case of non-operational assets), less the costs incurred in selling the asset.

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-operational assets

Assets which are not in use.

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Assets used 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).

Property, plant and equipment

Tangible assets (i.e. assets with physical substance) held by the Council for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used for more than one period.

Provisions

An amount set aside by the Council for any liability of uncertain timing or amount that has been incurred.

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.

Related party

A person or organisation which has influence over another person or organisation.

Re-measurements – Assets (IAS 19)

The return on assets net of administration expenses and interest on income.

Re-measurements – Liabilities (IAS 19)

Re-measurement 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 Expenditure Funded from Capital under Statute (REFCUS)

Expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to Lancashire County Council.

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 Dedicated Schools Grant.

Tangible assets

Assets which have a physical form – for example, buildings, furniture and equipment.

Termination benefits

Amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The Code

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council.

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.

Contact Details

I would like to thank you for showing an interest in the Council's finances and hope you find this report useful. We are always looking to improve the way we present our financial information as we feel it is important for you as a resident or business in the County to understand all of the services that we provide and how your council tax and business rates are spent during the year. If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

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