Statement of accounts 2017/18

Lancashire County Council

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Front cover: Halo, Rossendale

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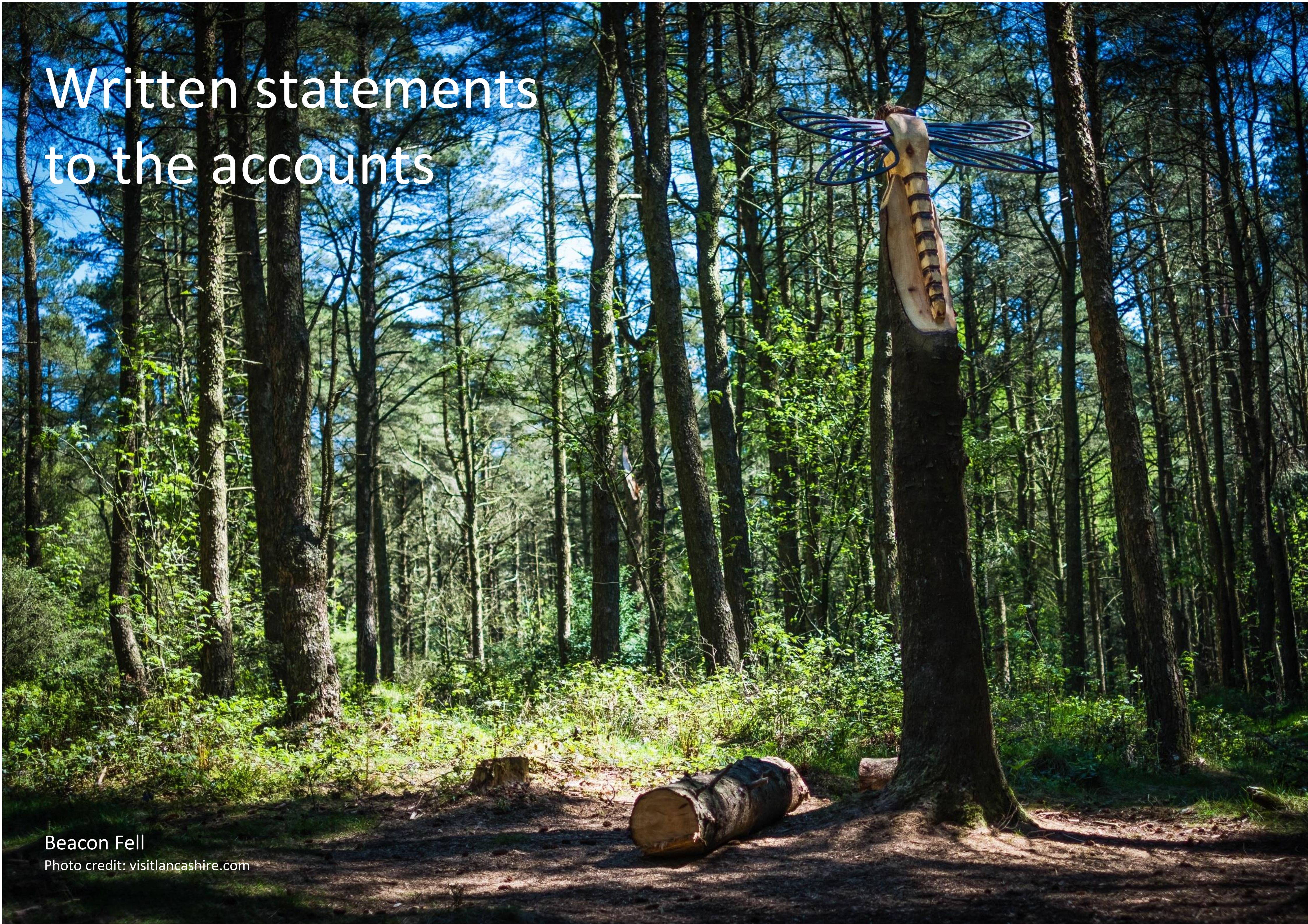


Beacon Fell
Photo credit: visitlancashire.com

Foreword by the Interim Chief Executive and Director of Resources

I am pleased to introduce the Statement of Accounts for the 2017/18 financial year. The financial statements set out both the single entity accounts for Lancashire County Council and the consolidated group position, incorporating its subsidiary Lancashire County Developments Limited. They also include the Lancashire County Pension Fund accounts for which Lancashire County Council is the administering authority.

In 2017/18 we have continued to deliver services valued by the communities we serve, and have been recognised for achievements in both delivering innovative services such as 'Shared Lives' and also creating the environment in which residents can prosper through the Local Enterprise Partnership.

Our new strategic plans have highlighted that the priorities of our local population are central to how we operate. However, like many councils, Lancashire County Council is facing significant financial pressures from reductions in government funding and increases in the demand for services.

The Council has a strong track record of living within its means through delivering savings and this is supported by healthy reserve balances reflecting strong financial stewardship. We have saved in excess of £200 million in the last four years but there is still more that we will need to do.

In 2018 the Council put in place a new management team who are well placed to lead the organisation successfully through the challenges ahead.

With the Council's financial performance in 2017/18 and medium term financial planning, I am confident that this gives us capacity to develop and deliver a sustainable future for the County Council.

A Ridgwell

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

The county of Lancashire

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

Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. It is one of the largest economies in the north of England with almost 52,000 businesses and a local economy valued at £29 billion.

Lancashire has a diverse heritage with a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment. Lancashire is home to the world's 4th largest aerospace cluster, with core strengths and capabilities in advanced manufacturing, energy, digital and health innovation.

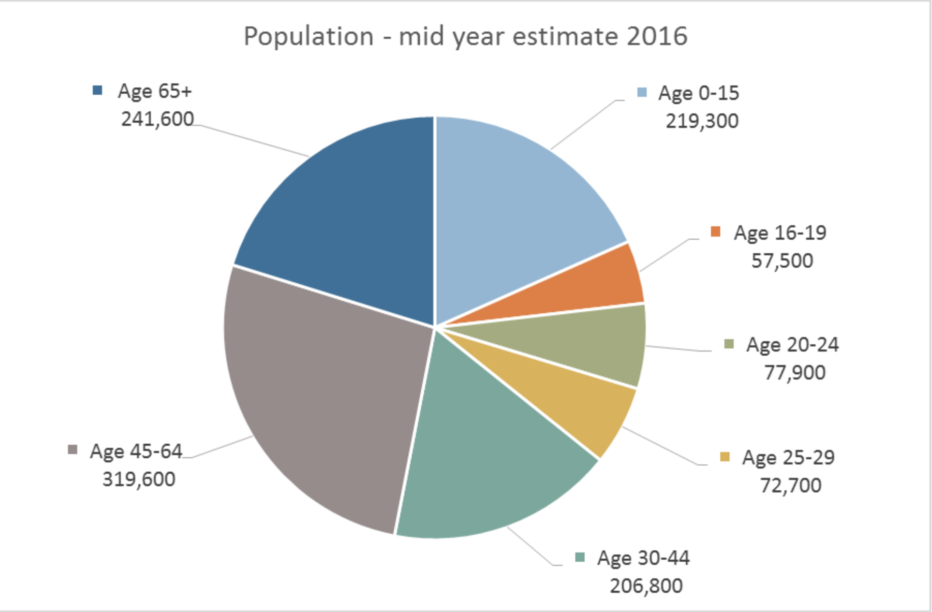
Demographic profile of Lancashire

The mid-year population estimate for Lancashire in 2016 indicated that there were 1,195,400 people living in the County. The population is projected to increase to 1.25 million by 2039[1].

Analysis by age reveals that most of the age groups between 0 and 64 years are predicted to decrease in the years to 2039. A substantial increase of c.110,000 is predicted in the over 65 age group and in the number of people aged 90 years and older[1].

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

The largest ethnic group is white (92%). The black and minority ethnic group (BME) makes up 8% of the population, the majority of this group being Asian/Asian British[2].



Source: Office for National Statistics – population mid-year estimate 2016 (revised 22 March 2018)
1 ONS 2014-based Subnational population projections
2 2011 Census

About Lancashire County Council

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

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

Our priorities

The priorities set the broad aspirations for the Council and are summarised below:

- Using money wisely;
- Putting local people first at all times;
- Protecting and re-opening libraries;
- Supporting economic growth and new jobs;
- Funding for extra bus services;
- Improving highways maintenance and safety;
- Caring for our most vulnerable residents;
- Keeping communities tidy and tackling floods.

In 2018 a new operational plan highlighted some key objectives that will support the delivery of these priorities which included: establishing a new leadership and management team, embedding a focus on service delivery, developing a sustainable financial strategy, and delivering growth and prosperity for the whole of Lancashire.

Our risks

A corporate risk and opportunity register is in place to identify and manage the risks that could impact on the delivery of the Council's objectives. The register is reported quarterly to the Cabinet Committee on Performance Improvement and the Audit, Risk and Governance Committee. Some of the most significant of these risks are highlighted below:

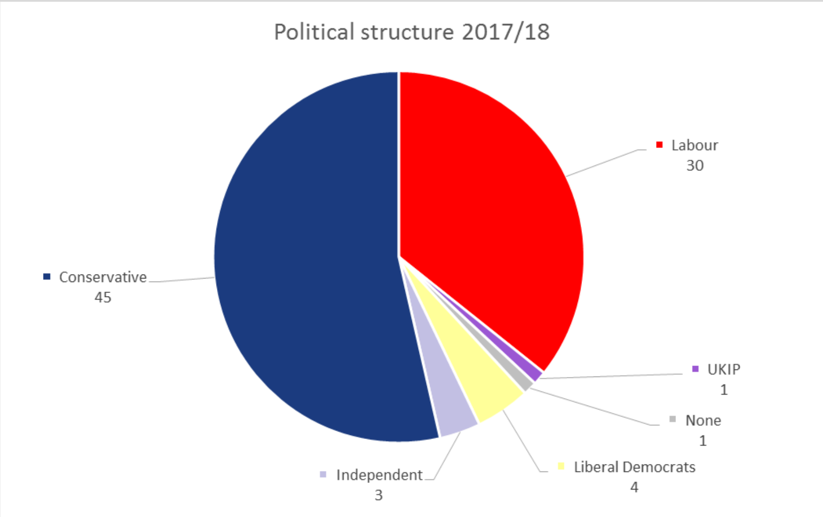
Risk description	Possible consequences	Mitigating actions
Failure to implement fully the Council's medium term financial strategy including the delivery of planned and new budget reductions.	Savings not achieved resulting in reserves depleted more quickly than planned. Reductions in service/quality.	Improve commercial and financial acumen. Continuously revalidate budget assumptions. Communicate with stakeholders to ensure an understanding of the financial position and the need for change. Service challenges will take place to review both costs and outcomes with a view to identifying further future savings to achieve a financially sustainable position.
Failure to adequately protect and safeguard children.	Children are put at risk of harm.	Director of Children's Services 'line of sight' to frontline practice to ensure adequate protection and safeguarding of children. Ongoing work to improve processes and practice.
Failure to recruit and retain experienced social work staff.	Inability to deliver effective services. High caseloads. Increased staff turnover / increased agency spend.	Strengthen leadership with new Executive Director of Education and Children's Services. Enhanced recruitment including recruitment evenings and use of social media. Weekly monitoring of workforce position and social work caseloads. Develop People Strategy and Employee Value Proposition.

Our governance structure

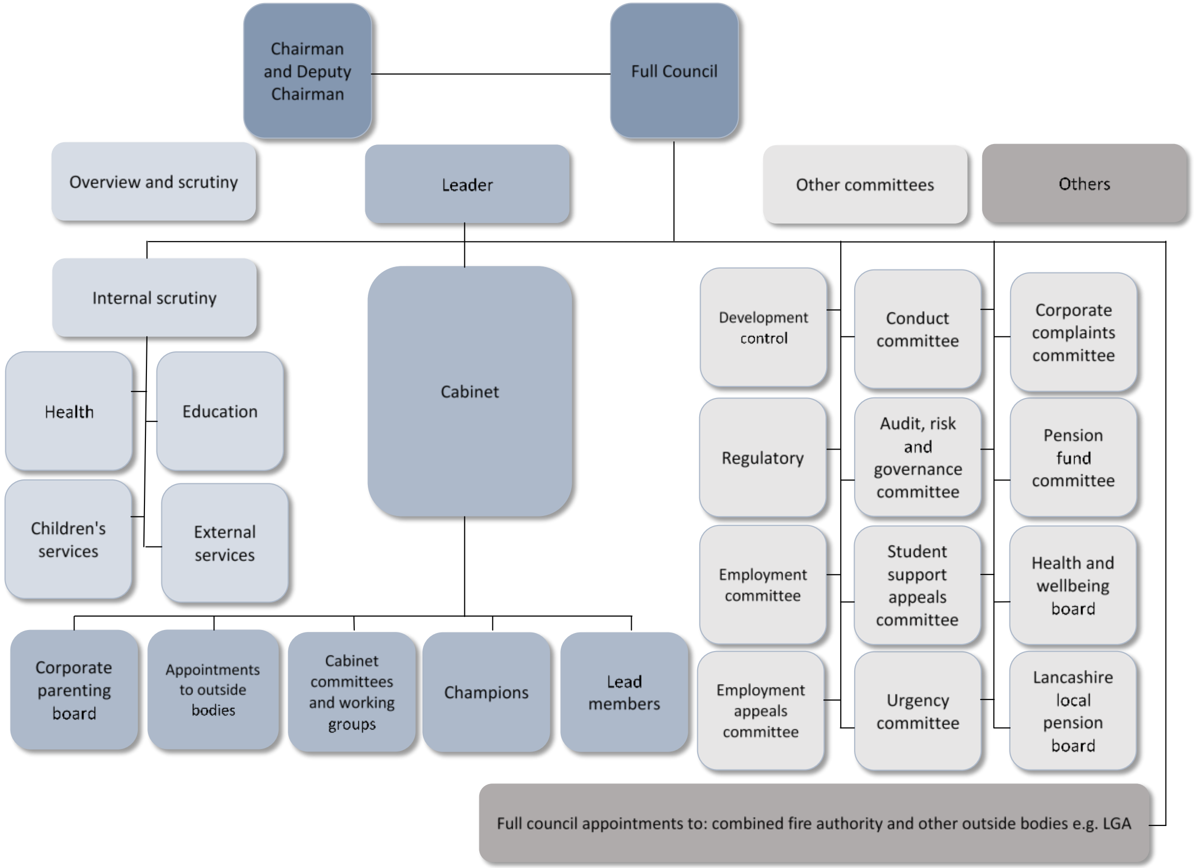
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities and bring their views into the Council's decision making process.

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

The chart below shows the political structure of the Council in the 2017/18 financial year.



The political management structure of the Council is shown below.

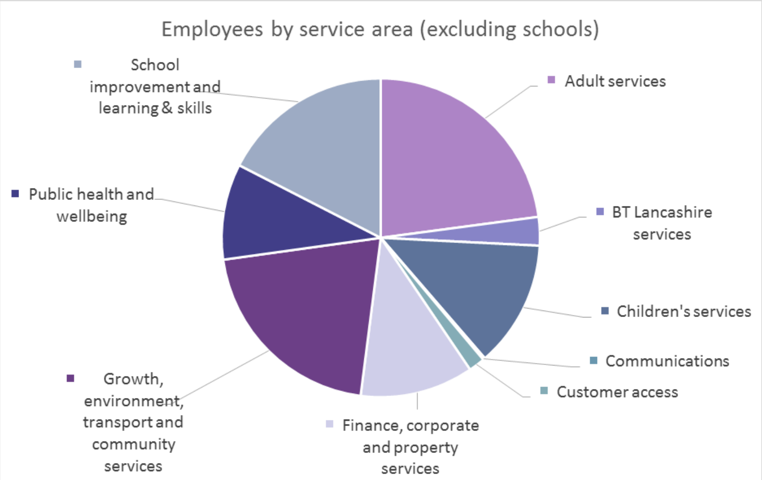


Further details of the Council's governance arrangements are provided in the Annual Governance Statement.

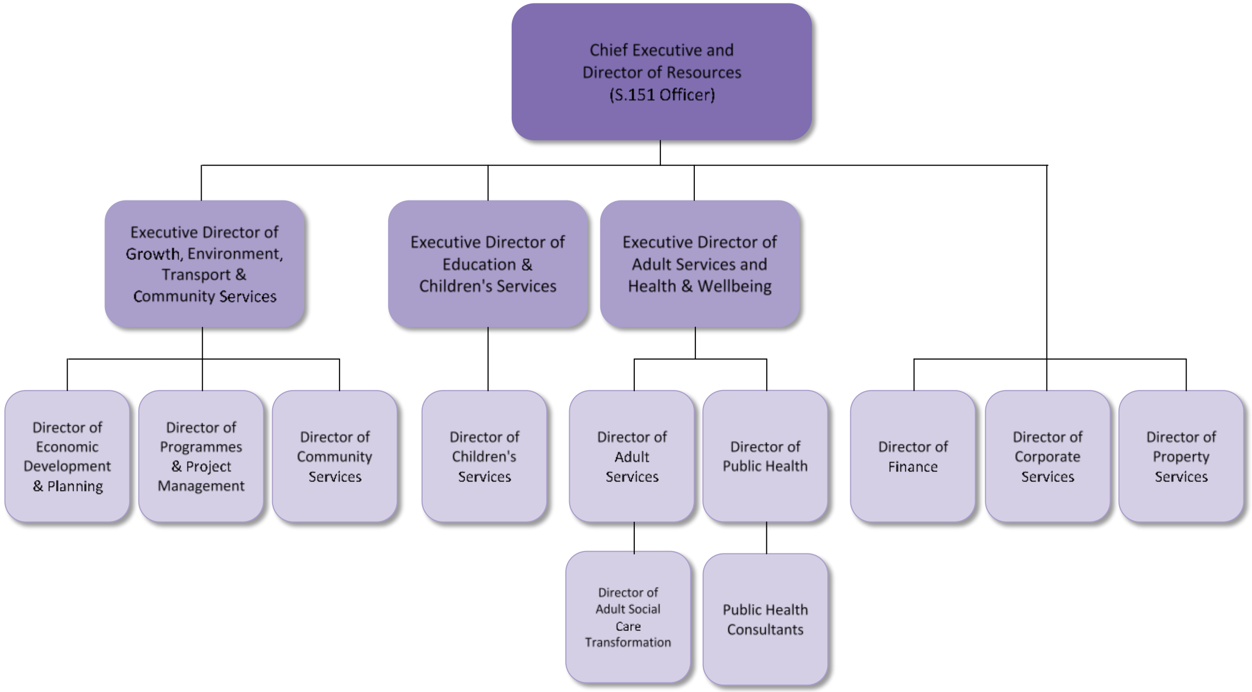
Our staff

The Council is supported by administrative, professional, technical and operational employees whose role is to advise the Council on all aspects of its functions and to put into effect decisions which are taken in order to provide services to the public.

The Council has responsibilities spanning public health, social care, the economy and the environment and employs over 12,400 people in full time and part time contracts with around a further 29,500 people employed in schools.



The Council implemented a new management structure with effect from 3 January 2018 which is shown below.



Our performance

Adult services

The focus for delivery of services in adult social care includes helping people to be independent by investing in prevention, early intervention and the use of technology; ensuring the quality of services for people needing our support, and safeguarding and protecting vulnerable people from harm.

Our progress towards these aims is demonstrated by:

- User feedback from the adult social care survey was particularly positive for people having control over their daily lives, satisfaction with their care and support and for those who said our services make them feel safe and secure;
- Indicator scores for carers receiving self-directed support and for carers receiving direct payments are consistently amongst the highest in the region;
- Compared with many other parts of the country, a greater proportion of people with learning disabilities who use our services are supported to live in their own home or with their family;
- The number of reablement support plans has increased by 26%, indicating greater numbers of people are being offered reablement in accordance with the aims of our Passport to Independence programme, and alongside this, the number of people admitted to residential care has decreased;
- Occupational Therapy recruitment has eased waiting lists considerably and seen a 20% increase in the number of Occupational Therapy assessments completed;
- Older People Services achieved the government Customer Service Excellence Accreditation standard, which assesses how services are customer focused;
- The Lancashire figure of 74.5% Care Quality Commission rated good or outstanding care homes has now exceeded the above-average threshold for the NW, but remains short of the above-average threshold for England;
- 100% of our in-house disability community based services have a Care Quality Commission rating of 'Outstanding' or 'Good'.

	2016/17	2017/18
Proportion of people satisfied with adult social care	68%	68%
Proportion of people with Learning Disabilities who use our services and are supported to live in their own home or with their family	85.5%	85.3%
Number of supported permanent admissions to residential care per 100,000 population aged 65 or over	742	720
Percentage of service users who completed reablement and left as self-caring	72%	82%
Percentage of older people discharged from hospital who were still at home 91 days after discharge	84%	88%

Education and children's services

Our shared vision for education and children's services is that all Lancashire's children and young people have the right to achieve and aspire to be the very best they can, to make the most of their lives and to do so within a safe, secure environment. Important aspects in achieving this are ensuring all our children and young people have access to a suitable educational offer, and that children, young people and families in need of help and support are safe, healthy and supported to achieve.

Our progress towards achieving these aims is demonstrated by:

	2016/17	2017/18
Proportion of children who achieved a good level of development at Early Years Foundation Stage	69.2%	69.4%
Average attainment 8 score at GCSE	49.7	45.7
Percentage of education settings rated Good/Outstanding	91%	90%
Absence levels in primary, secondary, and special schools	4.3%	4.3%
Number of children looked after	1,842	1,968
Stability of placements: % of children looked after with 3 or more placements	8.0%	7.9%
Number of children adopted	73	87
Number of children on child protection plans	1,412	1,243
16-17 year olds not in education, employment or training or not known	8.6%	8.3%
First time entrants to Youth Justice System per 100,000 (10-17 year old population)	204	188

Environmental, community and planning services

Our shared vision for environmental, community and planning services is to develop a strong sense of pride in Lancashire and build a place in which people actively choose to live, work, invest and play. In delivering this we believe people have the right to feel safe, live in a clean environment, have access to a modern transport infrastructure as well as having free unlimited access to information and knowledge.

These measures are important to us because they provide the people of Lancashire, particularly the most disadvantaged, with the opportunity of employment and investment as well as improving the quality of life for all.

Our progress towards achieving these aims is demonstrated by:

	2016/17	2017/18
Average number of working days to repair a LCC street lighting fault	4.3 days	4.6 days
Percentage of principal roads where maintenance should be considered	2.1%	2.5%
Percentage of non-principal classified roads where maintenance should be considered	5.0%	4.4%
Percentage diversion of municipal waste away from landfill	49%	51%
Number of e-book downloads each month	162,384	212,925
Superfast Broadband coverage for LCC area	96%	97%

Public health and wellbeing

Our vision is to develop Lancashire into a safer, fairer and healthier place for our residents; it is estimated that around 40% of all deaths in England are related to lifestyles; influencing and improving lifestyle choices is a key area.

Our progress towards achieving our vision is demonstrated by:

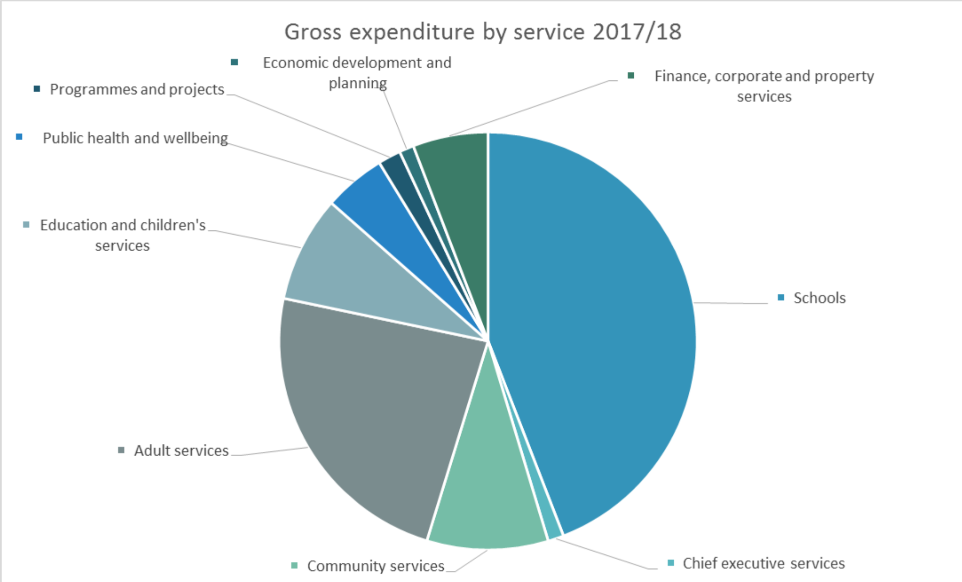
	2016/17	2017/18
Variation in life expectancy at birth due to deprivation across different areas of Lancashire (male)	10.1	9.9
Variation in life expectancy at birth due to deprivation across different areas of Lancashire (female)	7.8	8.2
Estimated percentage of persons aged 18 and over that smoke	18.3%	18.3%
Estimated percentage of adults classified as overweight or obese	63.5%	63.9%
Percentage of children (aged 4-5 years) classified as overweight or obese	22.5%	23.5%
Percentage of children (aged 11 years) classified as overweight or obese	33.2%	33.0%
Rate of alcohol related hospital admissions (narrow) (per 100,000)	669	645
Percentage of successful drug treatments in adults (opiate)	10.7%	9.5%
Percentage of successful drug treatments in adults (non-opiate)	50.1%	57.2%
Estimated percentage of residents (aged 19+) exercising at least 150 minutes per week (Sport England survey)	66.2%	65.3%

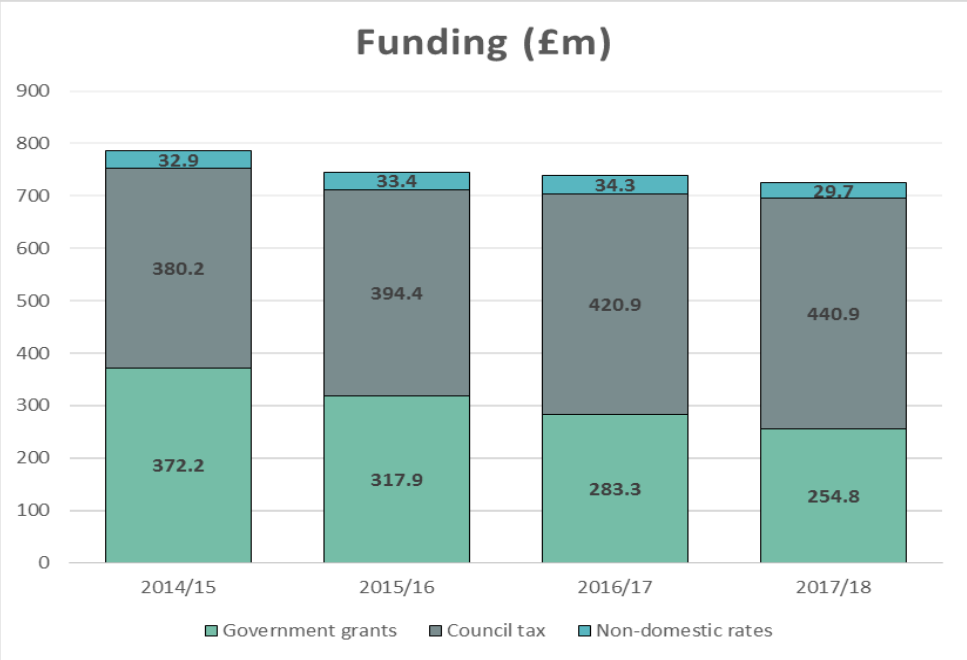
Our financial performance

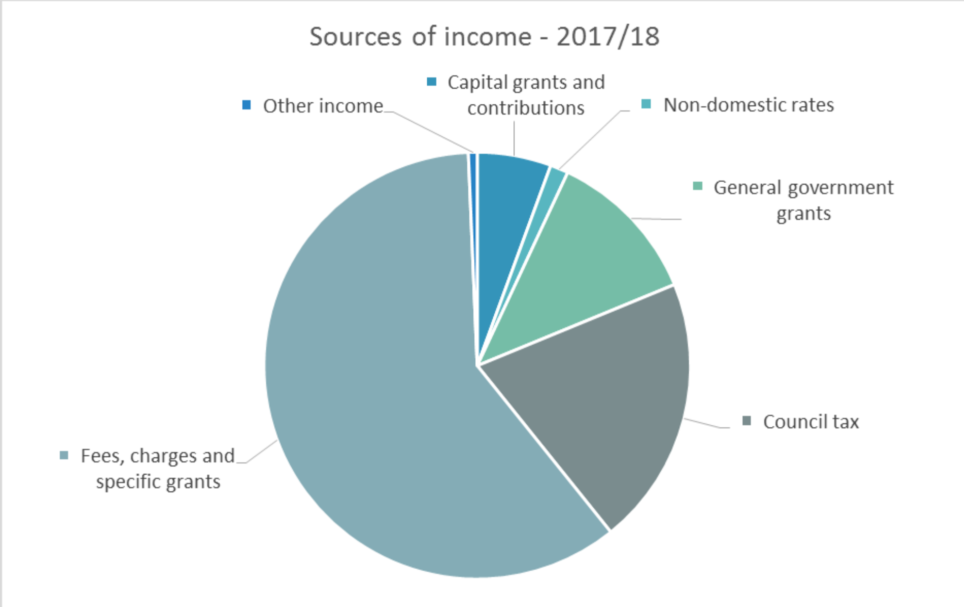
Revenue summary

The Council has faced an unprecedented period of financial challenge since the Government's austerity measures began in 2010, with year on year reductions in the grant funding provided by Government to the Council. In addition, the Council continues to face significant financial pressures from rising costs of the national living wage and contractual inflation and also in relation to increasing demand for its services.

The charts illustrate the funding received, how it was spent on services and also how the reduction in general Government grants has resulted in an increased pressure on council tax.







Revenue outturn

On 9 February 2017, the Council approved a net revenue budget of £724.8 million. The revenue budget shows the annual cost of carrying out the Council's duties and responsibilities to the community, many of which are required to be provided by the Council under statute.

The table shows the final outturn position compared to the approved budget.

The final outturn position (excluding schools) of £703.9 million, resulted in an underspend of £20.9 million compared to the budget. The underspends reported are largely due to treasury management activity, staffing underspends, additional income and some lower operational costs. This is partially offset by an overspend within children's social care arising from additional costs for placements, staffing, special guardianship orders and assistance to families.

The final schools outturn position reflected an overspend of £7.7 million against the budget. This is mainly due to the continuing increase in costs of inflation and staffing and significant demand pressures on the High Needs Block whilst the school grant funding continues to remain static.

Service	**Approved budget**	**Outturn position**	**Variation**
	£m	**£m**	**£m**
Adult services	328.4	326.2	(2.2)
Education and children's services	147.2	151.9	4.7
Community services	129.7	125.7	(4.0)
Public health and wellbeing	20.2	15.8	(4.4)
Economic development and planning	2.1	1.5	(0.6)
Programmes and projects	6.1	5.5	(0.6)
Finance, corporate and property services	77.9	77.1	(0.8)
Chief executive services	13.2	0.2	(13.0)
Sub total	**724.8**	**703.9**	**(20.9)**
Schools	0	7.7	7.7
Outturn position reported to Cabinet 14 June 2018	**724.8**	**711.6**	**(13.2)**
Change to MRP policy	0	(13.2)	(13.2)
Revised outturn	**724.8**	**698.4**	**(26.4)**

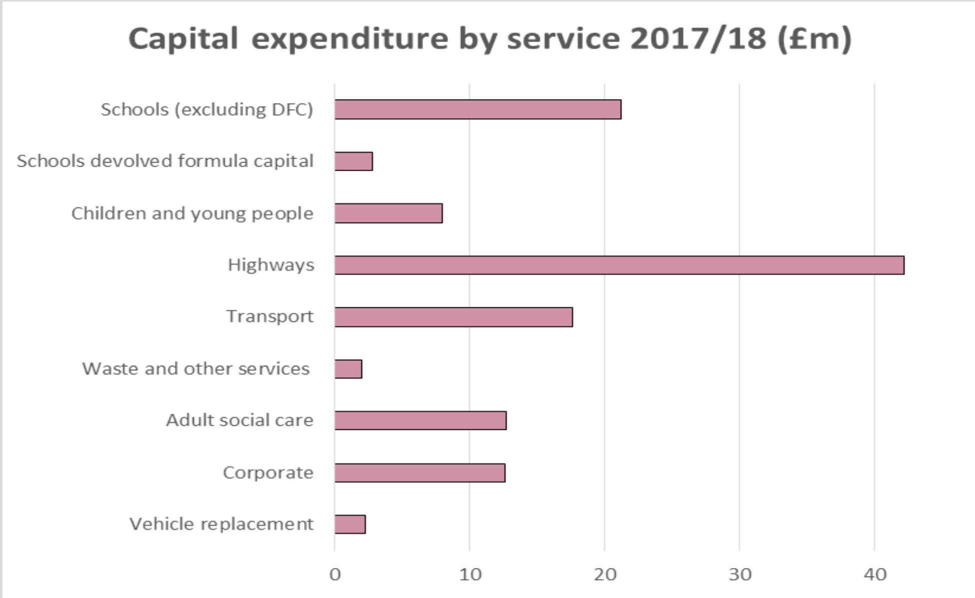
Capital investment programme

In February 2017, the Council confirmed a capital budget of £126.2 million for 2017/18 as part of the four year capital programme agreed in February 2016. After allowing for £36.6 million of programmed spend from previous years and a decision to fund additional works of £9.1 million, the budget for the 2017/18 programme was updated to £171.9 million by the year-end.

The programme was designed to deliver the following benefits to the residents of Lancashire:

- Enhancements and improvements to schools and residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in waste and recycling facilities;
- Enhancement of Council properties including libraries;
- Support to roll out superfast broadband.


Chorley Holy Cross Catholic High School expansion project completed September 2017.



The total spend on capital works in 2017/18 is £121.4 million which represents 71% of the budgeted programme. The £50.5 million underspend is largely due to works that were undelivered during the year which have been re-profiled to be carried out in future years.

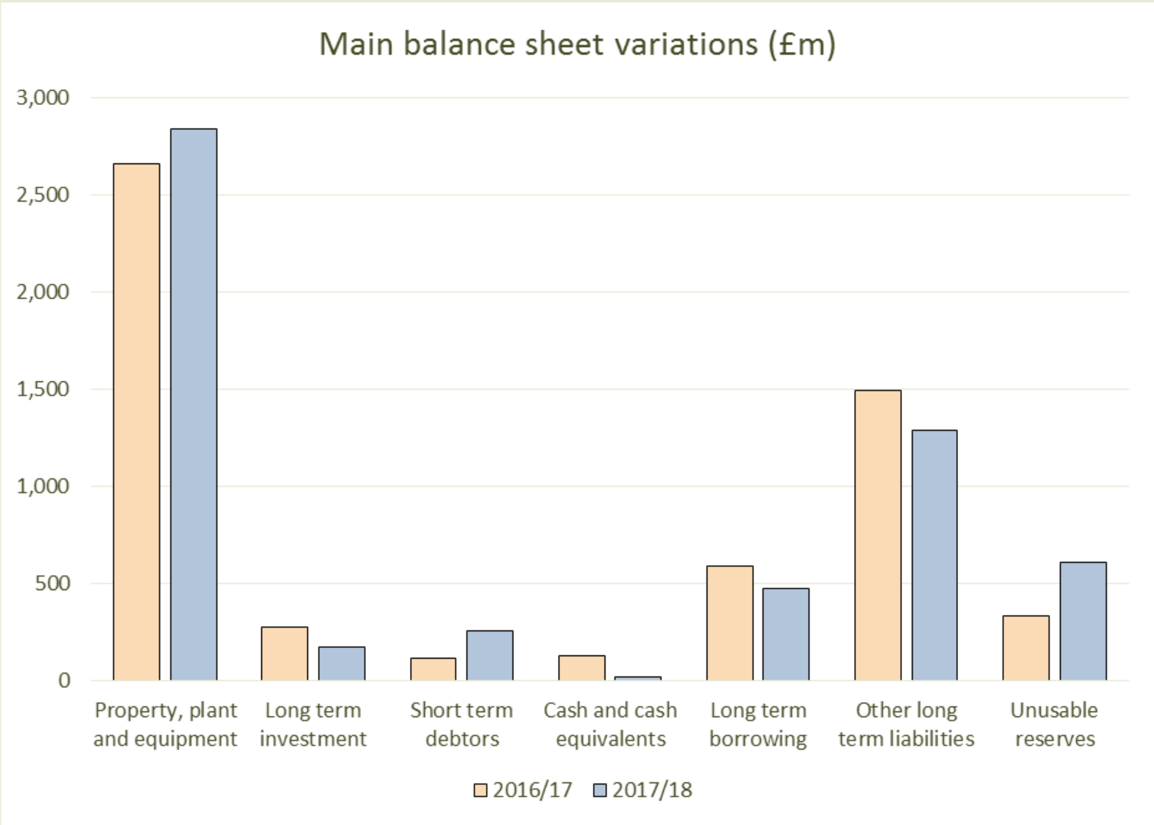
	Revised budget £m	Actual spend £m	Variation £m
Schools (excluding DFC)	28.2	21.3	(6.9)
Schools devolved formula capital	4.9	2.8	(2.1)
Children and young people	5.8	7.9	2.1
Highways	50.6	42.2	(8.4)
Transport	38.2	17.7	(20.5)
Waste and other services	6.4	1.9	(4.5)
Adult social care	14.1	12.7	(1.4)
Corporate	20.9	12.6	(8.3)
Vehicle replacement	2.8	2.3	(0.5)
Total expenditure	**171.9**	**121.4**	**(50.5)**

Assets and liabilities

The balance sheet summarises the Council's financial position at the year end and reports the assets, liabilities and reserves of the Council.

In summary, the net assets of the Council have increased by £262.7 million from £723.5 million at 31 March 2017 to £986.2 million at 31 March 2018.

The main balance sheet variations are shown in the chart below.



The balance sheet shows an increase in property, plant and equipment of £178 million which includes capital expenditure incurred in year together with the impact of revaluations (also reflected in the unusable reserves).

The decrease in long term investments of c£100 million is largely due to the planned reduction in investment levels to fund service delivery and is also reflected in the reductions in usable reserves.

The increase in short term debtors of £145 million is largely due to the cross year sales of bonds of £152 million with settlement dates falling in April 2018.

The cash and cash equivalents decreased by £109 million mainly as a result of the upfront payment of pension liabilities over the next two years of £79 million in order to realise savings. This is also reflected in the reduction of other long term liabilities.

The decrease in long term borrowing of £113 million is in part due to the policy of renewing borrowing to short-term, however, there has been a total reduction in borrowing of £90 million overall this year.

Other long term liabilities reduced by £205 million, mainly owing to changes in the pension liability as a result of the prepayment and also changes in the pension liability valuation. This is also reflected by an increase in the pensions reserve of £120 million.

The increase in unusable reserves has resulted mainly from the increase in the pension reserve and the revaluation reserve as outlined above.

Reserves

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

Usable reserves are those reserves that can be spent on future services and include general and earmarked reserves. The revenue budget has been supported in recent years by the use of reserves and their value has therefore reduced. However, the reduction is less than anticipated in 2017/18 due to additional income and underspends generated in the year.

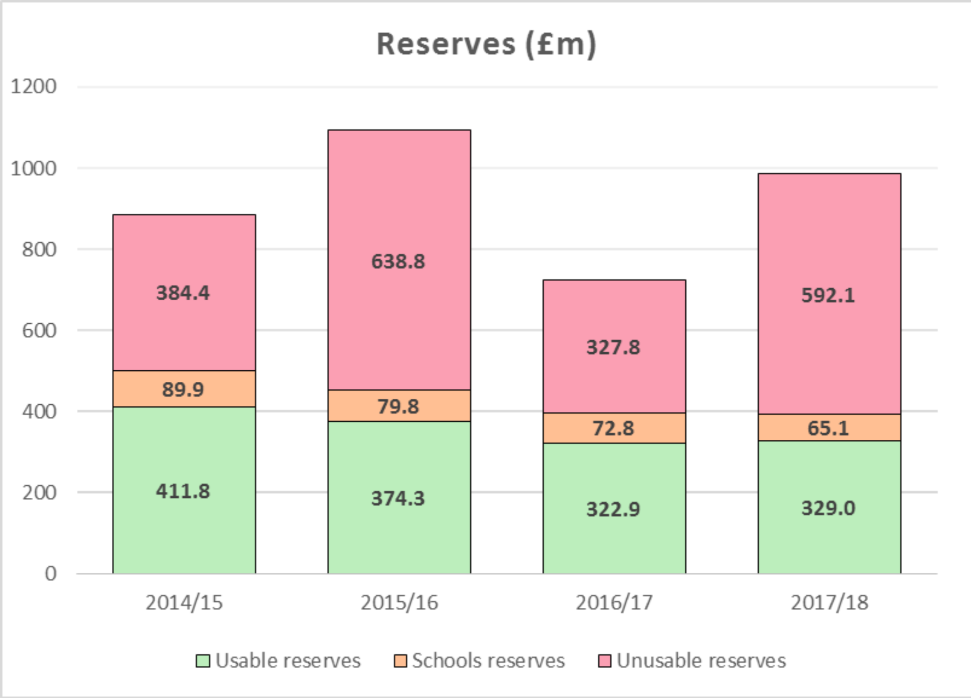
The Council also holds a number of unusable reserves which arise as a result of statutory or accounting adjustments and cannot be used for expenditure on services. These include unrealised gains and losses, particularly in relation to the revaluation of property, and adjustment accounts which absorb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

The following accounts normally represent the most significant movements in unusable reserves and are explained further in Note 29:

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

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

The overall trend shows a fall in usable reserves as the Council has had to use these to manage ongoing budget pressures as other income streams, primarily Government grant, fall. It is important that the Council address this structural deficit and deliver a sustainable financial plan.



Prior period adjustments

In 2017/18 the Council has taken the opportunity to carry out a comprehensive review of the processes associated with capital accounting and the assets held on the Council's fixed asset system. As a result, a number of the prior year comparator figures have been restated from those published in the 2016/17 Statement of Accounts.

The Council's departments were realigned following changes to the senior management structure in 2017/18. The 2016/17 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

The adjustments are detailed in Note 4 to the accounts.

Outlook for the future

Like all councils, Lancashire County Council is facing significant financial pressures as a result of the extended national programme of austerity with the funding provided by Government to the Council falling by over 50% since 2011.

In order to deliver a balanced budget from 2021/22 we need to address a forecast budget gap of around £144 million either through reduced costs or increased income. The Council has, over recent years, supported its revenue budget through the use of reserves in order to bridge the funding gap. It is recognised this is a temporary approach and cannot be sustained into the medium term.

With a projected increase in population, and as life expectancy also continues to increase, so do the demand pressures faced by services in particular those services delivering social care to both children and older people. Over the period 2018/19 to 2021/22, £85 million has been allocated in the Medium Term Financial Strategy for demand pressures of which £55.7 million relates to adult social care and £22 million to children's social care.

The Council is also facing a number of other cost pressures including costs of the National Living Wage and contractual inflation which affects both the services provided directly by the Council and the costs of purchased goods and services.

As a consequence, the Council has taken the decision to increase council tax in 2018/19 by 5.99% which includes a 3% adult social care precept to fund adult social care services and is the maximum level permissible without requiring a referendum.

The Council has previously agreed as part of the financial strategy to benchmark unit costs, and move towards the lowest quartile of the most appropriate comparator group. The data has been updated to reflect the latest information available to review how the Council now compares to other authorities with the same responsibilities. Further work is being planned and scheduled over coming months to ensure the Council can achieve a financially sustainable position. This involves a number of work streams including service challenges, commercialisation, review of taxation and grants, productivity, commissioning and the role of the third sector.

Explanation of the accounting statements

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

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

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

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

Comprehensive income and expenditure statement

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

The comprehensive income and expenditure statement has two sections:

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

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

Movement in reserves statement

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

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

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

Balance sheet

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

Cash flow statement

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

Notes to the financial statements

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

Group accounts

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

Pension fund accounts

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

Annual governance statement

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

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

The Council's responsibilities

The Council is required to:

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

The Section 151 Officer's responsibilities

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

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

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

The Section 151 Officer has also:

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2018.

A Ridgwell
Interim Chief Executive and Director of Resources
28 August 2018

Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 28 August 2018.

A Schofield
Chair of Audit, Risk and Governance Committee
28 August 2018

Financial statements

Stanah Park and Wyre Estuary

Comprehensive income and expenditure statement

2016/17 restated				2017/18		
Gross expenditure	**Gross income**	**Net expenditure**		**Gross expenditure**	**Gross income**	**Net expenditure**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
969.5	(908.2)	61.3	Schools ◦	947.4	(921.4)	26.0
48.9	(9.4)	39.5	Chief executive services ◦ ▪	26.3	(2.2)	24.1
282.2	(40.5)	241.7	Community services ▪	201.6	(57.3)	144.3
494.7	(124.0)	370.7	Adult services ▪	505.6	(153.7)	351.9
154.1	(12.0)	142.1	Education and children's services ◦ ▪	176.4	(12.9)	163.5
108.7	(84.6)	24.1	Public health and wellbeing ▪	102.8	(80.6)	22.2
32.7	(1.5)	31.2	Programmes and projects ▪	37.9	(1.5)	36.4
2.7	(5.5)	(2.8)	Economic development and planning ▪	24.2	(6.4)	17.8
114.7	(58.2)	56.5	Finance, corporate and property services ▪	125.0	(53.6)	71.4
2,208.2	**(1,243.9)**	**964.3**	**Cost of services** ◦	**2,147.2**	**(1,289.6)**	**857.6**
12.8	(1.2)	11.6	Other operating income and expenditure (Note 6) ◦	19.5	(6.5)	13.0
69.7	(30.4)	39.3	Financing and investment income and expenditure (Note 7)	65.6	(14.7)	50.9
0	(846.6)	(846.6)	Taxation and non-specific grant income (Note 8) ◦	0	(846.2)	(846.2)
2,290.7	**(2,122.1)**	**168.6**	**(Surplus)/deficit on provision of services** ◦	**2,232.3**	**(2,157.0)**	**75.3**
		(41.4)	(Surplus)/deficit on revaluation of non-current assets (Note 29) ◦			(125.8)
		243.2	Re-measurement of the net defined benefit pension liability/(asset) (Note 29)			(200.4)
		(1.0)	(Surplus)/deficit on revaluation of available for sale assets ◦			(11.8)
		200.8	**Other comprehensive income and expenditure** ◦			**(338.0)**
		369.4	**Total comprehensive income and expenditure** ◦			**(262.7)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

▪ The Council has restructured its services during 2017/18. The 2016/17 comparative figures have been restated to reflect the new structure. The adjustments are shown in detail in Note 4 – Prior period adjustments

2017/18

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**
Movement in reserves during 2017/18						
Total comprehensive income and expenditure	75.3	0	0	75.3	(338.0)	(262.7)
Adjustment between accounting basis and funding basis under regulations (Note 14)	(51.4)	4.5	(26.8)	(73.7)	73.7	0
(Increase)/decrease in year	**23.9**	**4.5**	**(26.8)**	**1.6**	**(264.3)**	**(262.7)**
Balance at 31 March 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**

2016/17 restated

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016 ◦	**(399.1)**	**(3.5)**	**(51.5)**	**(454.1)**	**(638.8)**	**(1,092.9)**
Movement in reserves during 2016/17						
Total comprehensive income and expenditure ◦	168.6	0	0	168.6	200.8	369.4
Adjustment between accounting basis and funding basis under regulations (Note 14) ◦	(110.8)	(1.0)	1.6	(110.2)	110.2	0
(Increase)/decrease in year ◦	**57.8**	**(1.0)**	**1.6**	**58.4**	**311.0**	**369.4**
Balance at 31 March 2017 ◦	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

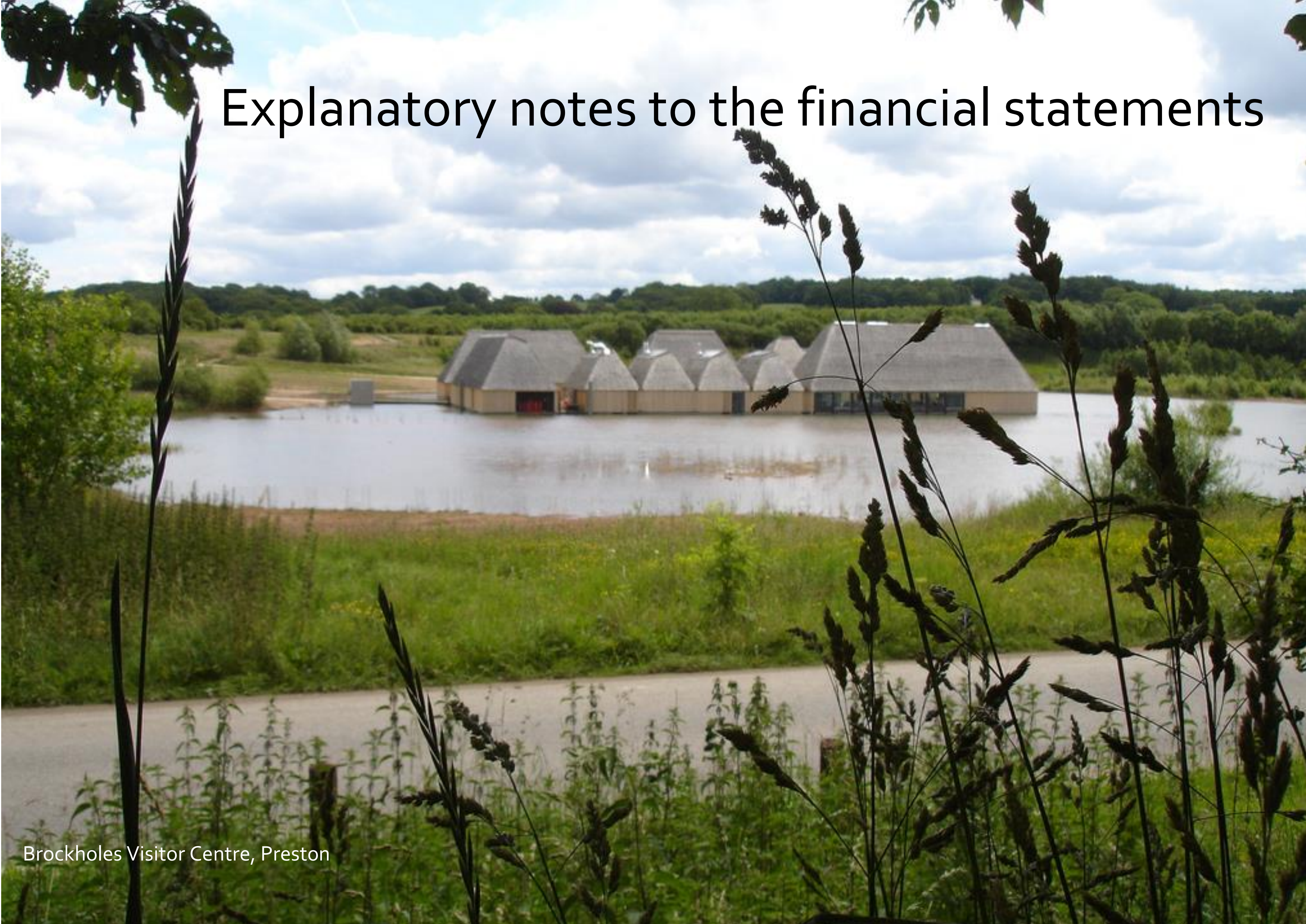
1 April 2016 restated	31 March 2017 restated		Note	31 March 2018
£m	**£m**			**£m**
2,671.2	2,660.3	Property, plant and equipment ◦	18	2,838.2
28.7	28.7	Heritage assets	20	28.7
4.4	2.0	Investment properties		1.6
24.6	21.7	Intangible assets		20.0
445.0	271.3	Long term investments	26	170.4
68.9	66.2	Long term debtors	21	46.4
3,242.8	**3,050.2**	**Long term assets** ◦		**3,105.3**
119.7	171.9	Short term investments	26	128.5
2.7	3.5	Inventories		2.3
108.7	110.3	Short term debtors ◦	22	255.7
12.8	8.6	Payments in advance		8.9
16.7	128.1	Cash and cash equivalents ◦	23	18.8
11.3	14.5	Assets held for sale		7.7
271.9	**436.9**	**Current assets** ◦		**421.9**
(399.2)	(463.8)	Short term borrowing	26	(487.5)
(179.4)	(185.0)	Short term creditors ◦	24	(250.1)
(10.8)	(8.2)	Receipts in advance		(9.4)
(12.2)	(7.0)	Short term provisions	25	(7.1)
(4.6)	(5.1)	Other current liabilities	26	(5.8)
(606.2)	**(669.1)**	**Current liabilities** ◦		**(759.9)**
(19.0)	(21.6)	Long term provisions	25	(26.1)
(583.4)	(584.4)	Long term borrowing	26	(471.4)
(1,213.2)	(1,488.5)	Other long term liabilities		(1,283.6)
(1,815.6)	**(2,094.5)**	**Long term liabilities**		**(1,781.1)**
1,092.9	**723.5**	**Net assets** ◦		**986.2**
(454.1)	(395.7)	Usable reserves ◦	29	(394.1)
(638.8)	(327.8)	Unusable reserves ◦	29	(592.1)
(1,092.9)	**(723.5)**	**Total reserves** ◦		**(986.2)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

2016/17 restated		Note	2017/18
£m			**£m**
(168.6)	Net surplus/(deficit) on the provision of services ◦		(75.3)
233.6	Adjustments to net surplus/deficit on the provision of services for non-cash movements ◦	30	63.8
(137.4)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities ◦	30	(127.4)
(72.4)	**Net cash flows from operating activities** ◦		**(138.9)**
129.8	Investing activities ◦	31	124.6
54.0	Financing activities ◦	32	(95.0)
111.4	**Net increase/(decrease) in cash or cash equivalents** ◦		**(109.3)**
16.7	Cash and cash equivalents at the beginning of the reporting period ◦		128.1
128.1	**Cash and cash equivalents at the end of the reporting period** ◦	23	**18.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Explanatory notes to the financial statements



Brockholes Visitor Centre, Preston

Note 1 - Accounting standards issued, but not yet adopted

The Council is required to disclose the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2018 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2018/19 Code will introduce the following amendments:

IFRS 9 Financial instruments

IFRS 9 replaces *International Accounting Standard (IAS) 39 - Financial instruments: recognition and measurement*. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change will result in more investments classified as 'fair value though profit and loss' where any gains or losses will impact on the general fund of the Council. Previously any changes in the fair value of these investments were only recognised in the general fund when the asset was sold. Additionally, the potential losses on investments are also to be charged to the revenue account in case actual losses are incurred in the future.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces *IAS 11 – Construction contracts and IAS 18 – Revenue and related interpretations*. The objective is to provide useful information to users of the financial statements regarding the nature, amount, timing and uncertainty of revenue from contracts as revenue is only recognised as and when the performance obligations of the contract are satisfied.

The principle in IFRS 15 for local authorities is that they should recognise revenue from contracts to reflect the transfer of goods or services to customers and the amount to which the authority expects to be entitled for that transfer. It excludes leases, financial instruments, insurance contracts, council tax and non-domestic rates income.

This standard is anticipated to have a limited impact on the Council's accounts.

IAS 7 Statement of cash flows: disclosure initiative

The objective of the amendments to IAS 7 is to improve the information provided by entities about their financing activities. The amendments require additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IAS 12 Income taxes: Recognition of deferred tax assets for unrealised losses

This applies to deferred tax assets related to debt instruments measured at fair value. The Council’s subsidiary company does not have such debt instruments, therefore, this will not impact on the group accounts for Lancashire County Council.

Note 2 - Critical judgements in applying accounting policies

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

Funding

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

Private finance initiative (PFI)

The Council is deemed to control the services provided under the private finance initiative (PFI) 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 £123.8 million as at 31 March 2018 (2016/17: £120.9 million).

School assets

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

The property, plant and equipment balance includes properties valued at £1,496.1 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 2017/18 Code* 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

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

The Council's relationships with other entities can be found within the related parties note. (Note 33).

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 on the basis that they are not considered to be material.

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

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

Lender Option Borrower Option (LOBO)

The Council holds Lender Option Borrower Option (LOBO) loans. In accordance with the appropriate accounting regulations the Council has considered whether or not an embedded derivative exists within the loan contract. In determining the accounting treatment for the inverse LOBO, further details of which are disclosed in the Technical Annex to the accounts, management have exercised judgement in determining that no embedded derivatives exist. This decision has been reached based on the terms of the contract and the test in IAS 39 for separating out the derivative. Therefore the loan has been measured on the amortised cost basis, as a floating rate instrument, in accordance with IAS 39.AG7. This means that periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate of the loan, and therefore impacts future interest payments, with no significant effect on the carrying amount of the liability. For example, if the market interest benchmark decreases by 1%, this leads to an increase of 1% in the interest rate charged. The increase in future interest costs are only recognised as they are accrued.

In contrast, had IAS 39.AG8 been applied, the loan's effective interest rate would have been determined at the inception of the contract and is not changed thereafter. When a change in expected future cash flows arises, an immediate gain or loss would arise, reflecting the difference between the net present value of the revised estimated future cash flows, discounted at the original effective interest rate, and the loan's carrying amount.

This IAS 39.AG8 adjustment would be recognised in Surplus/Deficit in the Provision of Services in the Comprehensive Income and Expenditure Statement and would impact on the General Fund.

Had management determined that either an embedded derivative existed or that the instrument should be accounted for as a fixed rate instrument in accordance with IAS 39.AG8 this would have introduced significant volatility to the Comprehensive Income and Expenditure Statement because expected future changes in market rate of interest would have been recorded immediately.

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

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

The items in the Council's balance sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment valuations	The Council commissions a 5-year rolling programme of valuations. Valuations are undertaken by qualified valuers within the Council's estates section in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation. Each year an estimate of the value of all operational land and building assets is calculated by applying local movement in prices and appropriate cost indices to ensure that the value of the Council's assets are not materially misstated at the balance sheet date.	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. A reduction in value of 10% in the Council's land and buildings would result in a charge in the accounts of c£190 million. A change in the estimated valuations would result in an increase/decrease to the revaluation reserve and/or charge to the comprehensive income and expenditure statement.

Item	Uncertainties	Consequence if actual results differ from assumptions
Property, plant and equipment depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will sustain its current spending on repairs and maintenance, which affects the useful lives assigned to assets. For property assets, the valuation, residual value and useful life are all estimates. Valuation has been considered in the previous note. 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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by c£568,000 for every year that useful lives had to be reduced. 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.

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

Item	Uncertainties	Consequence if actual results differ from assumptions
Impairment of debtors	At 31 March 2018 the Council had a debtors balance of £255.7 million. Of this total £67 million relates to trade debtors. The balance of debtors relates to the sale of bonds (£152 million) which were settled in early April and also statutory debtors such as council tax and non-domestic rates for which a separate impairment exercise is undertaken. An impairment figure of £16.1 million has been set aside in the accounts for the trade debtors and is based on a regular assessment of aged debt information.	Should economic factors mean the impairment allowance is insufficient then any excess debt that proves uncollectable will result in a charge to the comprehensive income and expenditure statement. This cost may ultimately fall to the General Fund or the collection fund adjustment account depending on the nature of the debt. Should an additional 5% of debts prove to be uncollectable (above the amount set aside) there would be a cost of £3.4 million to the Council.

Item	Uncertainties	Consequence if actual results differ from assumptions
Pensions liability	The net liability to pay pensions is calculated every 3 years with annual updates in the intervening years. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. (See Technical Annex).	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, • A 0.5% increase in the discount rate assumption would reduce the value of the net pension liability by approximately £357 million; • A 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £182 million; • An increase of one year in assumed life expectancy would increase the net pension liability by approximately £82 million.

Note 4 – Prior period adjustments

Following changes to the senior management structure, the Council has restructured its services. The 2016/17 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

In 2017/18 the Council has undertaken a comprehensive review of the processes associated with capital accounting and the assets held on the Council's fixed asset system. As a result, a number of prior year comparator figures published in the 2016/17 accounts have been restated.

The adjustments are outlined below:

i. Restructure of Council services

The prior year figures in the comprehensive income and expenditure statement have been restated to reflect the new structure of the Council in order to aid comparability.

ii. Schools converting to academy status

Five schools with a total value of £19.9 million were disposed of from the Council's asset register following the decision to transfer to academy status, but ahead of the transfer actually taking place. As the transfer will not take place prior to 31 March 2018, the schools have been reinstated on the Council's asset register.

The impact of this adjustment is an increase in the value of the Council's property, plant and equipment figure on the balance sheet of £19.3 million (£19.9 million less depreciation of £0.6 million) with a corresponding increase in the unusable reserves. The loss of £17.9 million charged to the comprehensive income and expenditure account in 2016/17 has also been reversed.

iii. Disabled facilities grants

In 2016/17 £11.5 million of expenditure on Disabled Facilities Grants was incorrectly capitalised in the Council's accounts.

The impact of this adjustment is a reduction in the Council's property, plant and equipment total on the balance sheet of £11.5 million with a corresponding reduction in unusable reserves. The expenditure has been charged to adult services as revenue expenditure funded from capital under statute (REFCUS) within the comprehensive income and expenditure statement.

iv. Lancashire Enterprise Partnership

Lancashire County Council is the accountable body of the Lancashire Enterprise Partnership (LEP), all funds are paid through Lancashire County Council's bank account and all spend is recorded in the Council's ledger.

For 2017/18 the Council has reviewed its relationship with the LEP and concluded that a principal and agency arrangement exists.

Previously the expenditure and income of the LEP was reported within the Council's accounts, however, where the Council is merely an 'agent' for the expenditure, these transactions are now excluded from the Council's accounts. The accounts for 2016/17 have been restated to reflect this approach. However, where the Council is the project sponsor, LEP expenditure will continue to be included within the Council's accounts.

Expenditure totalling £18.8 million relating to spend by the LEP had been included within the Council's balance sheet as infrastructure and assets under construction which has now been excluded. This is also reflected in the unusable reserves.

Grant income of £49.5 million and debtors and creditors of £4.8 million and 10.9 million respectively have also been excluded and reflected in a corresponding decrease in usable reserves of £43.4 million.

The impact on the comprehensive income and expenditure account in 2016/17 is a reduction of capital grant income and capital receipts of £24.1 million and £4.1 million respectively, and a decrease of £7.3 million for expenditure incorrectly classed as REFCUS.

v. Depreciation charges

In 2016/17 depreciation charges totalling £71.2 million were charged in error to children's services instead of schools.

The impact of this adjustment is a switch of £71.2 million between the two service areas within the comprehensive income and expenditure statement.

vi. Other capital adjustments

The review identified a small number of assets with a total value of £1.8 million and also a surrendered lease which have been omitted from the Council's asset register. This also includes other adjustments for minor corrections.

The comprehensive income and expenditure account reflects a net revaluation gain of £8.3 million which is split between costs of services and revaluation reserve gains.

Assets under construction

A review of the assets under construction at the end of 2016/17 identified that they included some operational assets which could have been added to the respective fixed asset category. This mainly occurred where spend on works continued whilst the asset became operational.

The impact of this adjustment is a reclassification of £50.2 million from assets under construction to land and buildings (£17.3 million) and infrastructure (£29.4 million) within property, plant and equipment on the balance sheet.

£3.2 million of assets under construction relating to the LEP have been removed from the accounts leaving a restated balance of assets under construction of £0.3 million.

The adjustments that have been made to the core financial statements over the version published in the 2016/17 Statement of Accounts are detailed in the following tables.

Adjustments to the comprehensive income and expenditure statement

	Audited 2016/17	PPA i	PPA ii	PPA iii	PPA iv	PPA v	PPA vi	Total changes	Restated 2016/17
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Schools	10.9	0	(17.9)	0	0	71.2	(2.9)	50.4	61.3
Chief executive services	39.7	(0.2)	0	0	0	0	0	(0.2)	39.5
Commissioning	20.9	(20.9)	0	0	0	0	0	(20.9)	0
Development and corporate services	68.5	(68.5)	0	0	0	0	0	(68.5)	0
Community services	249.4	(7.7)	0	0	0	0	0	(7.7)	241.7
Adult services	354.8	4.4	0	11.5	0	0	0	15.9	370.7
Education and children's services	216.2	0.6	0	0	0	(71.2)	(3.5)	(74.1)	142.1
Public health and wellbeing	24.2	(0.1)	0	0	0	0	0	(0.1)	24.1
Programmes and projects	0	31.2	0	0	0	0	0	31.2	31.2
Economic development and planning	0	(2.8)	0	0	0	0	0	(2.8)	(2.8)
Finance, corporate and property services	0	64.0	0	0	(7.3)	0	(0.2)	56.5	56.5
Change in cost of services	**984.6**	**0**	**(17.9)**	**11.5**	**(7.3)**	**0**	**(6.6)**	**(20.3)**	**964.3**
Other operating income and expenditure	7.5	0	0	0	4.1	0	0	4.1	11.6
Financing and investment income and expenditure	39.3	0	0	0	0	0	0	0	39.3
Taxation and non-specific grant income	(870.7)	0	0	0	24.1	0	0	24.1	(846.6)
Change in (surplus)/deficit on provision of services	**160.7**	**0**	**(17.9)**	**11.5**	**20.9**	**0**	**(6.6)**	**7.9**	**168.6**
(Surplus)/deficit on revaluation of non-current assets	(39.7)	0	0	0	0	0	(1.7)	(1.7)	(41.4)
Re-measurement of the net defined benefit pension liability/(asset)	243.2	0	0	0	0	0	0	0	243.2
(Surplus)/deficit on revaluation of available for sale assets	(1.1)	**0**	0	0	0	0	0.1	0.1	(1.0)
Change in other comprehensive income and expenditure	**202.4**	**0**	**0**	**0**	**0**	**0**	**(1.6)**	**(1.6)**	**200.8**
Change in total comprehensive income and expenditure	**363.1**	**0**	**(17.9)**	**11.5**	**20.9**	**0**	**(8.2)**	**6.3**	**369.4**

Adjustments to the movement in reserves statement

	General fund / earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves (Note 29)	Total reserves
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016	**(400.7)**	**(17.7)**	**(64.6)**	**(483.0)**	**(649.0)**	**(1,132.0)**
Prior year adjustment	1.6	14.2	13.1	28.9	10.2	39.1
Restated balance at 1 April 2016	**(399.1)**	**(3.5)**	**(51.5)**	**(454.1)**	**(638.8)**	**(1,092.9)**
Movement in reserves during 2016/17						
Total comprehensive income and expenditure	160.7	0	0	160.7	202.4	363.1
Adjustment between accounting basis and funding basis under regulations (Note 14)	(103.2)	(5.1)	(8.6)	(116.9)	116.9	0
(Increase)/decrease in year	**57.5**	**(5.1)**	**(8.6)**	**43.8**	**319.3**	**363.1**
Changes to total comprehensive income and expenditure	7.9	0	0	7.9	(1.6)	6.3
Changes to adjustment between accounting basis and funding basis under regulations (Note 14)	(7.6)	4.1	10.2	6.7	(6.7)	0
Restated movement in reserves during 2016/17						
Total comprehensive income and expenditure	168.6	0	0	168.6	200.8	369.4
Adjustment between accounting basis and funding basis under regulations (Note 14)	(110.8)	(1.0)	1.6	(110.2)	110.2	0
(Increase)/decrease in year	**57.8**	**(1.0)**	**1.6**	**58.4**	**311.0**	**369.4**
Balance at 31 March 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**

Adjustments to the balance sheet

	Audited 2016/17	PPA ii	PPA iii	PPA iv	PPA vi	Total changes	Restated 2016/17
	£m	£m	£m	£m	£m	£m	£m
Property, plant and equipment	2,662.3	19.3	(11.5)	(18.8)	9.0	(2.0)	2,660.3
Short term debtors	115.1	0	0	(4.8)	0	(4.8)	110.3
Cash and cash equivalents	177.6	0	0	(49.5)	0	(49.5)	128.1
Short term creditors	(195.9)	0	0	10.9	0	10.9	(185.0)
Change in net assets	**2,759.1**	**19.3**	**(11.5)**	**(62.2)**	**9.0**	**(45.4)**	**2,713.7**
Usable reserves	(439.2)	0	0	43.5	0	43.5	(395.7)
Unusable reserves	(329.7)	(19.3)	11.5	18.7	(9.0)	1.9	(327.8)
Change in reserves	**(768.9)**	**(19.3)**	**11.5**	**62.2**	**(9.0)**	**45.4**	**(723.5)**

Adjustments to the cash flow statement

	Audited 2016/17	Adjustments	Restated 2016/17
	£m	£m	£m
Net surplus/(deficit) on the provision of services	(160.7)	(7.9)	(168.6)
Adjustments to net surplus/deficit on the provision of services for non-cash movements	265.1	(31.5)	233.6
Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	(165.6)	28.2	(137.4)
Net cash flows from operating activities	**(61.2)**	**(11.2)**	**(72.4)**
Investing activities	140.5	(10.7)	129.8
Financing activities	53.6	0.4	54.0
Net increase/(decrease) in cash or cash equivalents	**132.9**	**(21.5)**	**111.4**
Cash and cash equivalents at the beginning of the reporting period	44.7	(28.0)	16.7
Cash and cash equivalents at the end of the reporting period	**177.6**	**(49.5)**	**128.1**

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

Note 5 - Expenditure and funding analysis
Note 6 - Other operating income and expenditure
Note 8 - Taxation and non-specific grant income
Note 14 - Adjustments between accounting basis and funding basis under regulations
Note 15 - Transfers to and from earmarked reserves
Note 16 - Capital expenditure and capital financing
Note 18 - Property, plant and equipment
Note 19 - School assets
Note 22 - Short term debtors
Note 23 - Cash and cash equivalents
Note 24 - Short term creditors
Note 26 - Financial instruments

Note 29 - Reserves
Note 30 - Cash flows from operating activities
Note 31 - Cash flows from investing activities
Financial instrument disclosure notes

The prior period adjustments are also reflected in the group accounts as follows:

Group comprehensive income and expenditure statement
Group balance sheet
Group movement in reserves statement
Group cash flow statement
Note 7 - Group transfers to and from earmarked reserves
Note 10 - Group reserves
Note 11 - Group cash flows from operating activities
Note 12 - Group cash flows from investing activities
Note 13 - Group cash flows from financing activities

Note 5 - Expenditure and funding analysis

The expenditure and funding analysis reconciles the cost of providing services in line with proper accounting practices included in the comprehensive income and expenditure statement with the statutorily defined amounts chargeable to council tax payers as shown in the movement in reserves statement.

Proper accounting practices measure the resources that have been generated and consumed in the year, including the use of property (depreciation) and the value of pension benefits earned by the employees. Statutory provisions determine how much of the Council's expenditure needs to be met from council tax each year.

Expenditure and funding analysis - 2017/18

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools	7.7	0	7.7	18.3	26.0
Chief executive services	(13.0)	33.4	20.4	3.7	24.1
Community services	125.7	(1.3)	124.4	19.9	144.3
Adult services	326.2	(0.5)	325.7	26.2	351.9
Education and children's services	151.9	0.7	152.6	10.9	163.5
Public health and wellbeing	15.8	0.9	16.7	5.5	22.2
Programmes and projects	5.5	2.1	7.6	28.8	36.4
Economic development and planning	1.5	1.2	2.7	15.1	17.8
Finance, corporate and property services	77.1	(11.6)	65.5	5.9	71.4
Net cost of services	**698.4**	**24.9**	**723.3**	**134.3**	**857.6**
Other income and expenditure	(724.8)	25.4	(699.4)	(82.9)	(782.3)
(Surplus)/deficit	**(26.4)**	**50.3**	**23.9**	**51.4**	**75.3**
Opening general fund balance at 1 April			**(341.3)**		
(Surplus)/deficit			23.9		
Closing general fund balance at 31 March			**(317.4)**		

Expenditure and funding analysis - 2016/17 restated

	Outturn position as reported to management	Adjustments to arrive at the net amount chargeable to the general fund *	Net expenditure chargeable to the general fund	Adjustments between the funding and accounting basis *	Net expenditure comprehensive income and expenditure statement
	£m	£m	£m	£m	£m
Schools ◦	6.9	0	6.9	54.4	61.3
Chief executive ◦	0.8	26.0	26.8	12.7	39.5
Community services	130.7	21.2	151.9	89.8	241.7
Adult services	323.1	30.7	353.8	16.9	370.7
Education and children's services ◦	133.0	4.6	137.6	4.5	142.1
Public health and wellbeing	24.6	(1.3)	23.3	0.8	24.1
Programmes and projects	6.4	0.4	6.8	24.4	31.2
Economic development and planning	2.0	1.6	3.6	(6.4)	(2.8)
Finance, corporate and property services	69.3	(22.9)	46.4	10.1	56.5
Net cost of services ◦	**696.8**	**60.3**	**757.1**	**207.2**	**964.3**
Other income and expenditure ◦	(713.0)	13.7	(699.3)	(96.4)	(795.7)
(Surplus)/deficit ◦	**(16.2)**	**74.0**	**57.8**	**110.8**	**168.6**
Opening general fund balance at 1 April ◦			**(399.1)**		
(Surplus)/deficit ◦			57.8		
Closing general fund balance at 31 March ◦			**(341.3)**		

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

2016/17 restated				2017/18		
Adjustments relating to other income and expenditure	**Adjustments relating to transfers to and from reserves**	**Total adjustments**		**Adjustments relating to other income and expenditure**	**Adjustments relating to transfers to and from reserves**	**Total Adjustments**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
0	0	0	Schools ◦	0	0	0
28.2	(2.2)	26.0	Chief executive services	1.2	32.2	33.4
(0.6)	21.8	21.2	Community services ◦	(0.7)	(0.6)	(1.3)
0	30.7	30.7	Adult services ◦	0	(0.5)	(0.5)
0	4.6	4.6	Education and children's services	0	0.7	0.7
0	(1.3)	(1.3)	Public health and wellbeing	0	0.9	0.9
0	0.4	0.4	Programmes and projects ◦	0	2.1	2.1
(0.4)	2.0	1.6	Economic development and planning ◦	(0.4)	1.6	1.2
(15.7)	(7.2)	(22.9)	Finance, corporate and property services ◦	(15.4)	3.8	(11.6)
11.5	**48.8**	**60.3**	**Net cost of services** ◦	**(15.3)**	**40.2**	**24.9**
(11.5)	25.2	13.7	Other income and expenditure	15.3	10.1	25.4
0	**74.0**	**74.0**	**(Surplus)/deficit** ◦	**0**	**50.3**	**50.3**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Notes supporting the comprehensive income and expenditure statement

Notes to the expenditure and funding analysis

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

Adjustments for capital purposes

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

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also any change in the fair value of assets held for sale is reflected in this note.

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

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

Net change for the pensions adjustments

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

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

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

Other differences

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

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

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

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

Adjustments between the funding and accounting basis - 2017/18

	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total Adjustments
	£m	**£m**	**£m**	**£m**
Schools	18.3	0	0	18.3
Chief executive services	0	3.7	0	3.7
Community services	9.7	10.1	0.1	19.9
Adult services	11.1	15.2	(0.1)	26.2
Education and children's services	2.4	8.6	(0.1)	10.9
Public health and wellbeing	0	5.7	(0.2)	5.5
Programmes and projects	26.4	2.4	0	28.8
Economic development and planning	14.3	0.8	0	15.1
Finance, corporate and property services	3.9	2.0	0	5.9
Net cost of services	**86.1**	**48.5**	**(0.3)**	**134.3**
Other income and expenditure from the expenditure and funding analysis	(110.8)	31.6	(3.7)	(82.9)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services	**(24.7)**	**80.1**	**(4.0)**	**51.4**

Adjustments between the funding and accounting basis - 2016/17 restated

	Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total Adjustments
	£m	**£m**	**£m**	**£m**
Schools ◦	50.5	0	3.9	54.4
Chief executive ◦	0	13.1	(0.4)	12.7
Community services ◦	89.8	0.1	(0.1)	89.8
Adult services	16.7	0.1	0.1	16.9
Children’s services ◦	13.1	(8.4)	(0.2)	4.5
Public health and wellbeing ◦	(0.1)	0.1	0.8	0.8
Programmes and projects ◦	24.5	0	(0.1)	24.4
Economic development and planning ◦	(6.4)	0	0	(6.4)
Finance, corporate and property services ◦	12.6	(1.8)	(0.7)	10.1
Net cost of services ◦	**200.7**	**3.2**	**3.3**	**207.2**
Other income and expenditure from the expenditure and funding analysis ◦	(122.0)	34.8	(9.2)	(96.4)
Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services ◦	**78.7**	**38.0**	**(5.9)**	**110.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Expenditure and income analysed by nature

The Council's expenditure and income is analysed as follows:

2016/17 restated		2017/18
£m		£m
783.2	Employee expenses (excluding voluntary aided schools)	807.6
225.7	Employee expenses for voluntary aided schools	227.1
1,013.2	Other service expenses ◦	1,062.0
185.9	Depreciation, amortisation and impairment ◦	50.6
35.0	Interest payments	34.0
1.1	Precepts and levies	1.1
34.8	Net pension interest costs	31.6
11.8	Gain or loss on disposal of non-current assets ◦	18.3
2,290.7	**Total expenditure** ◦	**2,232.3**
(243.0)	Fees, charges and other service income ◦	(256.7)
(32.6)	Interest and investment income	(14.4)
(420.9)	Income from council tax precept	(440.9)
(34.3)	Income from business rates precept	(29.7)
(1,391.3)	Government grants and contributions ◦	(1,415.3)
(2,122.1)	**Total income** ◦	**(2,157.0)**
168.6	**(Surplus)/deficit on the provision of services** ◦	**75.3**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 6 - Other operating income and expenditure

2016/17 restated £m		2017/18 £m
1.1	Levies for flood defences and inshore fisheries and conservation authorities	1.1
3.4	Other operating income/expenditure	0.8
7.1	Net (gains)/losses on the disposal of non-current assets ◦	11.1
11.6	**Total**	**13.0**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 7 - Financing and investment income and expenditure

2016/17 £m		2017/18 £m
18.9	Interest payable and other similar charges	18.6
16.1	Interest payable on PFI unitary payments	15.4
34.8	Net interest of the net defined benefit liability	31.6
(32.6)	Interest receivable and similar income	(14.4)
2.1	Changes in the fair value of investment properties	(0.3)
39.3	**Total**	**50.9**

Note 8 - Taxation and non-specific grant income

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

2016/17 restated		2017/18
£m		£m
(283.3)	Non-ringfenced Government grants	(254.8)
(108.1)	Capital grants and contributions ◦	(120.8)
(391.4)	**Total non-specific grant income ◦**	**(375.6)**
(420.9)	Council tax income	(440.9)
(34.3)	Non-domestic rates income	(29.7)
(846.6)	**Total ◦**	**(846.2)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

Non-ringfenced government grants

2016/17		2017/18
£m		£m
(120.0)	Revenue support grant	(82.7)
(143.4)	Top-up grant (business rates retention scheme)	(152.6)
(14.6)	Education services grant	(5.5)
(5.3)	Other	(14.0)
(283.3)	**Total**	**(254.8)**

Capital grants and contributions

2016/17 restated		2017/18
£m		£m
(36.6)	Department for transport	(46.5)
(31.6)	Department of education	(35.2)
(20.3)	Ministry of housing, communities and local government ◦	(14.0)
(7.6)	Other government grants	(12.6)
(12.0)	Other grants ◦	(12.5)
(108.1)	**Total** ◦	**(120.8)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

2016/17		2017/18
£m		£m
(770.2)	Dedicated schools grant	(787.3)
(45.9)	Pupil premium grant	(45.2)
(62.3)	Other Government grants	(89.2)
(21.9)	PFI grant	(21.9)
(71.9)	Public health grant	(70.2)
(2.2)	Other grants	(0.1)
(25.3)	Other contributions	(25.8)
(999.7)	**Total**	**(1,039.7)**

Note 10 - Dedicated schools grant

	Central Expenditure	Individual Schools Budget	Total
	£m	£m	£m
Final DSG for 2017/18 before academy recoupment			(889.4)
Academy figure recouped for 2017/18			102.1
Total DSG after academy recoupment for 2017/18			**(787.3)**
Brought forward from 2016/17			(20.7)
Carry forward to 2018/19 agreed in advance			12.7
Agreed initial budgeted distribution for 2017/18	**(38.5)**	**(756.8)**	**(795.3)**
In-year adjustments	0	0.7	0.7
Final budget distribution for 2017/18	**(38.5)**	**(756.1)**	**(794.6)**
Actual central expenditure relating to DSG	24.1		24.1
Actual ISB deployed to schools		756.1	756.1
Carry forward to 2018/19	**(14.4)**	**0**	**(14.4)**

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

The table details how the DSG receivable for 2017/18 has been utilised.

Note 11 - Officers' remuneration

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

The Council implemented a new senior management structure with effect from 3 January 2018. Changes to the individual posts are detailed in the notes.

Officers' remuneration - 2017/18

Post holder	Note	Salary, fees and allowances	Benefits in kind (lease car payments / excess mileage)	Compensation for loss of employment	Total remuneration excluding pension contributions	Pension contribution	Total remuneration including pension contribution
		£	£	£	£	£	£
Interim Chief Executive and Director of Resources (s151) – A Ridgwell	1, 11	48,611	0	0	48,611	0	48,611
Chief Executive – J Turton	2	134,999	0	113,997	248,996	19,780	268,776
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)	3	99,776	5,389	110,430	215,595	14,980	230,575
Executive Director of Adult Services and Health and Wellbeing	4	32,241	1,266	0	33,507	4,868	38,375
Corporate Director Operations and Delivery	5	99,557	3,702	0	103,259	15,033	118,292
Director of Children's Services	6	114,015	0	0	114,015	16,416	130,431
Director of Corporate Services	7	21,814	1,102	0	22,916	3,293	26,209
Director Governance, Finance and Public Services	7	90,691	0	95,924	186,615	13,090	199,705
Director Public Health	8	29,994	0	0	29,994	4,127	34,121
Director Public Health and Wellbeing	8	92,618	0	0	92,618	12,743	105,361
Director of Development and Corporate Services	9	87,344	8,691	48,979	145,014	12,799	157,813
Director of Finance	10	22,766	1,408	0	24,174	3,438	27,612
Director of Financial Resources	11	70,299	4,118	0	74,417	10,615	85,032
Director of Adult Services	12	84,762	4,705	0	89,467	12,799	102,266
Director of Economic Development and Planning	13	23,717	2,753	0	26,470	3,581	30,051
Director of Property Services	14, 15	26,240	2,025	0	28,265	3,955	32,220
Director of Programmes and Project Management	13, 15	24,062	0	0	24,062	3,438	27,500
Director of Community Services	13, 15	25,014	0	0	25,014	3,581	28,595
Director of Education, Schools and Care	16	18,702	1,107	87,371	107,180	2,824	110,004
Head of Service – Communications		64,936	0	0	64,936	9,805	74,741

Notes supporting the comprehensive income and expenditure statement

Notes

1 The Interim Chief Executive and Director of Resources was appointed on 3 January 2018 and performs the statutory roles of the Head of Paid Service and Section 151 Officer.

2 The Chief Executive was the previous statutory Head of Paid Service. This post was disestablished.

3 The Corporate Director of Commissioning and Deputy Chief Executive (Executive Director) post was disestablished with effect from 3 January 2018.

4 The Executive Director of Adult Services and Health and Wellbeing post was created with effect from 3 January 2018 and holds the statutory role of Director of Adult Services.

5 The Corporate Director of Operations and Delivery post was disestablished and the post holder was appointed to the new post of Executive Director of Adult Services and Health and Wellbeing with effect from 3 January 2018.

6 The Director of Children's Services was appointed to the new post of the same name from 3 January 2018. This post performed the statutory duties until 5 March 2018, when these were transferred to the post of Interim Executive Director of Education and Children's Services.

7 The Director of Corporate Services is the statutory Monitoring Officer with effect from 3 January 2018. This role was previously undertaken by the Director of Governance, Finance and Public Services. This post was disestablished on 3 January 2018.

8 The Director of Public Health was appointed to the post of the Director of Public Health and Wellbeing with effect from 3 January 2018. Both posts undertook the statutory duties of the Director of Public Health.

9 The post of Director of Development and Corporate Services was disestablished with effect from 3 January 2018.

10 The Director of Financial Resources was appointed to the new post of Director of Finance from 3 January 2018.

11 The statutory role of Section 151 Officer was undertaken by the Director of Financial Resources until 2 January 2018, when the responsibilities transferred to the Interim Chief Executive and Director of Resources.

12 The Director of Adult Services held statutory responsibilities until 2 January 2018, when the responsibilities then transferred to the post of Executive Director of Adult Services and Health and Wellbeing.

13 The Director of Economic Development and Planning, the Director of Programmes and Project Management and the Director of Community Services reported directly to the Head of Paid Service.

14 The Director of Property Services reports directly to the Head of Paid Service.

15 The Director of Property Services, the Director of Programmes and Project Management and the Director of Community Services are posts effective from 3 January 2018.

16 The post of Director of Education, Schools and Care was disestablished as part of a senior management restructure of Children's Services and Education, Schools and Skills with effect from 31 May 2017.

Officers' remuneration - 2016/17

Post holder	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		171,745	5,300	177,045	21,640	198,685
Corporate Director Commissioning and Deputy Chief Executive (Executive Director)		127,890	9,217	137,107	16,114	153,221
Corporate Director Operations and Delivery		130,493	4,482	134,975	16,442	151,417
Director Public Health and Wellbeing		113,625	5,300	118,925	16,248	135,173
Director of Development and Corporate Services		108,575	8,309	116,884	13,681	130,565
Director Governance, Finance and Public Services		111,100	5,300	116,400	13,999	130,399
Director of Children's Services	1	13,256	663	13,919	1,670	15,589
Director of Adult Services		108,575	5,766	114,341	13,681	128,022
Director of Education, Schools and Care		108,575	6,613	115,188	13,681	128,869
Head of Service – Communications	2	42,514	0	42,514	5,357	47,871
Interim Head of Service – Communications	3	25,623	0	25,623	3,228	28,851
Director of Financial Resources		89,445	5,188	94,633	11,270	105,903

Notes
1 The Director of Children's Services took up the post on 15 February 2017. The post was undertaken on an interim basis from April 2016 until February 2017 through a part-time secondment from Blackburn with Darwen Borough Council.
2 The Head of Service – Communications ceased employment with the Council on 4 November 2016.
3 The interim Head of Service – Communications took up the post on 7 November 2016.

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

Number of employees

	2017/18				2016/17			
Remuneration Banding £	LCC non-teaching staff [1]	Schools [2]	Total	Redundancies	LCC non-teaching staff [1]	Schools [2]	Total	Redundancies
50,000 to 54,999	40	330	370	4	71	324	395	21
55,000 to 59,999	37	256	293	4	35	239	274	10
60,000 to 64,999	32	160	192	0	51	155	206	7
65,000 to 69,999	44	80	124	2	34	67	101	8
70,000 to 74,999	4	30	34	2	3	30	33	2
75,000 to 79,999	1	19	20	1	6	16	22	6
80,000 to 84,999	2	18	20	2	1	18	19	0
85,000 to 89,999	2	8	10	1	0	7	7	0
90,000 to 94,999	1	7	8	0	3	6	9	0
95,000 to 99,999	0	5	5	0	4	6	10	1
100,000 to 104,999	2	3	5	1	1	4	5	0
105,000 to 109,999	1	2	3	1	1	2	3	0
110,000 to 114,999	0	1	1	0	0	1	1	0
115,000 to 119,999	0	0	0	0	1	0	1	0
120,000 to 124,999	0	0	0	0	1	0	1	0
140,000 to 144,999	1	0	1	1	0	0	0	0
Total	**167**	**919**	**1,086**	**19**	**212**	**875**	**1,087**	**55**

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

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

Exit packages

	No. Compulsory Redundancies		No. Other Exit Packages		Total Number		Total Cost £000	
Banding (£)	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**
0 to 20,000	35	19	367	451	**402**	**470**	**2,490**	**3,703**
20,001 to 40,000	1	1	38	104	**39**	**105**	**1,046**	**2,839**
40,001 to 60,000	2	1	10	27	**12**	**28**	**598**	**1,344**
60,001 to 80,000	0	0	6	16	**6**	**16**	**431**	**1,101**
80,001 to 100,000	0	0	3	19	**3**	**19**	**283**	**1,696**
100,001+	1	0	5	25	**6**	**25**	**1,603**	**3,225**
Total	**39**	**21**	**429**	**642**	**468**	**663**	**6,451**	**13,908**

The table shows the number of exit packages and the total cost to the Council per band.

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

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

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

During 2017/18, the Council terminated the contracts of a number of employees, incurring liabilities of £6.5 million (2016/17: £13.9 million). Of the £6.5 million, £2.3 million is for enhanced pension benefits and £4.2 million relates to redundancy payments.

Note 12 - Members' allowances

2016/17 £000		2017/18 £000
1,225	Allowances payable to Members	1,236
61	Expenses payable to Members	63
1,286	**Total**	**1,299**

Note 13 - Fees payable to auditors

The Council incurred the following fees relating to external audit.

2016/17 £000		2017/18 £000
113	Fees incurred with regard to external audit services provided by Grant Thornton	113
11	Fees incurred for other audit work undertaken by Grant Thornton	13
124	**Total**	**126**

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

This note details the adjustments made to the comprehensive income and expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. Further information is provided in Note 29 which details the movements on unusable reserves.

Adjustments between accounting basis and funding basis under regulations - 2017/18

	Usable reserves				Unusable reserves
	Earmarked reserves balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(80.1)	0	0	(80.1)	80.1
Financial instruments (transferred to the financial instruments adjustments account)	3.3	0	0	3.3	(3.3)
Council tax and NDR (transferred to or from the collection fund)	0.5	0	0	0.5	(0.5)
Holiday pay (transferred to the accumulated absences reserve)	0.2	0	0	0.2	(0.2)
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):	(69.4)	0	58.6	(10.8)	10.8
Total adjustments to revenue resources	**(145.5)**	**0**	**58.6**	**(86.9)**	**86.9**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve	(4.5)	4.5	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	13.2	0	0	13.2	(13.2)
Total adjustments between revenue and capital resources	**8.7**	**4.5**	**0**	**13.2**	**(13.2)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure	85.4	0	(85.4)	0	0
Total adjustments to capital resources	**85.4**	**0**	**(85.4)**	**0**	**0**
Total adjustments	**(51.4)**	**4.5**	**(26.8)**	**(73.7)**	**73.7**

Adjustments between accounting basis and funding basis under regulations - 2016/17 restated

	Usable reserves				Unusable reserves
	Earmarked reserves balance	Capital receipts reserve	Capital grants unapplied	Total	
	£m	£m	£m	£m	£m
Adjustments to the revenue resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pensions costs (transferred to or from the pensions reserve)	(38.0)	0	0	(38.0)	38.0
Financial instruments (transferred to the financial instruments adjustments account)	3.2	0	0	3.2	(3.2)
Council tax and NDR (transferred to or from the collection fund)	6.2	0	0	6.2	(6.2)
Holiday pay (transferred to the accumulated absences reserve)	(3.5)	0	0	(3.5)	3.5
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): ◦	(150.8)	0	43.7	(107.1)	107.1
Total adjustments to revenue resources ◦	**(182.9)**	**0**	**43.7**	**(139.2)**	**139.2**
Adjustments between revenue and capital resources					
Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve ◦	4.6	(4.6)	0	0	0
Statutory provision for the repayment of debt (transferred from the capital adjustment account)	25.4	0	0	25.4	(25.4)
Capital expenditure financed from revenue balances (transferred to the capital adjustment account	0	3.6	0	3.6	(3.6)
Total adjustments between revenue and capital resources ◦	**30.0**	**(1.0)**	**0**	**29.0**	**(29.0)**
Adjustments to capital resources					
Application of capital grants to finance capital expenditure ◦	42.1	0	(42.1)	0	0
Total adjustments to capital resources ◦	**42.1**	**0**	**(42.1)**	**0**	**0**
Total adjustments ◦	**(110.8)**	**(1.0)**	**1.6**	**(110.2)**	**110.2**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 15 - Transfers to and from earmarked reserves

	Balance at 31 March 2016 restated	Transfers out 2016/17	Transfers in 2016/17 restated	Balance at 31 March 2017 restated	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m	£m	£m	£m
General fund	(36.0)	0	0	(36.0)	12.6	0	(23.4)
Reserves held to deliver corporate priorities							
Strategic investment reserve	(11.0)	6.5	0	(4.5)	0.7	0	(3.8)
Reserves held to deliver organisational change							
Downsizing reserve	(64.9)	46.0	0	(18.9)	5.2	(0.2)	(13.9)
Risk management reserve	(15.8)	5.4	(0.1)	(10.5)	5.1	(0.1)	(5.5)
Transitional reserve	(141.8)	63.9	(84.1)	(162.0)	65.1	(58.1)	(155.0)
Reserves held to pay for expenditure commitments							
Election reserve	(1.2)	0	(0.4)	(1.6)	1.1	0	(0.5)
Funding of capital projects	(0.1)	0.1	(0.1)	(0.1)	0.1	0	0
School reserves							
Individual school reserves	(53.7)	16.3	(7.9)	(45.3)	10.5	(9.4)	(44.2)
Other school reserves	(26.1)	1.6	(3.0)	(27.5)	17.4	(10.8)	(20.9)
Reserves held to meet service priorities							
Treasury management reserve	0	0	0	0	0	(10.0)	(10.0)
Directorate reserves ◦	(42.3)	22.2	(8.4)	(28.5)	8.6	(15.2)	(35.1)
Centrally managed schools maintenance reserve	(6.2)	6.2	(6.4)	(6.4)	6.4	(5.1)	(5.1)
Total earmarked revenue and capital reserves ◦	**(399.1)**	**168.2**	**(110.4)**	**(341.3)**	**132.8**	**(108.9)**	**(317.4)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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 Council as it continues to deliver its agreed savings and develops its strategy to reduce costs over the next two years.

Risk management reserve

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

Transitional reserve

This reserve was created to meet the dual requirements of funding the lead-in time for the savings programme in 2016/17 and 2017/18 as well as providing the resources necessary to cover the funding shortfall in those two years until further budget savings were identified.

Reserves held to pay for expenditure commitments

County Council election reserve

This reserve is used to fund the fees and charges relating to the administration of the County Council elections.

Schools' reserves

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

Reserves held to meet service priorities

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

Note 16 - Capital expenditure and capital financing

31 March 2017 restated		31 March 2018
£m		£m
978.4	**Opening capital financing requirement**	**1,002.1**
	Capital investment	
144.8	Property, plant and equipment ◦	109.0
2.1	Intangible assets	3.6
14.7	Revenue expenditure funded from capital under statute ◦	35.3
161.6	**Total capital investment** ◦	**147.9**
	Sources of finance	
(3.6)	Capital receipts	0
(108.1)	Government grants and other contributions ◦	(94.0)
	Sums set aside from revenue:	
(0.9)	Direct revenue contributions	0
(5.3)	Write down of PFI liability	(5.0)
(20.0)	Minimum revenue provision (MRP) for debt repayment	(8.1)
1,002.1	**Closing capital financing requirement**	**1,042.9**
	Explanation of movement in year	
(8.9)	Increase in underlying need to borrow (supported by Government financial assistance)	22.1
37.9	Increase in underlying need to borrow (unsupported by Government financial assistance)	23.7
(5.3)	Write down of PFI liability	(5.0)
23.7	**Total movement**	**40.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

Note 17 - Capital contractual commitments

At 31 March 2018 the Council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2018/19 or future years. (2016/17: £8 million)

Note 18 - Property, plant and equipment

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

	Land and buildings	Vehicles, plant, furniture and equipment	Infrastructure	Assets under construction	Surplus assets	Total
	£m	£m	£m	£m	£m	£m
Carried at historical cost	**113.9**	**90.2**	**1,053.4**	**3.5**	**1.5**	**1,262.5**
Valued at current value as at:						
31 March 2018	673.1	0	0	0	23.3	**696.4**
31 March 2017	509.3	0	0	0	0.4	**509.7**
31 March 2016	621.5	0	0	0	1.1	**622.6**
31 March 2015	48.8	0	0	0	0	**48.8**
Total cost or valuation	**1,966.6**	**90.2**	**1,053.4**	**3.5**	**26.3**	**3,140.0**

Property, plant and equipment - movements in 2017/18

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2017	**1,828.2**	**89.0**	**991.8**	**0.3**	**15.9**	**2,925.2**	**122.5**
Additions	38.6	5.6	61.5	3.3	0	**109.0**	0
De-recognition – disposals	(12.8)	(4.4)	0	0	(0.9)	**(18.1)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	115.7	0	0	0	3.3	**119.0**	1.0
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	2.3	0	0	0	0.9	**3.2**	2.8
Assets reclassified *	(5.4)	0	0.1	(0.1)	7.1	**1.7**	0
At 31 March 2018	**1,966.6**	**90.2**	**1,053.4**	**3.5**	**26.3**	**3,140.0**	**126.3**
Depreciation and impairment							
At 1 April 2017	**(78.4)**	**(58.7)**	**(127.7)**	**0**	**(0.1)**	**(264.9)**	**(1.6)**
Depreciation charge	(26.7)	(6.4)	(14.8)	0	**(1.0)**	**(48.9)**	(1.6)
Depreciation written out to revaluation reserve	6.8	0	0	0	**0**	**6.8**	0.4
Depreciation written out to the surplus/deficit on provision of services	0.6	0	0	0	**0**	**0.6**	0.3
De-recognition	0.2	4.4	0	0	**0**	**4.6**	0
Reclassification	0	0	0	0	**0**	**0**	0
At 31 March 2018	**(97.5)**	**(60.7)**	**(142.5)**	**0**	**(1.1)**	**(301.8)**	**(2.5)**
At 1 April 2017	**1,749.8**	**30.3**	**864.1**	**0.3**	**15.8**	**2,660.3**	**120.9**
At 31 March 2018	**1,869.1**	**29.5**	**910.9**	**3.5**	**25.2**	**2,838.2**	**123.8**

* The £1.7 million balance on assets reclassified relates to assets held for sale.

Property, plant and equipment - movements in 2016/17 restated

	Land and buildings	Vehicles, plant, furniture, equipment	Infrastructure	Assets under construction	Surplus assets	Total	PFI assets included in property
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2016 ◦	**1,924.6**	**83.2**	**894.3**	**8.0**	**14.2**	**2,924.3**	**122.7**
Additions ◦	73.0	5.8	102.2	0.4	0.1	**181.5**	0.3
De-recognition – disposals ◦	(8.8)	0	0	0	(1.1)	**(9.9)**	0
De-recognition – other ◦	0	0	(4.8)	(3.3)	0	**(8.1)**	0
Revaluation increases/(decreases) recognised in the revaluation reserve	13.7	0	0	0	0.6	**14.3**	(0.2)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services ◦	(165.0)	0	0	0	(3.1)	**(168.1)**	(0.3)
Assets reclassified *◦	(9.3)	0	0.1	(4.8)	5.2	**(8.8)**	0
At 31 March 2017 ◦	**1,828.2**	**89.0**	**991.8**	**0.3**	**15.9**	**2,925.2**	**122.5**
Depreciation and impairment							
At 1 April 2016 ◦	**(89.5)**	**(52.3)**	**(111.2)**	**0**	**(0.1)**	**(253.1)**	**(1.5)**
Depreciation charge ◦	(24.3)	(6.4)	(16.5)	0	(0.1)	**(47.3)**	(1.2)
Depreciation written out to revaluation reserve	25.3	0	0	0	0.1	**25.4**	0
Depreciation written out to the surplus/deficit on provision of services	9.4	0	0	0	0.1	**9.5**	1.1
De-recognition – disposals	0.4	0	0	0	0	**0.4**	0
De-recognition – other ◦	0	0	0	0	0	**0**	0
Reclassification	0.3	0	0	0	(0.1)	**0.2**	0
At 31 March 2017 ◦	**(78.4)**	**(58.7)**	**(127.7)**	**0**	**(0.1)**	**(264.9)**	**(1.6)**
At 1 April 2016 ◦	**1,835.1**	**30.9**	**783.1**	**8.0**	**14.1**	**2,671.2**	**121.2**
At 31 March 2017 ◦	**1,749.8**	**30.3**	**864.1**	**0.3**	**15.8**	**2,660.3**	**120.9**

* The £8.8 million balance on assets reclassified relates to assets held for sale.

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 19 - School assets

Schools included on the Council's balance sheet

31 March 2017 restated			31 March 2018	
Number of schools	**Value of land and buildings**		**Number of schools**	**Value of land and buildings**
	£m			**£m**
269	716.4	Community schools ◦	265	747.4
11	87.1	Foundation schools ◦	10	82.9
269	521.8	Voluntary aided schools ◦	268	566.8
50	97.5	Voluntary controlled schools	50	100.1
599	**1,422.8**	**Total** ◦	**593**	**1,497.2**
14	120.9	Schools included above subject to PFI contracts ◦	14	123.9

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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.

Note 20 - Heritage assets

	Paintings and furniture	Other museum artefacts	Manuscripts and books	Total
	£m	£m	£m	£m
Cost or valuation				
At 31 March 2018	**3.0**	**11.1**	**14.6**	**28.7**
At 31 March 2017	**3.0**	**11.1**	**14.6**	**28.7**

There have been no additions or disposals during the year and the values remain unchanged from 2016/17.

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

Paintings, furniture and other artefacts

The museum service contains around 140,000 items which cover a variety of artefacts 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.

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

Note 21 - Long term debtors

31 March 2017		31 March 2018
£m		£m
33.9	Transferred Debt [1]	15.1
32.3	Finance Lease Debtor [2]	31.3
66.2	**Total**	**46.4**

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 28).

Note 22 - Short term debtors

31 March 2017 restated		31 March 2018
£m		£m
11.6	Central Government bodies	12.2
22.3	Other local authorities	20.9
16.4	NHS bodies	14.3
0	Public corporations	0.1
17.7	Council tax	18.0
0.8	Non-domestic rates	0.8
41.5	Other entities and individuals ◦	189.4
110.3	**Total** ◦	**255.7**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 23 - Cash and cash equivalents

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

31 March 2017 restated		31 March 2018
£m		£m
0.7	Cash held by the Council	0.6
(20.4)	Bank current accounts ◦	(31.5)
147.8	Short term deposits under 3 months	49.7
128.1	**Total** ◦	**18.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 24 - Short term creditors

31 March 2017 restated		31 March 2018
£m		£m
(20.8)	Central Government bodies	(24.5)
(12.6)	Other local authorities	(17.0)
(6.3)	NHS bodies	(5.7)
(145.3)	Other entities and individuals ◦	(202.9)
(185.0)	**Total** ◦	**(250.1)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 25 – Provisions

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

	Balance at 1 April 2017	Additional provision made in 2017/18	Spending met from the provision in 2017/18	Unused amounts reversed in 2017/18	Balance at 31 March 2018
	£m	£m	£m		£m
Insurance provision	(18.8)	(10.5)	7.0	0	(22.3)
MMI provision	(2.6)	(0.2)	0	0	(2.8)
Other long term provisions	(0.2)	(0.8)	0	0	(1.0)
Total long term provisions	**(21.6)**	**(11.5)**	**7.0**	**0**	**(26.1)**
Business rates appeals	(4.2)	(0.2)	0	0	(4.4)
Early retirement	(0.6)	(0.5)	0.5	0.1	(0.5)
Other short term provisions	(2.2)	(1.2)	0.3	0.9	(2.2)
Total short term provisions	**(7.0)**	**(1.9)**	**0.8**	**1.0**	**(7.1)**
Total provisions	**(28.6)**	**(13.4)**	**7.8**	**1.0**	**(33.2)**

Insurance provision

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

Municipal Mutual Insurance (MMI)

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

Business rates appeals

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

Early retirement provision

This provision is for future voluntary redundancy costs.

Other provisions

All other provisions are individually insignificant.

Note 26 - Financial instruments

A financial instrument is a contract which creates a financial asset for one party and a financial liability for another party. Non-exchange transactions such as those relating to taxes and Government grants do not give rise to financial instruments. The term covers both financial assets such as bank deposits, investments and loans by the Council and amounts receivable and financial liabilities including amounts borrowed by the Council and amounts payable.

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

The disclosures include:

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

Financial assets

31 March 2017 Restated				31 March 2018		
£m				£m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
70.5	1.0	**71.5**	Loans and receivables	34.8	65.8	**100.6**
200.8	0	**200.8**	Available for sale financial assets	135.6	0	**135.6**
0	170.9	**170.9**	Financial assets at fair value through profit and loss	0	62.7	**62.7**
271.3	**171.9**	**443.2**	**Total investments**	**170.4**	**128.5**	**298.9**
0	128.1	**128.1**	Cash and cash equivalents ◦	0	18.8	**18.8**
32.3	76.2	**108.5**	Debtors #◦	31.3	220.4	**251.7**
303.6	**376.2**	**679.8**	**Total financial assets ◦**	**201.7**	**367.7**	**569.4**
# 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						
33.9	*34.1*	*68.0*		*15.1*	*35.3*	*50.4*

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Financial liabilities

31 March 2017 restated				31 March 2018		
£m				£m		
Long term	**Short term**	**Total**	**Category**	**Long term**	**Short term**	**Total**
(584.4)	(463.8)	**(1,048.2)**	Financial liabilities at amortised cost	(471.4)	(487.5)	**(958.9)**
0	(141.1)	**(141.1)**	Creditors #◦	0	(210.3)	**(210.3)**
(157.3)	(5.1)	**(162.4)**	Other financial liabilities (PFI) at amortised cost	(151.6)	(5.8)	**(157.4)**
(741.7)	**(610.0)**	**(1,351.7)**	**Total financial liabilities** ◦	**(623.0)**	**(703.6)**	**(1,326.6)**
# 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	*(43.9)*	*(43.9)*		*0*	*(39.8)*	*(39.8)*

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 27 - Private finance initiative (PFI)

Under these PFI contracts (Fleetwood High School and Building Schools for the Future (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.

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 3.65% is made for future inflation within the model.

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

Fleetwood High School

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

Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 4 separate phases under contract with Catalyst Education (Lancashire) Limited. Each delivers a school building (or a number of school buildings) and the provision of on-going services including grounds maintenance, caretaking and building maintenance.

Fleetwood High School

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2018/19	0.4	0.5	1.0	1.9
Payment within 2 to 5 years	1.5	2.4	3.7	7.6
Payment within 6 to 10 years	2.0	4.0	3.0	9.0
Total	**3.9**	**6.9**	**7.7**	**18.5**

Building schools for the future (BSF)

	Payment for services	Repayment of liability	Interest charges	Total payments due
	£m	£m	£m	£m
Payment in 2018/19	9.8	5.4	14.4	29.6
Payment within 2 to 5 years	47.5	22.9	52.4	122.8
Payment within 6 to 10 years	75.2	38.8	52.8	166.8
Payment within 11 to 15 years	83.6	60.8	39.7	184.1
Payment within 16 to 20 years	24.1	22.6	7.7	54.4
Total	**240.2**	**150.5**	**167.0**	**557.7**

Outstanding PFI liability

31 March 2017		31 March 2018
£m		£m
(167.7)	**Balance outstanding at start of year**	**(162.4)**
5.3	Payments during the year	5.0
(162.4)	**Balance outstanding at year end**	**(157.4)**

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

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

Note 28 - Leases

Council as lessor – finance leases

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

31 March 2017		31 March 2018
£m		£m
1.0	Current	1.0
32.3	Non-current	31.3
17.3	Unearned finance income	16.1
50.6	**Gross investment in the finance lease**	**48.4**

Lancashire County Council has recognised a finance lease debtor in respect of the borrowing raised on behalf of Blackpool 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.

31 March 2017			31 March 2018	
Gross investment	Minimum lease payments		Gross investment	Minimum lease payments
£m	£m		£m	£m
2.2	1.0	Not later than one year	2.2	1.0
9.0	4.2	Later than one year and not later than 5 years	9.0	4.4
39.4	28.1	Later than 5 years	37.2	26.9
50.6	**33.3**	**Total**	**48.4**	**32.3**

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

Note 29 - Reserves

Usable reserves

2016/17 restated £m		2017/18 £m
(36.0)	General fund	(23.4)
(232.4)	Earmarked reserves ◦	(228.9)
(72.8)	School reserves	(65.1)
(0.1)	Capital funding reserve	0
(341.3)	**Total earmarked reserves** ◦	**(317.4)**
(49.9)	Capital grants unapplied reserve ◦	(76.7)
(4.5)	Capital receipts reserve ◦	0
(395.7)	**Total usable reserves** ◦	**(394.1)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Unusable reserves

31 March 2017 restated £m		31 March 2018 £m
7.7	Available for sale financial instruments reserve	(4.1)
41.7	Financial instruments adjustment account	38.4
(754.7)	Revaluation reserve ◦	(857.7)
(970.5)	Capital adjustment account ◦	(995.6)
1,331.1	Pensions reserve	1,210.7
(9.7)	Collection fund adjustment account	(10.4)
26.6	Accumulated absences adjustment account	26.6
(327.8)	**Total** ◦	**(592.1)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Financial instruments adjustment reserve

2016/17		2017/18
£m		£m
45.0	**Balance at 1 April**	**41.7**
(3.3)	Proportion of premiums incurred in previous financial years to be charged against general fund balance	(3.3)
41.7	**Balance at 31 March**	**38.4**

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.

Revaluation reserve

2016/17 restated		2017/18
£m		£m
(724.9)	**Audited balance at 1 April**	**-**
(2.3)	Prior period adjustment 2016/17	-
(727.2)	**Restated balance 1 April ◦**	**(754.7)**
(128.2)	Upward revaluation of assets ◦	(142.8)
86.8	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	17.0
(41.4)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services ◦**	**(125.8)**
11.6	Difference between fair value depreciation and historical cost depreciation	13.4
2.3	Accumulated gains on assets sold or scrapped	9.4
13.9	**Amount written off to the capital adjustment account**	**22.8**
(754.7)	**Balance at 31 March ◦**	**(857.7)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

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

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

Capital adjustment account

2016/17 restated		2017/18
£m		£m
(1,047.5)	**Audited balance at 1 April**	**-**
12.7	**Prior period adjustment 2016/17**	-
(1,034.8)	**Restated balance 1 April** ◦	**(970.5)**
	Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement	
47.3	Charges for depreciation and impairment of non-current assets ◦	48.9
136.9	Revaluation losses on property, plant and equipment including assets held for sale ◦	(2.8)
5.1	Amortisation of intangible assets	5.3
14.7	Revenue expenditure funded from capital under statute ◦	35.3
11.7	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	18.3
(5.3)	Write down of PFI liability	(5.0)
(13.9)	Adjusting amount written out of the revaluation reserve	(22.8)
(838.3)	**Net written out amount of the cost of non-current assets consumed in the year** ◦	**(893.3)**
	Capital financing applied in the year	
(111.4)	Capital grants and contributions credited to the comprehensive income and expenditure statement ◦	(67.1)
1.7	Application of capital grants to capital financing from the capital grants unapplied account ◦	(26.8)
(3.6)	Application of capital receipts to capital financing from the capital receipts reserve	0
(20.0)	Statutory provision for the financing of capital investment charged against the general fund	(8.1)
(0.9)	Capital expenditure charged against the general fund	0
(134.2)	◦	**(102.0)**
2.0	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement	(0.3)
(970.5)	**Balance at 31 March** ◦	**(995.6)**

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

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Pensions reserve

2016/17 £m		2017/18 £m
1,049.9	**Balance at 1 April**	**1,331.1**
243.2	Re-measurement of the net defined benefit liability/(asset)	(200.4)
133.1	Reversal of items relating to retirement benefits debited or credited to the surplus on the provision of services in the comprehensive income and expenditure statement	163.2
(95.1)	Employer's pension contributions and direct payments to pensioners payable in the year	(83.2)
1,331.1	**Balance at 31 March**	**1,210.7**

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

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

Note 30 - 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 2017		31 March 2018
£m		£m
(35.2)	Interest received	(15.3)
34.5	Interest paid	33.9

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

31 March 2017 restated		31 March 2018
£m		£m
47.3	Depreciation ◦	48.9
135.6	Impairment and downward valuations ◦	(3.4)
5.1	Amortisation of intangible assets	5.3
(1.2)	Increase/(decrease) in provision for bad debts	(6.3)
(1.6)	Increase/(decrease) in creditors ◦	(18.7)
0.1	(Increase)/decrease in debtors ◦	9.7
(0.8)	(Increase)/decrease in inventories	1.2
38.0	Movement in pension liability	1.4
11.7	Carrying amount of non-current assets sold	18.5
(0.6)	Other non-cash items charged to the surplus or deficit on the provision of services ◦	7.2
233.6	**Total** ◦	**63.8**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

31 March 2017 restated £m		31 March 2018 £m
(24.7)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(6.6)
(4.6)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	0
(108.1)	Capital grants credited to the surplus on the provision of services ◦	(120.8)
(137.4)	**Total** ◦	**(127.4)**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 31 - Cash flows from investing activities

31 March 2017 restated £m		31 March 2018 £m
(143.8)	Purchase of property, plant and equipment, investment property and intangible assets ◦	(113.4)
(8,408.3)	Purchase of short term and long term investments	(6,237.9)
(17.5)	Other payments for investing activities	0
8.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	2.8
8,580.5	Proceeds from the sale of short term and long term investments	6,332.5
110.8	Other capital grants and receipts from investing activities ◦	140.6
129.8	**Net cash flows from investing activities** ◦	**124.6**

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

Note 32 - Cash flows from financing activities

31 March 2017		31 March 2018
£m		**£m**
1,059.0	Cash receipts from short term and long term borrowing	1,029.3
(6.2)	Appropriate to/from Collection Fund Adjustment Account	(0.5)
(993.5)	Repayment of short term and long term borrowing	(1,118.8)
(5.3)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(5.0)
54.0	**Net cash flows from financing activities**	**(95.0)**

Note 33 - Related party transactions

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

Central government

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

Other public bodies (subject to common control by Central Government)

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

The Council is the host to pooled budget arrangements with several Clinical Commissioning Groups, for the Better Care Fund and for Learning Disabilities. Transactions and balances for both funds are detailed in Note 34.

Lancashire County Pension Fund

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

The Council incurred costs of £0.6 million in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of the members of the Pension Fund and contributed £73.3 million to the fund in 2017/18.

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

The Council's Chief Executive and Director of Resources is responsible for the preparation and sign off of the Lancashire County Pension Fund accounts. For this service, the pension fund is recharged an element (c2%) of the Chief Executive Director of Resources' salary.

Members

Members of the Council have direct control over the Council's financial and operating policies. Members are also appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. The total of Members' allowances paid in 2017/18 is shown in Note 12. Details of Members' interests are recorded in a formal Register of Interest, which is open to public inspection. This table contains material transactions (from the perspective of either the Council or the organisation) during 2017/18 for services to organisations in which Members have declared interests. These are listed along with any respective outstanding year end balances.

	Income received £	Payments made £	Balance owed at 31 March 2018 £
Anderton Centre – LOAI LTD	(2,979)	16,370	(2,336)
Astley and Bucksaw Juniors Football Club	0	1,180	0
Ribble Valley Citizens Advice Bureau	(12,647)	0	0

Chief Officers

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

The payments shown in the table were made for services to organisations in which chief officers have declared interests.

	Income received £	Payments made £	Balance owed at 31 March 2018 £
Preston's College	(22,602)	476,531	(15,172)

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.

Inclusion in the Lancashire County Council Group is dependent upon the extent of the Council's interest and control over the entity. Where the value of the interest is considered to be immaterial, the company is not consolidated in the group accounts. The transactions of Lancashire County Developments Limited are included within the Council's group accounts.

Transactions between the other remaining companies are shown in the following tables.

Company	Interest	Relationship	
Global Renewables Lancashire Operations Limited	87.5%	Subsidiary	
Marketing Lancashire Limited	100%	Subsidiary	
Local Pensions Partnership Limited	50%	Joint venture	
Lancashire Sport Partnership Limited (Active Lancashire Limited)	100%	Subsidiary	
Lancashire Partnership Against Crime Limited	25%	Associate	No transactions
Lancashire Environmental Fund Limited	25%	Associate	No transactions
Lancashire Enterprise Partnership Limited	100%	Subsidiary	Dormant company
Lancashire Workforce Development Partnership Limited	100%	Subsidiary	Company in liquidation

Global Renewables Lancashire Operations Limited

The two strategic waste management facilities at Leyland and Thornton, were transferred to the Council in 2014. The operating company Global Renewables Lancashire Operations Limited was acquired with Lancashire County Council having an 87.5% shareholding in the company and the remaining 12.5% owned by - Blackpool Council.

2016/17		2017/18
£m		£m
(0.1)	Income received during the year from Global Renewables	(0.4)
26.1	Payments made during the year to Global Renewables	23.3
0.1	Amounts owed at the year end from Global Renewables	0.2
(1.2)	Amounts owed at the year end to Global Renewables	(1.0)

Marketing Lancashire Limited

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

2016/17		2017/18
£m		£m
0.6	Payments made during the year to Marketing Lancashire Limited	1.0
0	Amounts owed at the year end to Marketing Lancashire Limited	(0.5)

Local Pensions Partnership Limited (LPP)

In 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.

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

2016/17		2017/18
£m		£m
(0.7)	Income received during the year from Local Pensions Partnership	(0.9)
0.1	Payments made during the year to Local Pensions Partnership	0.2
0.2	Amounts owed at the year end from Local Pensions Partnership	0.3
17.5*	Loan to Local Pensions Partnership	17.5

* 2016/17 figures restated to include loan to Local Pensions Partnership

Lancashire Sport Partnership Limited

Lancashire Sport Partnership changed its name to Active Lancashire Limited on 10 February 2018 and is a county sport partnership and charity operating in the Lancashire and South Cumbria public health regions.

2016/17		2017/18
£m		£m
0	Payments made during the year to Lancashire Sport Partnership Limited	0.2

Penna PLC

Penna PLC is a recruitment consultancy company, which during the course of 2017/18 has provided recruitment and key management personnel services to Lancashire County Council.

2016/17		2017/18
£m		£m
0	Payments made during the year to Penna PLC	0.1

2016/17		2017/18
£m		£m
	Funding provided to the pooled budget	
(113.8)	Lancashire County Council	(113.7)
(1.4)	NHS Morecambe Bay 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)
(0.4)	Other	(0.4)
(123.5)	**Total**	**(123.4)**
	Expenditure met from the pooled budget	
130.9	Lancashire County Council	136.6
1.8	NHS Morecambe Bay CCG	1.9
1.8	NHS Fylde and Wyre CCG	1.9
0.2	NHS Blackpool CCG	0.3
0.1	NHS Greater Preston CCG	0.1
2.6	NHS Chorley and South Ribble CCG	2.7
1.4	NHS Greater Preston – central pool	1.5
1.4	NHS West Lancashire CCG	1.4
1.5	NHS East Lancashire CCG	1.5
141.7	**Total**	**147.9**
18.2	**Net (surplus)/deficit arising on the pooled budget during the year**	**24.5**
16.7	**Council share of the net (surplus)/deficit**	**22.5**

Note 34 - 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 is shared between the partners to the pool. The pooled budget is hosted by Lancashire County Council on behalf of the partners in line with the agreement.

Better care fund

2016/17		2017/18
£m		£m
	Funding provided to the pooled budget	
(11.5)	Lancashire County Council (Disabled facilities grant)	(12.6)
(26.1)	NHS East Lancashire CCG	(26.5)
(13.4)	NHS Greater Preston CCG	(13.7)
(11.6)	NHS Chorley and South Ribble CCG	(11.8)
(10.9)	NHS Fylde and Wyre CCG	(11.1)
(10.5)	NHS Morecambe Bay CCG	(10.7)
(7.4)	NHS West Lancashire CCG	(7.5)
(91.4)	**Total**	**(93.9)**
	Expenditure met from the pooled budget	
25.3	Lancashire County Council (Social care)	25.8
17.8	NHS East Lancashire CCG	18.2
9.2	NHS Greater Preston CCG	9.3
8.2	NHS Chorley and South Ribble CCG	8.3
7.2	NHS Fylde and Wyre CCG	7.3
7.2	NHS Morecambe Bay CCG	7.3
5.0	NHS West Lancashire CCG	5.1
11.5	Lancashire County Council (Disabled facilities grant)	12.6
91.4	**Total**	**93.9**
0	**Net surplus/(deficit) arising on the pooled budget during the year**	**0**

Highlighted as a key element of public service reform, the better care fund (BCF) has a primary aim to drive closer integration and improve outcomes for patients 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.

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

Note 35 – Agency services

Lancashire Local Enterprise Partnership

The Council acts as accountable body for the Lancashire Local Enterprise Partnership (LEP) and processes transactions through its financial ledger using the Council's procedures and processes as set out in the LEP assurance framework.

The LEP is a collaboration of leaders from local businesses, universities and local councils, who direct economic growth and drive job creation.

The Council has no entitlement to retain any funds or interest generated from funds or to direct the use of these funds.

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

Income

2016/17		2017/18
£m		£m
(53.4)	Growth deal	(44.7)
(35.8)	City deal *	(26.1)
(3.8)	Growing places investment fund	0
(0.8)	LEP core activity funding	(0.8)
(0.3)	Growth hub	(0.3)
(94.1)	**Total income**	**(71.9)**

* The City deal total includes contributions of £11 million from Lancashire County Council in 2017/18. (2016/17: £4.4 million)

Expenditure

2016/17		2017/18
£m		£m
53.4	Growth deal	44.7
29.7	City deal	35.0
0.9	LEP core activity funding	0.4
0.7	Growth hub	0.3
0.3	Growing places investment fund	1.4
85.0	**Total expenditure**	**81.8**

In 2017/18 expenditure totalling £28.7 million was spent on LCC schemes. (2016/17: £24.6 million)

Reserves

2016/17		2017/18
£m		£m
(29.2)	**Balance at 1 April**	**(38.3)**
(94.1)	Income	(71.9)
85.0	Expenditure	81.8
(38.3)	**Balance at 31 March**	**(28.4)**

Note 36 – Material items of income and expense

In April 2017 the Council took advantage of the option provided by the pension fund to make a one off payment in advance to cover its future service and deficit recovery payments for the three years 2017/18 to 2019/20. The value of the payment totalled £118 million and resulted in a saving to the Council of £7.9 million. The amount charged to the comprehensive income and expenditure statement in 2017/18 is £39.3 million.

Note 37 – Events after the reporting period

On 19 July 2018, Full Council approved a revised minimum revenue provision (MRP) policy. The financial impact of this change forms a £13.2 million contribution to reserves in 2017/18, which has been reflected in the accounts.

Technical annex

Income, expense, gains and losses on financial instruments – 2017/18

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

	Financial liabilities at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
	£m	**£m**	**£m**	**£m**	**£m**
Interest expense	33.6	0	0	0	33.6
Fee expense	0.4	0	0	0	0.4
Total expense in surplus on the provision of services	**34.0**	**0**	**0**	**0**	**34.0**
Interest income	0	(4.4)	(2.3)	(1.3)	(8.0)
Increases in fair value	0	0	0	0.3	0.3
Gains on de-recognition	0	0	(15.4)	(1.0)	(16.4)
Loss on de-recognition	0	0	9.6	0.1	9.7
Total income in surplus on the provision of services	**0**	**(4.4)**	**(8.1)**	**(1.9)**	**(14.4)**
(Gain)/loss on revaluation	0	0	(11.8)	0	(11.8)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income and expenditure	**0**	**0**	**(11.8)**	**0**	**(11.8)**
Total net (gain)/loss for the year	**34.0**	**(4.4)**	**(19.9)**	**(1.9)**	**7.8**

Income, expense, gains and losses on financial instruments – 2016/17

	Financial liabilities at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	Total
	£m	£m	£m	£m	£m
Interest expense	34.6	0	0	0	34.6
Fee expense	0.3	0	0	0	0.3
Total expense in surplus on the provision of services	**34.9**	**0**	**0**	**0**	**34.9**
Interest income	0	(4.5)	(1.6)	(1.6)	(7.7)
Increases in fair value	0	0	0	(0.2)	(0.2)
Gains on de-recognition	0	0	(31.8)	(3.6)	(35.4)
Loss on de-recognition	0	0.0	10.5	0.3	10.8
Total income in surplus on the provision of services	**0**	**(4.5)**	**(22.9)**	**(5.1)**	**(32.5)**
(Gain)/loss on revaluation	0	0	(1.0)	0	(1.0)
(Surplus)/deficit arising on revaluation of financial assets in other comprehensive income and expenditure	**0**	**0**	**(1.0)**	**0**	**(1.0)**
Total net (gain)/loss for the year	**34.9**	**(4.5)**	**(23.9)**	**(5.1)**	**1.4**

Fair value of financial assets and liabilities

The Council discloses the fair value of each class of financial asset and liability so that it can be compared with the carrying amount in the balance sheet.

Accounting standards require the type of information used in fair value calculations (as classified in the hierarchy below) to be disclosed.

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

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, using the following methods and assumptions:

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

31 March 2017 restated				31 March 2018	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
		Financial assets held at fair value			
		Available for sale financial assets			
37.8	37.8	Local authority bonds	2	39.2	39.2
163.0	163.0	Bond, equity and property funds	1	96.4	96.4
200.8	**200.8**	**Subtotal**		**135.6**	**135.6**
		Financial assets at fair value through profit and loss			
170.9	170.9	Bond, equity and property funds ◦	1	62.7	62.7
		Financial assets held at amortised cost			
46.9	13.1	Long term bank deposits ◦	2	11.5	12.3
32.3	39.2	Lease receivables	2	31.3	37.2
23.6	29.8	Long term loans to companies ◦	2	23.3	31.9
102.8	**82.1**	**Subtotal ◦**		**66.1**	**81.4**
474.5	**453.8**	**Total ◦**		**264.4**	**279.7**
205.3		Assets for which fair value is not disclosed #◦		305.0	
679.8		**Total financial assets ◦**		**569.4**	
		Recorded on balance sheet as:			
32.3		Long term debtors ◦		31.3	
271.3		Long term investments		170.4	
76.2		Short term debtors ◦		220.4	
171.9		Short term investments		128.5	
128.1		Cash and cash equivalents ◦		18.8	
679.8		**Total financial assets ◦**		**569.4**	

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

Fair value of financial liabilities

31 March 2017				31 March 2018	
Balance sheet value	**Fair value**		**Fair value level**	**Balance sheet value**	**Fair value**
£m	**£m**			**£m**	**£m**
		Financial liabilities held at amortised cost			
338.9	411.2	Long term PWLB loans	2	338.9	400.0
52.1	106.9	Long term LOBO loans	2	52.0	106.9
193.4	198.5	Other long term loans	2	80.5	84.4
162.4	252.3	PFI liabilities	2	157.4	248.7
746.8	**968.9**	**Total**		**628.8**	**840.0**
604.9		Liabilities for which fair value is not disclosed #◦		697.8	
1,351.7		**Total financial liabilities ◦**		**1,326.6**	
		Recorded on balance sheet as:-			
141.1		Short term creditors ◦		210.3	
463.8		Short term borrowings		487.5	
584.4		Long term borrowings		471.4	
162.4		Other long term liabilities		157.4	
1,351.7		**Total financial liabilities ◦**		**1,326.6**	

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

◦ The 2016/17 figures have been restated following the changes detailed in Note 4 – Prior period adjustments

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

This shows a notional future loss (based on economic conditions at the end of the financial year) arising from a commitment to pay interest to lenders above current market rates.

Nature and extent of risks arising from financial instruments

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

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

The strategy also imposes a maximum sum and duration which the Council can invest in an institution. This is dependent upon the quality of credit rating and in 2017/18 the investment portfolio has maintained a very high AA credit rating.

A main principle of the 2017/18 credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating. In addition, one of the bank loans is collateralised (backed by UK government securities), providing further access to government credit quality.

Credit risk

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

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

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

At the end of the year the Council's investments portfolio was placed as follows:

2016/17	Investment portfolio	Fitch rating	2017/18
£m			£m
	Long term investments		
162.4	Core UK gilts	AA	95.6
37.8	Local authority bonds	AA	39.2
0.6	Core Supra national bonds	AAA	0.5
200.8	**Long term investments**		**135.3**
	Long term deposits		
46.5	Other local authorities	AA	11.3
46.5	**Long term deposits**		**11.3**
247.3	**Total**		**146.6**
	Short term investments		
1.0	Local authority bonds	AA	2.0
170.9	Traded commercial bonds	AAA	62.7
171.9	**Short term investments**		**64.7**
	Short term deposits		
0	Other local authorities	AA	63.5
0	**Short term deposits**		**63.5**
171.9	**Total**		**128.2**

Excludes accrued investment income and long term loans.

The maximum single commercial exposure is to Svenska Handelsbanken at £50 million, which is lower than individual counterparty limit of £100 million for investments. Overall the portfolio is diversified by the use of 31 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 the Council will have insufficient funds in its bank account to make the payments necessary to meet its financial obligations.

The maturity analysis of principal sums borrowed is as follows:

2016/17 £m		2017/18 £m
462.4	Under 1 year	493.9
462.4	**Total short term borrowing**	**493.9**
159.3	Maturing in 1 to 2 years	57.9
249.8	Maturing in 3 to 5 years	194.7
97.6	Maturing in 6 to 10 years	91.2
235.0	Maturing in more than 10 years	269.6
741.7	**Total long term borrowing**	**613.4**
1,204.1	**Total borrowing**	**1,107.3**

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

Market risk

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

The 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:

Borrowing at variable rates	The interest expense charged to the surplus or deficit on the provision of services will rise.
Borrowing at fixed rates	The fair value of the liabilities 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 regularly refinanced as part of the strategy to benefit from low short term interest rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the Council to switch from short term to long term borrowing should the UK enter a period of rising interest rates, as the expectation is that this would be a protracted period rather than a single event.

As part of a balanced portfolio, the interest rate risk is further mitigated by 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 general 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 market conditions whilst managing interest rate risk. The treasury management team proactively reviews interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

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

The following table attempts to quantify the interest rate risk looking back at the 31 March 2018 position.

	2017/18 £m
Increase in interest payable on variable rate borrowings	4.3
Increase in interest receivable on variable rate investments	(1.3)
Decrease in fair value of investments held for trading*	(0.2)
Impact on surplus on the provision of services	**2.8**
Decrease in fair value of fixed rate available for sale investment assets	(5.7)
Impact on other comprehensive income and expenditure	**(2.9)**
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)	(33.2)
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)	(30.9)

* 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 the same 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.

Lender Option Borrower Option (LOBO)

The Council is exposed to changes in market interest rates through its inverse LOBO loans. An inverse LOBO loan contains two features which alter the interest rate risk profile from a normal floating rate loan. Firstly, the loan contains a LOBO (Lender Option Borrower Option). The LOBO provides the bank with the option, at fixed points in time, to change the interest rate charged on the loan, this is the Lender Option. If the bank chooses to exercise their option then the Borrower has the option to repay at par plus accrued interest, the Borrower Option. The Council's LOBO loans have lender options every 5 years.

Secondly, the inverse floater, means that the interest charged on the loan moves in the opposite direction to market interest rate movements. For example when interest rates decrease the rate of interest charged on the loan increases.

The combination of these features is such that in a low interest rate environment the interest paid on the loan is generally higher than the market rate of interest. Also, if the interest rate were to rise, this increases the likelihood of the bank exercising their option to reprice the loan, causing a refinancing decision to be made.

The loans were taken out in November 2010 when the Council refinanced some of its more expensive long term debt. A high proportion of replacement debt was taken as short term borrowing to take advantage of prevailing low rates. However, short term borrowing gives rise to interest rate risk. The LOBO loan undertaken formed part of the overall risk management strategy around this inherent interest rate risk.

The impact of the LOBO loans should be considered within the overall context of the total borrowing of the Council. Information on the overall borrowing amounts, of which the LOBO loans form a part, held on the Balance Sheet along with the interest rates and maturity information is as follows:

	31 March 2018 £m	Contractual rates 2017/18 %	Average rate paid 2017/18 %	Years to maturity at 31 March 2018
Long term borrowing				
Fixed rates				
PWLB	213.1	4.25 to 4.625	4.46	1-40 years
other	80.5	0.85 to 3.8	1.62	1-13 years
Total fixed	**293.6**			
Variable rates				
PWLB	125.8	n/a	0.44	3 years
LOBO	52.0	0 to 7.52	6.00	43 years
Total variable	**177.8**			
Total long term borrowing	**471.4**			
Short term borrowing	**487.5**		**0.68**	**-**
TOTAL BORROWING	**958.9**			

	31 March 2017 £m	Contractual rates 2016/17 %	Average rate paid 2016/17 %	Years to maturity at 31 March 2017
Long term borrowing				
Fixed rates				
PWLB	213.1	4.25 to 4.625	4.46	1-41 years
other	193.5	0.85 to 3.8	1.33	1-14 years
Total fixed	**406.6**			
Variable rates				
PWLB	125.8	n/a	0.51	4 years
LOBO	52.0	0 to 7.52	6.13	44 years
Total variable	**177.8**			
Total long term borrowing	**584.4**			
Short term borrowing	**463.8**		**0.52**	**-**
TOTAL BORROWING	**1,048.2**			

These borrowings are carried on the balance sheet at amortised cost. Refer to the Critical Judgements section regarding the calculation of amortised cost.

Defined benefit pension schemes

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

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

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

The most recent valuation was carried out at 31 March 2016, and showed a shortfall of assets against liabilities of £0.69 billion, equivalent to a funding level of 90%. The fund's employers are paying additional contributions over a period of 16 years in order to meet this shortfall.

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

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

Governance and risk management

The liability associated with the Council's pension arrangements is material to the Council, as is the 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

The Fund is overseen by the Lancashire Pension Fund Committee, which reports directly to Full Council. The Head of Fund is designated as the officer responsible for the management of the Fund. The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing the further and higher education sectors, the Lancashire borough, district and city councils, Blackburn with Darwen Council, Blackpool Council and trade unions. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

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

Risks and investment strategy

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

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. 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 risk is routinely monitored by the fund and its investment advisors in accordance with the risk management strategy.

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur financial loss. 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 risk

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

Other risks

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

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. For service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary.

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

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

Schemes for teachers and transferred NHS staff

Governance

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

Funding the liabilities

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

Investment risk

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

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 general fund via the movement in reserves statement.

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

- In 2017/18 £51.4 million was paid to the Department for Education for teachers' pension costs. This represents 16.5% of teachers' pensionable pay (2016/17: £52.9 million and 14.1%).
- In 2017/18 the Council paid £0.2 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 14% of pensionable pay (2016/17: £0.3 million and 14%).
- The Council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2017/18 these amounted to £8.6 million, representing 2.6% of pensionable pay (2016/17: £8.7 million and 2.6%).

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 £200.4 million (2016/17: £243.2 million loss) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £292.3 million.

Transactions relating to retirement benefits

	Local Government Pension Scheme		Teachers' Pension Scheme	
	2017/18	**2016/17**	**2017/18**	**2016/17**
	£m	**£m**	**£m**	**£m**
Comprehensive income and expenditure statement				
Cost of services				
Current service cost	128.0	85.2	0	0
(Gain)/loss from settlements and curtailments	1.9	11.3	0	0
Administration expenses	1.9	1.8	0	0
Financing and investment income and expenditure				
Net Interest expense	28.3	30.4	3.3	4.4
Total post-employment benefit charged to the surplus or deficit on the provision of services	**160.1**	**128.7**	**3.3**	**4.4**
Other post-employment benefit charged to the comprehensive income and expenditure statement				
Re-measurement of the net defined benefit liability:				
Return on plan assets (excluding the amounts included in net interest expense)	(32.4)	(411.6)	0	0
Experience (gains)/losses on liabilities	0	(103.6)	0	(4.6)
Actuarial (gains)/losses arising on changes in financial assumptions	(165.4)	778.4	(2.7)	14.6
Actuarial (gains)/losses arising on changes in demographic assumptions	0	(26.2)	0	(3.9)
Total re-measurement recognised in other comprehensive income				
Total post-employment benefit charged to the comprehensive income and expenditure statement	**(37.7)**	**365.7**	**0.6**	**10.5**
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	160.1	128.7	3.3	4.4
Actual amount charged against the general fund balance for pensions in the year				
Employers' contributions payable to the scheme	**73.0**	**84.6**	**10.2**	**10.5**

Assets and liabilities in relation to retirement benefits

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

2016/17		2017/18
£m		**£m**
2,456.9	**Opening balance as at 1 April**	**2,944.8**
411.6	Re-measurement (assets)	32.4
85.9	Interest on plan assets	74.1
(1.8)	Admin expenses	(1.9)
(1.6)	Settlements	(1.1)
84.6	Employer contributions	73.0
22.5	Contributions from scheme participants	22.7
(113.3)	Benefits/transfers paid	(110.1)
2,944.8	**Closing balance as at 31 March**	**3,033.9**

Reconciliation of present value of the scheme liabilities

	Funded liabilities: Lancashire County Pension Fund		Unfunded liabilities: Teachers' Pension Scheme	
	2016/17	2017/18	2016/17	2017/18
	£m	£m	£m	£m
Opening balance as at 1 April	**(3,371.7)**	**(4,140.7)**	**(135.1)**	**(135.2)**
Current service cost	(85.2)	(128.0)	0	0
Interest on pension liabilities	(116.4)	(102.4)	(4.4)	(3.3)
Contributions from scheme participants	(22.5)	(22.8)	0	0
Benefits/transfers paid	113.3	110.1	10.4	10.2
Curtailment cost	(14.2)	(3.4)	0	0
- Gain/loss from settlements	4.6	2.8	0	0
Re-measurement gains and (losses):				
- Experience gains/(losses) on liabilities	103.6	0	4.6	0
- Actuarial gains/(losses) arising from changes in financial assumptions	(778.4)	165.4	(14.6)	2.7
- Actuarial gains/(losses) arising from changes in demographic assumptions	26.2	0	3.9	0
Lump sum early payment of contributions	0	78.7	0	0
Closing balance as at 31 March	**(4,140.7)**	**(4,040.3)**	**(135.2)**	**(125.6)**

Local Government Pension Scheme assets comprised:

31 March 2017	Asset category	Quoted in active markets (Y/N)	31 March 2018
£m			£m
30.6	**Cash and cash equivalents**	N	**(12.7)**
	Bonds (by sector):		
48.4	Corporate	Y	56.3
58.4	Government	Y	72.4
106.8	**Sub-total bonds**		**128.7**
	Property (by type):		
80.3	Retail	N	83.4
179.6	Commercial	N	201.9
259.9	**Sub-total property**		**285.3**
	Private equity:		
33.4	UK	N	0
156.4	Overseas	N	220.2
189.8	**Sub-total private equity**		**220.2**
	Other investment funds:		
355.9	Infrastructure	N	384.5
41.6	Property	N	46.1
1,960.2	Miscellaneous	N	1,981.8
2,357.7	**Sub-total other investment funds**		**2,412.4**
2,944.8	**Total assets**		**3,033.9**

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:

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	**£m**	**£m**	**£m**	**£m**
Present value of scheme liabilities					
Local Government Pensions Scheme	(2,858.0)	(3,446.4)	(3,371.7)	(4,140.7)	(4,040.3)
Teachers' Pensions Scheme	(140.1)	(145.4)	(135.1)	(135.2)	(125.6)
Fair value of assets in the Lancashire County Pension Fund	**2,093.0**	**2,353.6**	**2,456.9**	**2,944.8**	**3,033.9**
Surplus/(deficit) in scheme					
Lancashire County Pension Fund	(765.0)	(1,092.8)	(914.8)	(1,195.9)	(1,006.4)
Teachers' Pensions Scheme	(140.1)	(145.4)	(135.1)	(135.2)	(125.6)
Total	**(905.1)**	**(1,238.2)**	**(1,049.9)**	**(1,331.1)**	**(1,132.0)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,210.7 million in 2017/18 has a substantial impact on the net worth of the Council as recorded in the balance sheet, resulting in net assets of £986.2 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 2019 are £61.3 million. Expected contributions for the teachers and health workers in the year to 31 March 2019 are £50.9 million and £0.1 million respectively.

The pension liability on the balance sheet is £1,132 million, reflecting a payment in advance of £78.7 million in respect of the contributions and deficit payable for 2018/19 and 2019/20. The pensions reserve balance of £1,211 million represents the valuation provided by the actuary for the pension liability as at 31 March 2018, which does not take account of the payment in advance.

Basis for estimating assets and liabilities

2016/17		2017/18
Mortality assumptions		
Longevity at 65 for current pensioners		
22.6 years	Male	22.7 years
25.2 years	Female	25.4 years
Longevity at 65 for future pensioners		
24.9 years	Male	25.0 years
27.9 years	Female	28.0 years
Financial assumptions		
2.3%	Rate of CPI inflation	2.1%
3.8%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.5%	Rate for discounting scheme liabilities	2.6%

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. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

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

31 March 2017		31 March 2018
%		%
50.6	Equity investments	51.8
3.6	Bonds	4.2
45.8	Other assets	44.0
100.0	**Total**	**100.0**

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 categories detailed in the table.

Sensitivity analysis

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption	Decrease in assumption
	£m	£m
Longevity (increase or decrease in 1 year)	81.5	(81.5)
Rate of inflation (increase or decrease by 1%)	727.0	(727.0)
Rate of increase in salaries (increase or decrease by 1%)	103.5	(103.5)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(714.4)	714.4

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.

Significant accounting policies

General principles

Basis of preparation

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year end of 31 March 2018. The Accounts and Audit (England) Regulations require the Council to produce an annual Statement of Accounts, prepared in accordance with proper accounting practices. These practices primarily comprise the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

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

Events after the reporting period

Events may occur between the balance sheet date and the date the accounts are authorised for issue which might have a bearing upon the financial results of the past year.

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

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

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

Group accounts

The Council carries out its activities through a variety of undertakings, either under ultimate control or in partnership with other organisations. Those considered to be material are included in the group accounts. Profit and loss, net worth, and the value of assets and liabilities are considered individually for each organisation against a materiality limit set by the Council. An entity could be material but still not consolidated (if all of its business is with the Council and eliminated on consolidation) – i.e. the consolidation would mean that the group accounts are not materially different to the single entity accounts.

The Council has a material interest in an external entity and therefore group accounts have been prepared.

Pooled budgets

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

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

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

Prior period adjustments 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.

Accounting policies for income

Accruals of income

The 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 received. In particular:

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- Income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council tax and non-domestic rates income

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

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. Regulations determine the amount of council tax and non-domestic rates that must be included in the Council's general fund, therefore, the difference between the income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is charged to the collection fund adjustment account through the movement in reserves statement.

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

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

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

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-ringfenced 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 general fund balance in the movement in reserves statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Accounting policies for costs

Accruals of expenditure

The expenditure 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. In particular:

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest payable on borrowings is accounted for as expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where expenditure have been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

Charges to revenue for non-current assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- 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. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are, therefore, replaced by the MRP in the earmarked reserves balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement, for the difference between the two.

Depreciation

Depreciation is provided for on property, plant and equipment assets, by the systematic allocation of their depreciable amounts over their useful lives.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
Land	Not depreciated
Buildings	Useful life as determined by the valuer
Vehicles, plant and equipment	10 years unless the life of the asset is considered to be less
IT equipment	7-10 years depending upon the nature of the asset

Roads and highways infrastructure	10-120 years depending upon the nature of the asset
Community assets	Not depreciated
Assets under construction	Not depreciated
Investment properties	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

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

Depreciation is also calculated on revaluation gains and is represented by the difference between depreciation calculated at current cost and depreciation calculated at historic cost. The difference between the two values is transferred each year from the revaluation reserve to the capital adjustment account.

Employee benefits

Employee benefits payable during employment

Short-term employee benefits including wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits 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. These 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 general 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

The Council recognises the cost of post-employment benefits in the cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, statutory provisions require that the charge made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement.

There are three pension schemes for Council staff. They are all defined benefit schemes.

Defined benefit scheme - 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.

Pension scheme	Administered by
Teachers' pension scheme	Capita Teachers' pensions on behalf of the Department for Education (DfE)
Local government pension scheme	Lancashire County Council
NHS pension scheme	NHS Business Services Authority on behalf of the Secretary of State for Health

Teachers' pension scheme

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore, the scheme is 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 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. Liabilities are discounted to their value at current prices using a discount rate.

Projected unit method - 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.

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;
- Property – market value.

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

Component	Description	Treatment
Service costs		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
Re-measurements		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.
Contributions		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are not accounted for as an expense.

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.

Long term contracts

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

Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

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 five elements:

- Fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement;
- Finance cost – an interest charge 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.

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 as 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.

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.

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 general 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.

Accounting policies for assets and liabilities

Cash and cash equivalents

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

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 three types:

Loans and receivables

Assets that have fixed or determinable payments but are not quoted in an active market for example term deposits made with UK domiciled banks.

Loans and receivables are initially measured at fair value and are subsequently carried 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. The amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

Available for sale assets

Assets that have a quoted market price and include, for example, investment bonds such as UK local authority bonds and UK Treasury gilt edged securities.

Available for sale assets are initially recognised 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.

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. 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.

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

Assets which are held primarily for trading or have a recent history of being traded.

Fair value through profit and loss assets are initially recognised on the balance sheet and subsequently measured and carried at fair value.

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.

Impairment of financial assets

If assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service or to 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.

Financial liabilities

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase/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 general 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.

Property, plant and equipment

Assets that have physical substance and are 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 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.

Componentisation

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.

Measurement

Assets are initially recognised at cost, comprising:

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

Assets that are being constructed by the Council will initially be recognised at cost. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase, is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, 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.

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

Category	Measurement basis
Infrastructure, community assets, assets under construction	Depreciated historical cost
Surplus assets and investment properties	Fair value – highest and best
All other assets	Existing use value

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

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

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Each year an estimate of the total current 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. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

Valuations are undertaken internally by Lancashire County Council's estates service.

The valuations for specialist operational properties are undertaken by external professional valuers.

Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

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, is it reclassified as an asset held for sale.

Depreciation is not charged on assets held for sale.

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

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

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 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. Disposal costs are shown in other operating expenditure in the comprehensive income and expenditure statement. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement, also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The 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 received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the capital receipts reserve, and can traditionally only be used for new capital investment or, be set aside to reduce the Council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

Heritage assets

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

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

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

The Council has a detailed acquisitions and disposal policy, further information on which can be obtained from the Council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long term purpose and, therefore, there is a strong presumption against disposal. 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 for an item before any consideration of final disposal is made.

Investment property

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

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

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and charged to the capital adjustment account.

Leases

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

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.

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 general 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. The reserve is then appropriated back into the general fund in the movement in reserves statement, so that there is no net charge against council tax for the expenditure.

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

Schools

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

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

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

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency.

DSG is allocated to budgets delegated to individual schools and centrally retained Council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Supplementary accounts and explanatory notes

Avenham Park Pavilion, Preston

Introduction

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

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

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

Group comprehensive income and expenditure statement

2016/17 restated				2017/18		
Gross expenditure	Gross income	Net expenditure		Gross expenditure	Gross income	Net expenditure
£m	£m	£m		£m	£m	£m
969.5	(908.2)	61.3	Schools ◦	947.4	(921.4)	26.0
48.9	(9.4)	39.5	Chief executive services ◦	26.3	(2.2)	24.1
282.2	(40.5)	241.7	Community services	201.6	(57.3)	144.3
494.7	(124.0)	370.7	Adult services	505.6	(153.7)	351.9
154.1	(12.0)	142.1	Education and children's services ◦	176.4	(12.9)	163.5
108.7	(84.6)	24.1	Public health and wellbeing	102.8	(80.6)	22.2
32.7	(1.5)	31.2	Programmes and projects	37.9	(1.5)	36.4
4.8	(7.0)	(2.2)	Economic development and planning	26.9	(9.3)	17.6
114.7	(58.2)	56.5	Finance, corporate and property services	125.0	(53.6)	71.4
2,210.3	**(1,245.4)**	**964.9**	**Cost of services** ◦	**2,149.9**	**(1,292.5)**	**857.4**
12.8	(1.2)	11.6	Other operating income and expenditure ◦	19.5	(6.5)	13.0
69.7	(33.8)	35.9	Financing and investment income and expenditure	65.6	(10.9)	54.7
0	(846.6)	(846.6)	Taxation and non-specific grant income ◦	0	(846.2)	(846.2)
2,292.8	**(2,127.0)**	**165.8**	**(Surplus)/deficit on provision of services** ◦	**2,235.0**	**(2,156.1)**	**78.9**
0.5	0	0.5	Taxation on profit on ordinary activities (Note 6)	0	(0.7)	(0.7)
2,293.3	**(2,127.0)**	**166.3**	**Group (surplus)/deficit** ◦	**2,235.0**	**(2,156.8)**	**78.2**
		(41.4)	(Surplus)/deficit on revaluation of non-current assets ◦			(125.8)
		243.2	Re-measurement of the net defined benefit pension liability/(asset)			(200.4)
		(1.0)	(Surplus)/deficit on revaluation of available for sale assets ◦			(11.8)
		200.8	**Other comprehensive income and expenditure** ◦			**(338.0)**
		367.1	**Total comprehensive income and expenditure** ◦			**(259.8)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

2017/18

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the Council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2017	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**	**(44.6)**	**(768.1)**
Movement in reserves during 2017/18								
Total comprehensive income and expenditure	75.3	0	0	75.3	(338.0)	(262.7)	2.9	(259.8)
Adjustment between accounting basis and funding basis under regulations	(51.4)	4.5	(26.8)	(73.7)	73.7	0	0	0
(Increase)/decrease in year	**23.9**	**4.5**	**(26.8)**	**1.6**	**(264.3)**	**(262.7)**	**2.9**	**(259.8)**
Balance at 31 March 2018	**(317.4)**	**0**	**(76.7)**	**(394.1)**	**(592.1)**	**(986.2)**	**(41.7)**	**(1,027.9)**

2016/17 restated

	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total reserves of the Council	Reserves of subsidiaries	Total reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2016 ◦	**(399.1)**	**(3.5)**	**(51.5)**	**(454.1)**	**(638.8)**	**(1,092.9)**	**(42.3)**	**(1,135.2)**
Movement in reserves during 2016/17								
Total comprehensive income and expenditure ◦	168.6	0	0	168.6	200.8	369.4	(2.3)	367.1
Adjustment between accounting basis and funding basis under regulations ◦	(110.8)	(1.0)	1.6	(110.2)	110.2	0	0	0
(Increase)/decrease in year ◦	**57.8**	**(1.0)**	**1.6**	**58.4**	**311.0**	**369.4**	**(2.3)**	**367.1**
Balance at 31 March 2017 ◦	**(341.3)**	**(4.5)**	**(49.9)**	**(395.7)**	**(327.8)**	**(723.5)**	**(44.6)**	**(768.1)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

31 March 2016 restated £m	31 March 2017 restated £m		Note	31 March 2018 £m
2,671.2	2,660.3	Property, plant and equipment ◦		2,838.2
28.7	28.7	Heritage assets		28.7
45.0	46.2	Investment properties	8	42.3
24.6	21.7	Intangible assets		20.0
443.4	268.9	Long term investments		167.6
68.9	66.2	Long term debtors		46.4
3,281.8	**3,092.0**	**Long term assets** ◦		**3,143.2**
120.6	173.3	Short term investments		130.0
2.8	3.7	Inventories		2.3
108.7	111.6	Short term debtors ◦		256.8
14.1	9.1	Payments in advance		9.1
23.1	128.3	Cash and cash equivalents ◦		18.8
11.3	14.5	Assets held for sale		7.7
280.6	**440.5**	**Current assets** ◦		**424.7**
(399.2)	(458.0)	Short term borrowing		(480.7)
(178.1)	(184.4)	Short term creditors ◦		(249.8)
(14.6)	(10.5)	Receipts in advance		(11.5)
(12.1)	(8.6)	Short term provisions		(8.5)
(4.6)	(5.1)	Other current liabilities		(5.8)
(608.6)	**(666.6)**	**Current liabilities** ◦		**(756.3)**
(19.0)	(21.6)	Long term provisions		(26.1)
(1.6)	(2.0)	Deferred tax liability	9	(1.3)
(584.8)	(585.7)	Long term borrowing		(472.7)
(1,213.2)	(1,488.5)	Other long term liabilities		(1,283.6)
(1,818.6)	**(2,097.8)**	**Long term liabilities**		**(1,783.7)**
1,135.2	**768.1**	**Net assets**		**1,027.9**
(454.1)	(395.7)	Usable reserves ◦	10	(394.1)
(638.8)	(327.8)	Unusable reserves ◦	10	(592.1)
(27.9)	(27.1)	Subsidiary usable reserves	10	(27.0)
(14.4)	(17.5)	Subsidiary unusable reserves	10	(14.7)
(1,135.2)	**(768.1)**	**Total reserves** ◦		**(1,027.9)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

2016/17 restated £m		Note	2017/18 £m
(166.3)	Net surplus/(deficit) on the provision of services ◦		(78.2)
224.6	Adjustments to net surplus/deficit on the provision of services for non-cash movements ◦	11	67.4
(137.6)	Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities ◦	11	(127.4)
0.5	Taxation paid		(0.7)
(78.8)	**Net cash flows from operating activities ◦**		**(138.9)**
130.3	Investing activities ◦	12	124.8
53.7	Financing activities ◦	13	(95.4)
105.2	**Net increase/(decrease) in cash or cash equivalents ◦**		**(109.5)**
23.1	Cash and cash equivalents at the beginning of the reporting period ◦		128.3
128.3	**Cash and cash equivalents at the end of the reporting period ◦**		**18.8**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 1 - General notes to the financial statements

Where figures in the group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes to the accounts give information on the areas that have materially changed on consolidation of the group entities into the Council's accounts.

Note 2 - Group accounting policies

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

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

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

Lancashire County Developments Limited has the same reporting date as the Council. Year end accounts to 31 March 2018 have been used for consolidation.

Note 3 - Entities not consolidated

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

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

Company	Interest	Relationship	
Global Renewables Lancashire Operations Limited	87.5%	Subsidiary	Not material
Marketing Lancashire Limited	100%	Subsidiary	Not material
Lancashire Workforce Development Partnership Limited	100%	Subsidiary	Not material
Lancashire Sport Partnership Limited (Active Lancashire)	100%	Subsidiary	Not material
Local Pensions Partnership Limited	50%	Joint venture	Not material
Lancashire Partnership Against Crime Limited	25%	Associate	Not material
Lancashire Environmental Fund Limited	25%	Associate	Not material

Note 4 - Entities consolidated

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

Lancashire County Developments Limited

Company registration number: 01624144

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

Lancashire County Developments Limited (LCDL) acts as an economic and employment 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 two members of the company (Blackburn with Darwen Borough Council and Blackpool Council) having 10% of voting rights each. It is classed as a subsidiary of the County Council.

County Councillors have been appointed as directors on the board. The Council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not able to distribute profits as dividends.

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

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

Note 5 - Group fees payable to auditors

2016/17 £000		2017/18 £000
	Fees in respect of Lancashire County Council	
113	Fees incurred with regard to external audit services provided by Grant Thornton	113
11	Fees incurred for other audit work undertaken by Grant Thornton	13
124	**Total fees for Lancashire County Council**	**126**
	Fees in respect of Lancashire County Developments Limited	
31	Fees incurred with regard to external audit services provided by Beever and Struthers	30
9	Fees payable in respect of other services provided by Beever and Struthers during the year	10
40	**Total fees for Lancashire County Developments Limited**	**40**
164	**Total**	**166**

Note 6 - Group taxation

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

31 March 2017 £m		31 March 2018 £m
0.5	Deferred tax: origination and reversal of timing differences	(0.7)
0.5	**Total deferred tax**	**(0.7)**
0.5	**Taxation on profit on ordinary activities**	**(0.7)**

Factors affecting the tax charge for the year

31 March 2017 £m		31 March 2018 £m
2.8	**Profit on ordinary activities before taxation**	**(3.6)**
0.5	Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 20%	(0.7)
	Effect of:	
0.1	Fixed asset differences	0
(0.7)	Tax on fair value movements	(0.7)
0.6	Capital gains	0.6
(0.2)	Other differences leading to a decrease in the tax charge	0
0.2	Deferred tax not recognised	0.1
0.5	**Tax charge for year**	**(0.7)**

Note 7 - Group transfers to and from earmarked reserves

	Balance at 31 March 2016 restated	Transfers out 2016/17	Transfers in 2016/17 restated	Balance at 31 March 2017 restated	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018
	£m	£m	£m	£m	£m	£m	£m
Total earmarked reserves of the Council ◦	**(399.1)**	**168.2**	**(110.4)**	**(341.3)**	**132.8**	**(108.9)**	**(317.4)**
Capital funding reserve	(8.7)	0	0	(8.7)	0	0	(8.7)
Profit and loss account	(19.2)	0.8	0	(18.4)	0.1	0	(18.3)
Total revenue and capital reserves of the subsidiary	**(27.9)**	**0.8**	**0**	**(27.1)**	**0.1**	**0**	**(27.0)**
Total reserves ◦	**(427.0)**	**169.0**	**(110.4)**	**(368.4)**	**132.9**	**(108.9)**	**(344.4)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 8 – Group investment properties

31 March 2017		31 March 2018
£m		£m
(3.5)	Rental Income from investment property	(3.9)
2.1	Direct operating expenses arising from investment property	1.2
(1.4)	**Total**	**(2.7)**

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

31 March 2017		31 March 2018
£m		£m
45.0	**Balance as at 1 April**	**46.2**
0	Additions	0
0	Reclassifications	(0.4)
(0.4)	Disposals	(0.3)
1.6	Net gains/(losses) from fair value adjustments	(3.2)
46.2	**Balance as at 31 March**	**42.3**

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

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

Fair value hierarchy

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

31 March 2017				31 March 2018	
Balance sheet value	Fair value		Fair value level	Balance sheet value	Fair value
£m	£m			£m	£m
2.0	2.0	Residential properties	2	1.6	1.6
44.2	44.2	Commercial units	2	40.7	40.7
46.2	**46.2**	**Total**		**42.3**	**42.3**

Significant observable inputs – level 2

The fair value for the investment 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 internally on an existing use basis by RICS qualified surveyors from Lancashire County Council's estates department, in accordance with the appropriate sections of the RICS Professional Standards, RICS Global Valuation Practice Statements, RICS Global Valuation Practice Guidance – Applications and United Kingdom Valuation Standards contained within the RICS Valuation - Professional Standards 2014, (Red Book).

Note 9 - Deferred taxation

31 March 2017		31 March 2018
£m		£m
1.5	**Balance as at 1 April**	**2.0**
0.5	Charge for the year	(0.7)
2.0	**Balance as at 31 March**	**1.3**

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

Note 10 - Group reserves

The total usable reserves are shown in the table below:

2016/17 restated		2017/18
£m		£m
(36.0)	General fund	(23.4)
(232.4)	Earmarked reserves ◦	(228.9)
(72.8)	School reserves ◦	(65.1)
(0.1)	Capital funding reserve	0
(341.3)	**Total earmarked reserves of the Council** ◦	**(317.4)**
(49.9)	Capital grants unapplied reserve ◦	(76.7)
(4.5)	Usable capital receipts ◦	0
(395.7)	**Total usable reserves of the Council** ◦	**(394.1)**
(27.1)	Usable reserves of the subsidiary	(27.0)
(422.8)	**Total usable reserves of the Group** ◦	**(421.1)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

The table below shows the group's unusable reserves:

31 March 2017 restated £m		31 March 2018 £m
7.7	Available for sale financial instruments reserve	(4.1)
41.7	Financial instruments adjustment account	38.4
(754.7)	Revaluation reserve ◦	(857.7)
(970.5)	Capital adjustment account ◦	(995.6)
1,331.1	Pensions reserve	1,210.7
(9.7)	Collection fund adjustment account	(10.4)
26.6	Accumulated absences adjustment account	26.6
(327.8)	**Total unusable reserves of the Council ◦**	**(592.1)**
(17.5)	Revaluation reserve for subsidiary	(14.7)
(345.3)	**Total unusable reserves of the Group ◦**	**(606.8)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

The revaluation reserve for the subsidiary is detailed below.

31 March 2017 £m		31 March 2018 £m
(14.4)	**Balance as at 1 April**	**(17.5)**
(3.6)	Upward revaluation of assets	3.5
0.5	Deferred taxation	(0.7)
(3.1)	**(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services**	**2.8**
(17.5)	**Balance as at 31 March**	**(14.7)**

Note 11 - Group cash flows from operating activities

The cash flows for operating activities include the following items:

31 March 2017 £m		31 March 2018 £m
(35.0)	Interest received	(15.0)
34.5	Interest paid	33.9

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

31 March 2017 restated £m		31 March 2018 £m
47.3	Depreciation ◦	48.9
135.6	Impairment and downward valuations ◦	(3.4)
5.1	Amortisation of intangible assets	5.3
(1.2)	Increase/(decrease) in provision for bad debts	(6.3)
(3.4)	Increase/(decrease) in creditors ◦	(19.0)
0.7	(Increase)/decrease in debtors ◦	10.7
(0.8)	(Increase)/decrease in inventories	1.2
38.0	Movement in pension liability	1.4
11.7	Carrying amount of non-current assets sold	18.5
(8.4)	Other non-cash items charged to the surplus or deficit on the provision of services ◦	10.1
224.6	**Total** ◦	**67.4**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

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

31 March 2017 restated £m		31 March 2018 £m
(24.7)	Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)	(6.6)
(4.6)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	0
(108.3)	Capital grants credited to the surplus on the provision of services ◦	(120.8)
(137.6)	**Total** ◦	**(127.4)**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 12 - Group cash flows from investing activities

31 March 2017 restated £m		31 March 2018 £m
(143.8)	Purchase of property, plant and equipment, investment property and intangible assets ◦	(113.4)
(8,410.1)	Purchase of short term and long term investments	(6,239.5)
(17.5)	Other payments for investing activities	0
9.8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦	4.6
8,581.1	Proceeds from the sale of short term and long term investments	6,332.5
110.8	Other capital grants and receipts from investing activities ◦	140.6
130.3	**Net cash flows from investing activities** ◦	**124.8**

◦ The 2016/17 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

Note 13 - Group cash flows from financing activities

31 March 2017		31 March 2018
£m		**£m**
1,058.7	Cash receipts from short term and long term borrowing	1,028.9
(6.2)	Appropriate to/from collection fund adjustment account	(0.5)
(993.5)	Repayment of short term and long term borrowing	(1,118.8)
(5.3)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	(5.0)
53.7	**Net cash flows from financing activities**	**(95.4)**

Pension fund accounts and explanatory notes

Ashton Memorial

Lancashire County Pension Fund

Fund account

2016/17 £m		Note	2017/18 £m
	Dealing with members, employers and others directly involved in the Fund		
245.5	Contributions *	6	374.9
10.9	Transfers in from other pension funds	7	11.5
256.4			**386.4**
(261.1)	Benefits	8	(254.8)
(15.7)	Payments to and on account of leavers	9	(17.9)
(276.8)			**(272.7)**
(20.4)	**Net (withdrawals)/return from dealings with members**		**113.7**
(70.4)	Management expenses **	10	(62.4)
(90.8)	**Net (withdrawals)/return including fund management expenses**		**51.3**
	Returns on investments		
109.9	Investment income	11	138.7
1,154.0	Profit and losses on disposal of investments and changes in the market value of investments **	13	221.9
1,263.9	**Net return on investments**		**360.6**
1,173.1	**Net increase in the net assets available for benefits during the year**		**411.9**
6,036.2	**Opening net assets of the scheme**		**7,209.3**
7,209.3	**Closing net assets of the scheme**		**7,621.2**

* Contributions for the year ended 31 March 2018 include employer contributions of £137.0m paid up-front in respect of the years ending 31 March 2019 and 31 March 2020.

** The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

Net assets statement as at 31 March 2018

31 March 2017		Note	31 March 2018
£m			£m
7,135.1	Investment assets	13	7,448.2
56.3	Cash deposits	13	162.0
7,191.4	**Total net investments**		**7,610.2**
30.7	Current assets	19	23.4
(12.8)	Current liabilities	20	(12.4)
7,209.3	**Net assets of the Fund available to fund benefits at the at the period end**		**7,621.2**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 25.

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 2018 and its income and expenditure for the year then ended.

Notes to the financial statements

Note 1 - Pension Fund operations and membership

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

Up-front contributions of £137.0 million were received from employers during the year, relating to the years ending 31 March 2019 and 2020. Contributions in respect of the year ended 31 March 2018 amounted to £237.9 million, and with transfers in of £11.5 million they part funded benefits payable of £272.7 million.

The resulting net cash outflow from transactions with members for the year ended 31 March 2018, together with management expenses is funded from investment income.

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 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

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

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

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 geographic county of Lancashire. Teachers, police officers and fire-fighters are not included within the Fund as they come within other national pension schemes.

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

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

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

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

Full details of the responsibilities of the Panel and Committee are published in the Investment Strategy Statement which is available from the Fund website at [Your Pension Service - Lancashire Fund Information]

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

Membership

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

Organisations participating in the Lancashire County Pension Fund include:

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

There are 412 employer organisations (2016/17: 413 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 287 have active members (2016/17: 287) as detailed below:

31 March 2017	Lancashire County Pension Fund	31 March 2018
413	Total number of employers	412
287	Number of employers with active members*	287
	Number of active scheme members	
26,416	County Council	27,059
29,499	Other employers	29,817
55,915	**Total**	**56,876**
	Number of pensioners	
23,141	County Council	23,722
23,012	Other employers	23,723
46,153	**Total**	**47,445**
	Number of deferred pensioners	
34,668	County Council	35,477
30,573	Other employers	32,276
65,241	**Total**	**67,753**
167,309	**Total membership**	**172,074**

* includes employers for whom admission to the Fund is in progress

Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 for the three years commencing 1 April 2017.

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

Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2017/18* 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 to these accounts.

Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2018 but not yet adopted by the Code.

The 2018/19 Code will introduce the following amendments in respect of:

IFRS 9 Financial Instruments

IFRS 9 replaces *International Accounting Standard (IAS) 39 - Financial instruments: recognition and measurement*. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change results in more investments being classified as 'fair value through profit and loss' with any gains or losses impacting on the fund account rather than being held until the investment was sold.

No significant impact is expected on the accounts of the Fund as all financial assets, other than cash and debtors, are already classified as fair value through profit and loss with movements in market value recognised in the fund account during the year.

Note 3 - Accounting policies

Fund Account - revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 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.

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 (Amendment) Regulations 2018.

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

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

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.

Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend and is included within distributions from pooled funds.

Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue.

Dividend income arising on equities which are now held within pooled funds is included within distributions from pooled funds. It is Fund policy to reinvest dividend income.

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.

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

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.

Movement in the net market value of investments

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

Fund account – expense items

Benefits payable

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

Taxation

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

Management expenses

The code does not require any breakdown of pension fund management expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)*".

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

Administrative expenses

Administrative expenses consist of the following:

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

All administrative expenses are accounted for on an accruals basis.

Oversight and governance costs

Oversight and governance expenses include the following costs:

- Investment advisory services (strategic allocation, manager monitoring etc.);
- Independent advisors to the pension fund;

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

All 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.

Investment management expenses

Investment management expenses are defined as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses directly invoiced by investment managers, custody fees and any fees payable to fund managers which are deducted from fund assets. Transaction costs for all categories of investment, other than directly held property, are included within investment management expenses.

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers, including the Local Pensions Partnership 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 with a number of managers that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2017/18, £11.5m of fees is based on such estimates (2016/17: £17.5m).

Net assets statement

Financial assets

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

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

Freehold and leasehold properties

The properties were valued at open market value at 31 March 2018 by independent property valuers Bilfinger GVA 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.

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.

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.

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.

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.

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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 25).

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(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 18).

Note 4 - Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward looking estimates and it is necessary to apply judgement to the valuation. Unquoted private equities and infrastructure investments are valued by the investment managers using the International Private Equity and Venture Capital Valuation Guidelines 2012.

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 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the 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 net assets statement at 31 March 2018 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 £1,538.9 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 be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,364.0m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans 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 loans to Heylo Housing Trust totals £198.3m 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 £113.3m. 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 £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £100m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £200m.

Note 6 - Contributions receivable

2016/17		2017/18
£m	**By category**	**£m**
55.5	Members	56.5
	Employers:	
124.5	Normal contributions [1]	221.3
48.5	Deficit recovery contributions [1]	89.9
17.0	Augmentation contributions [2]	7.2
190.0	Total employers contributions	318.4
245.5		**374.9**
	By authority	
109.5	County Council [1]	174.9
114.7	Scheduled bodies [1]	176.5
21.3	Admitted bodies	23.5
245.5		**374.9**

[1] Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and Scheduled Bodies include £137.0m received in advance.

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

Within the employee contributions figure for 2017/18, £0.4m is voluntary and additional regular contributions (2016/17: £0.3m).

Note 7 - Transfers in from other pension funds

2016/17 £m		2017/18 £m
10.9	Individual transfers in from other schemes	11.5
10.9		**11.5**

Note 8 - Benefits payable

2016/17 £m	**By category**	2017/18 £m
207.3	Pensions	213.6
48.2	Commutation and lump sum retirement benefits	35.1
5.6	Lump sum death benefits	6.1
261.1		**254.8**
	By authority	
113.3	County Council	107.1
128.6	Scheduled bodies	126.5
19.2	Admitted bodies	21.2
261.1		**254.8**

Note 9 - Payments to and on account of leavers

2016/17 £m		2017/18 £m
0.7	Refunds to members leaving service	0.6
14.4	Individual transfers	17.3
0.6	Group transfers	-
15.7		**17.9**

Note 10 - Management expenses

2016/17		2017/18
£m		£m
3.2	Fund administrative costs	3.8
63.5	Investment management expenses [1]	54.1
3.7	Oversight and governance costs [2]	4.5
70.4		**62.4**

[1] The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

[2] Oversight and governance costs above include external audit fees which amounted to £34,169 (2016/17: £34,169)

Investment management expenses

2016/17		2017/18
£m		£m
1.1	Transaction costs [3]	0.4
42.7	Fund value based management fees [1,3]	41.8
2.0	Cost of global equities transition [2]	0.3
17.5	Performance related fees [3]	11.5
0.2	Custody fees	0.1
63.5		**54.1**

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

[2] Transition costs of £0.3m (2016/17: £2.0m), relate to infrastructure, private equity and credit portfolios transitioned to pooled funds within Local Pensions Partnership Investments Ltd during the year.

[3] The 2016/17 comparatives transaction costs, fund value based management fees and performance related fees have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016). This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

Note 11 - Investment income

2016/17		2017/18
£m		£m
1.4	Fixed interest securities	3.3
32.0	Equity dividends [1]	-
1.5	Index linked securities	0.8
43.1	Pooled investment vehicles [2]	103.4
2.2	Pooled property investments [2]	2.2
28.2	Net rents from properties	28.9
0.7	Interest on cash deposits	0.1
0.8	Other [3]	-
109.9	**Total before taxes**	**138.7**

[1] Income from equity dividends is included within income from pooled investment vehicles following the transition of global equities during the year ended 31 March 2017.
[2] £9.0m income from pooled investment vehicles has been reclassified from income from pooled property investments for the year ended 31 March 2017.
[3] Stock lending income of £0.8m was included within investment income in the year ended 31 March 2017. Since the pooling of equities there is no stock lending income attributable to the Fund and any equivalent income is credited to the global equity fund held with LPPI.

Note 12 - Property income

2016/17		2017/18
£m		£m
31.3	Rental income	32.2
(3.1)	Direct operating expenses	(3.3)
28.2	**Net income**	**28.9**

Note 13 - Reconciliation of movements in investments and derivatives

2017/18

	Market value as at 1 April 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value [1]	Market value as at 31 March 2018
	£m	**£m**	**£m**	**£m**	**£m**
Fixed interest securities	132.2	341.8	(351.3)	(5.9)	116.8
Index linked securities	127.1	1,940.4	(1,889.4)	(0.1)	178.0
Pooled investment vehicles	6,136.7	1,956.1	(1,879.5)	108.2	6,321.5
Pooled property investments	99.4	-	(0.1)	14.0	113.3
Direct property	637.0	43.0	(17.9)	53.4	715.5
	7,132.4	**4,281.3**	**(4,138.2)**	**169.6**	**7,445.1**
Other investment balances:					
Cash deposits	56.3				162.0
Investment accruals	2.7				3.1
Net investment assets	**7,191.4**				**7,610.2**

[1] £221.9m on the face of the Fund account includes the change in market value of investments disclosed above (£169.6m), plus profits and losses on disposals and changes in the market value of derivatives held within the pools.

2016/17

	Market value as at 1 April 2016	Purchases at cost and derivative payments [3]	Sales proceeds and derivative receipts [3]	Change in market value [3]	Market value as at 31 March 2017
	£m	£m	£m	£m	£m
Fixed interest securities	123.1	189.5	(190.5)	10.1	132.2
Equities[1]	2,069.9	1,876.6	(4,358.0)	411.5	-
Index linked securities	63.7	125.1	(66.7)	5.0	127.1
Pooled investment vehicles[2]	2,855.0	3,365.7	(779.1)	695.1	6,136.7
Pooled property investments[2]	80.6	13.4	(0.4)	5.8	99.4
Direct property	608.1	33.6	(15.0)	10.3	637.0
	5,800.4	**5,603.9**	**(5,409.7)**	**1,137.8**	**7,132.4**
Derivative contracts:					
Forward currency contracts asset value	294.5				-
Forward currency contracts liability value	(291.0)				-
Forward currency contracts	**3.5**	**47.7**	**(13.2)**	**(38.0)**	-
Other investment balances:					
Cash deposits	210.3				56.3
Investment accruals	13.1				2.7
Net investment assets	**6,027.3**				**7,191.4**

[1] All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.
[2] The value of pooled property investments was previously included within total pooled investment vehicles.
[3] Change in market value, purchases at cost and derivative payments and sales proceeds and derivative receipts have been restated to include additional fees previously netted off investment value, in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Investments analysed by fund manager

31 March 2017			31 March 2018	
£m	%		£m	%
Private equity				
Investments managed by LPPI Private Equity Fund				
-	-	Capital Dynamics	83.5	1.1%
-	-	HGGC	37.1	0.5%
-	-	Genstar Capital	32.1	0.4%
-	-	Permira	30.0	0.4%
-	-	Insight Venture Partners	26.1	0.3%
-	-	Hermes GPE	22.1	0.3%
-	-	Nordic Capital	21.4	0.3%
-	-	BV Investment Partners	17.4	0.2%
-	-	Apax Partners	16.5	0.2%
-	-	Hg Capital	16.1	0.2%
-	-	Thoma Bravo	15.2	0.2%
-	-	CVC Capital Partners	15.1	0.2%
-	-	Waterland	15.1	0.2%
-	-	Mid Europa Partners	14.4	0.2%
-	-	ECI Partners	14.1	0.2%
-	-	Ironbridge Equity Partners	14.1	0.2%
-	-	SL Capital Partners	13.2	0.2%
-	-	Colbeck Capital Management	13.1	0.2%
-	-	Rutland Fund Management	10.8	0.1%
-	-	Advent Life Sciences	10.0	0.1%
-	-	Adveq TMC	10.0	0.1%
-	-	Alpha Group	9.9	0.1%

-	-	CBPE Capital	9.6	0.1%
-	-	Endeavour Vision	7.5	0.1%
-	-	LPP internal managers	7.0	0.1%
-	-	Chequers Capital	6.5	0.1%
-	-	Triton Partners	6.3	0.1%
-	-	NorthEdge Capital	6.3	0.1%
-	-	Littlejohn & Co	6.1	0.1%
-	-	Advent Venture Partners	6.0	0.1%
-	-	Advent International	6.0	0.1%
-	-	Accent	4.4	0.1%
-	-	Charterhouse Capital Partners	3.5	0.1%
-	-	EQT Partners	1.8	-
-	-	Abingworth Management	1.8	-
-	-	Private Equity Partners	0.8	-
-	-	Italian Capital Management	0.1	-
			531.0	**7.0%**
Investments managed outside of LPPI Private Equity Fund				
452.7	6.3%	Capital Dynamics	16.7	0.2%
28.2	0.4%	Standard Life	-	-
480.9	**6.7%**		**16.7**	**0.2%**
Long term credit investments				
Investments managed by LPPI Credit Investments Fund				
-	-	Prima Mortgage Investment Trust LLC	200.4	2.6%
-	-	Pictet	128.1	1.7%
-	-	Bluebay	114.8	1.5%
-	-	Apollo	84.3	1.1%
-	-	LPPI internal managers	79.7	1.0%
-	-	White Oak	73.8	1.0%
-	-	King Street	67.2	0.9%

-	-	Permira	64.5	0.9%
-	-	Venn Commercial Real Estate	61.9	0.8%
-	-	Monarch	51.7	0.7%
-	-	M&G	38.5	0.5%
-	-	MFO King Street	37.2	0.5%
-	-	Kreos	35.7	0.5%
-	-	Blackrock	14.4	0.2%
-	-	Muzinich Private Debt Fund	10.4	0.1%
-	-	Westmill	8.5	0.1%
-	-		**1,071.1**	**14.1%**
Investments managed outside of LPPI Credit Investments Fund				
138.6	1.9%	Heylo Housing Trust	198.3	2.6%
152.5	2.1%	CRC	138.0	1.8%
61.9	0.9%	Neuberger Berman	56.6	0.7%
64.8	0.9%	Pimco Bravo	48.3	0.6%
51.2	0.7%	EQT	31.2	0.4%
52.4	0.7%	Hayfin	18.8	0.3%
256.8	3.6%	Prima	-	-
159.6	2.2%	Pictet	-	-
132.5	1.8%	Bluebay	-	-
128.4	1.8%	MFO King Street	-	-
101.7	1.4%	Investec	-	-
83.7	1.2%	Venn Commercial Real Estate	-	-
76.6	1.1%	Permira Credit Solutions	-	-
71.5	1.0%	HSBC	-	-
68.8	1.0%	White Oak	-	-
67.0	0.9%	Monarch	-	-
33.8	0.5%	Kreos	-	-
17.6	0.2%	Muzinich Private Debt Fund	-	-

10.9	0.2%	Westmill	-	-
1,730.2	**24.1%**		**491.2**	**6.4%**
Liquid credit (cash and bonds)				
Investments managed by LPPI Fixed Income Fund				
-	-	PIMCO	92.0	1.2%
-	-	Wellington	91.8	1.2%
-	-		**183.8**	**2.4%**
Investments managed outside of LPPI Fixed Income Fund				
135.2	1.9%	LPPI internal and LCC Treasury Management	282.0	3.7%
135.2	**1.9%**		**282.0**	**3.7%**
Global equity funds				
Investments managed by LPPI Global Equities Fund				
1,292.5	18.0%	LPPI internal managers	1,306.2	17.2%
474.1	6.6%	Magellan	482.5	6.3%
622.5	8.7%	Robeco	469.0	6.2%
-	-	First Eagle	466.7	6.1%
-	-	Wellington	315.1	4.1%
-	-	Baron	174.9	2.3%
779.1	10.8%	MFS	-	-
3,168.2	**44.1%**		**3,214.4**	**42.2%**
Infrastructure				
Investments managed by LPPI Infrastructure Investments Fund				
-	-	Elisandra Spain	111.4	1.5%
-	-	Guild Investments Limited	95.0	1.2%
-	-	GLIL Infrastructure LLP	84.2	1.1%
-	-	Semperian PPP	79.5	1.0%
-	-	Cape Byron Infrastructure	61.6	0.8%
-	-	Global Infrastructure Partners	47.2	0.6%

-	-	ISquared Global Infrastructure	44.8	0.6%
-	-	LPPI internal managers	35.6	0.5%
-	-	Meridiam Infrastructure	34.2	0.5%
-	-	EQT Infrastructure	32.7	0.4%
-	-	ISQ Viridian	30.8	0.4%
-	-	Capital Dynamics	24.9	0.3%
-	-	Stonepeak Infrastructure	20.7	0.3%
-	-	Glenmont	15.5	0.2%
-	-	Icon Infrastructure Partners	6.3	0.1%
-	-	Stonepeak Claremont	3.0	0.1%
-	**-**		**727.4**	**9.6%**
Investments managed outside of LPPI Infrastructure Investments Fund				
95.7	1.3%	Arclight Energy	104.6	1.4%
69.8	1.0%	Icon Infrastructure Partners	77.1	1.0%
61.5	0.9%	Highstar Capital	49.4	0.7%
60.5	0.8%	Capital Dynamics Red Rose	32.7	0.4%
146.6	2.0%	Madrilena Red de Gas (MRG)	-	-
130.1	1.8%	Guild Investments Ltd	-	-
101.3	1.4%	ISQ Global Infrastructure	-	-
85.7	1.2%	Capital Dynamics Cape Byron	-	-
60.3	0.8%	Global Infrastructure Partners	-	-
42.6	0.6%	GLIL Infrastructure LLP	-	-
31.1	0.4%	Capital Dynamics Clean Energy	-	-
28.9	0.4%	Stonepeak Infrastructure Partners	-	-
26.6	0.4%	EQT Infrastructure	-	-
940.6	**13.1%**		**263.8**	**3.5%**
Property				
637.0	8.9%	Knight Frank	715.5	9.4%
41.0	0.6%	M&G Europe fund	46.0	0.6%

33.4	0.5%	Gatefold Hayes	39.0	0.5%
25.0	0.4%	Kames Target	28.3	0.4%
736.4	**10.2%**		**828.8**	**10.9%**
7,191.4	**100.0%**		**7,610.2**	**100.0%**

Fixed interest securities

31 March 2017		**31 March 2018**
£m		**£m**
20.9	UK corporate bonds quoted	32.5
13.6	Overseas public sector	14.2
97.7	Overseas corporate bonds quoted	70.1
132.2		**116.8**

Index linked securities

31 March 2017		**31 March 2018**
£m		**£m**
127.1	UK quoted	178.0
127.1		**178.0**

Pooled investment vehicles

31 March 2017		31 March 2018
£m	**UK managed funds:**	**£m**
71.5	Fixed income funds [1]	183.8
79.5	Private equity	108.2
134.2	Infrastructure [1]	760.1
191.4	Long term credit investments [1]	1,110.3
58.3	Property funds	67.3
	Overseas managed funds:	
1,125.1	Fixed income funds [1]	242.8
401.0	Private equity	439.5
761.8	Infrastructure [1]	231.1
204.1	Long term credit investments [1]	31.2
3,168.2	Equity funds	3,214.4
41.0	Property funds	46.0
6,236.1		**6,434.7**

[1] The pooling of infrastructure, long term credit and fixed income funds with LPPI during the year ended 31 March 2018 has resulted in realignment of these pooled investment vehicles from overseas to UK managed funds. Investments previously classified as overseas fixed income funds have also been transitioned into the UK managed LPPI credit pool.

Direct property investments

31 March 2017		31 March 2018
£m		**£m**
538.8	UK – freehold	601.8
98.2	UK – long leasehold	113.7
637.0		**715.5**

Property holdings

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

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

31 March 2017*		31 March 2018
£m		**£m**
608.1	**Opening balance**	**637.0**
	Additions:	
14.6	Purchases	18.3
11.9	New construction	15.5
6.7	Subsequent expenditure	9.2
(15.0)	Disposals	(17.9)
10.7	Net increase in market value	53.4
637.0	**Closing balance**	**715.5**

*The movement on property holdings during the year 31 March 2017 has been restated for consistency of classification between categories.

Operating leases

The Fund leases out property under operating leases. The table shows the future minimum lease payments receivable under non-cancellable leases in future years.

2016/17		2017/18
£m		£m
32.3	Leases expiring in the following year	29.9
101.5	Leases expiring in 2 to 5 years	82.8
106.0	Leases expiring after 5 years	128.7
239.8	**Total future minimum lease payments receivable under existing non-cancellable leases**	**241.4**

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.

Cash deposits

31 March 2017		31 March 2018
£m		£m
18.2	Sterling	109.1
38.1	Foreign currency	52.9
56.3		**162.0**

Note 14 - Financial instruments classification

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

31 March 2018

	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	116.8		
Index linked securities	178.0		
Pooled investment vehicles	6,321.5		
Pooled property investments	113.3		
Cash deposits		162.0	
Investment accruals	3.1		
Debtors		23.5	
Total financial assets	**6,732.7**	**185.5**	
Financial liabilities			
Creditors			12.4
Total financial liabilities			**12.4**

31 March 2017

	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	132.2		
Equities			
Index linked securities	127.1		
Pooled investment vehicles	6,136.8		
Pooled property investments	99.4		
Cash deposits		56.3	
Investment accruals	2.6		
Debtors		30.7	
Total financial assets	**6,498.1**	**87.0**	
Financial liabilities			
Creditors			12.8
Total financial liabilities			**12.8**

Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £221.9m (2016/17: £1,154.0m after adjusting for directly owned property).

Note 16 - Financial instruments – fair value hierarchy

Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

The values of the investment in private equity and infrastructure are based on valuations provided 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.

Fair value hierarchy

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

Loans and receivables are excluded from this table as they are held at amortised cost.

31 March 2018

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,399.4	116.9	3,216.4	6,732.7
Non-financial assets at fair value through profit and loss (property holdings)		715.5		715.5
Net investment assets	**3,399.4**	**832.4**	**3,216.4**	**7,448.2**

31 March 2017

	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,549.9	158.7	2,789.5	6,498.1
Non-financial assets at fair value through profit and loss (property holdings)		637.0		637.0
Net investment assets	**3,549.9**	**795.7**	**2,789.5**	**7,135.1**

Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled global equities	Level 1	Unadjusted quoted bid market prices.	Not required.	Not required.
Fixed income funds	Level 1	Unadjusted market values based on current yields.	Not required.	Not required.
Corporate and overseas government bonds	Level 2	Market approach – active 'over the counter' markets	Corroborative indicative quotes, interest rates, inflation.	Not required.
Direct property holdings	Level 2	Valuation performed by independent professional valuers Bilfinger GVA in accordance with RICS valuation standards (9th edition).	Comparable recent market transactions on arms length terms; general changes in property market prices; rental growth; vacant properties.	Not required.
Pooled property investments	Level 3	Current open market value in accordance with RICS Appraisal and Valuation Standards.	Unobservable fund net asset value.	Ability to exit fund; market opinion; general market movements.
Private equity, long term credit and infrastructure investments	Level 3	Annually at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent.	Discount rates, cash flow projections.	Material events occurring between the date of the financial statements provided and the pension fund's own reporting date; changes to expected cash flows; differences between audited and unaudited accounts

Reconciliation of fair value measurements within level 3

	Financial assets at fair value through profit and loss
	£m
Market value 1 April 2017	**2,789.5**
Purchases during the year and derivative payments	2,613.1
Sales during the year and derivative receipts	(2,288.3)
Transfers out of level 3	(15.0)
Unrealised losses	(202.1)
Realised gains	319.2
Market value 31 March 2018	**3,216.4**

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

Risk and risk management

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

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

Market risk

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2017/18 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	7.2%
Total equities	9.6%
Alternatives	7.4%
Total property	3.9%

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 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	132.7	7.2%	142.3	123.1
Total equities	3,762.1	9.6%	4,123.3	3,400.9
Alternatives	2,721.5	7.4%	2,922.9	2,520.1
Total property	828.8	3.9%	861.1	796.5
Total assets available to pay benefits	**7,445.1**		**8,049.6**	**6,840.6**

Asset type	31 March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	1,433.1	6.4%	1,524.8	1,341.4
Total equities	3,649.1	9.6%	3,999.4	3,298.8
Alternatives	1,313.8	6.4%	1,397.9	1,229.8
Total property	736.4	2.4%	746.7	726.1
Total assets available to pay benefits	**7,132.4**		**7,676.2**	**6,588.6**

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 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2017	Asset type	31 March 2018
£m		£m
56.3	Cash and cash equivalents	162.0
56.3	**Total**	**162.0**

Interest rate risk - sensitivity analysis

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

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

Asset type		Change in year in net assets available to pay benefits	
	31 March 2018	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	162.0	1.6	(1.6)
Total change in assets available		**1.6**	**(1.6)**

Asset type		Change in year in net assets available to pay benefits	
	31 March 2017	+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	56.3	0.6	(0.6)
Total change in assets available		**0.6**	**(0.6)**

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 2018 and as at the previous year end.

31 March 2017	Currency exposure – asset type	31 March 2018
£m		£m
1,071.4	Overseas bonds (including index linked)	84.3
3,569.6	Overseas equities	3,653.8
1,101.9	Overseas alternatives	505.2
41.0	Overseas property	46.0
5,783.9	**Total overseas assets**	**4,289.3**

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 8.5%.

An 8.5% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2016/17 6.1%).

An 8.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type		**Change in year in net assets available to pay benefits**	
	31 March 2018	**+8.5%**	**-8.5%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	84.3	91.5	77.1
Overseas equities	3,653.8	3,964.4	3,343.2
Overseas alternatives	505.2	548.1	462.3
Overseas property	46.0	49.9	42.1
Total assets available to pay benefits	**4,289.3**	**4,653.9**	**3,924.7**

Currency exposure - asset type		**Change in year in net assets available to pay benefits**	
	31 March 2017	**+6.1%**	**-6.1%**
	£m	**£m**	**£m**
Overseas bonds (including index linked)	1,071.4	3,787.3	3,351.8
Overseas equities	3,569.6	1,136.7	1,006.0
Overseas alternatives	1,101.9	1,169.1	1,034.6
Overseas property	41.0	43.5	38.5
Total assets available to pay benefits	**5,783.9**	**6,136.6**	**5,431.0**

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 2018 was £162.0m (31 March 2017: £56.3m.) This was held with the following institutions:

31 March 2017	Summary	Rating	31 March 2018
£m			£m
	Bank deposit accounts		
47.9	Northern Trust	A+	154.5
8.4	Svenska Handelsbanken	AA-	7.5
56.3	**Total**		**162.0**

Liquidity risk

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

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

The Fund has financial liabilities of £149.4m at 31 March 2018, of which £68.5m is due after more than one year. This long term liability represents receipts in advance of employer deficit contributions. See note 20 for more detail.

Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by 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 2017 to 31 March 2018 for Prudential and 1 September 2016 to 31 August 2017 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*

	Equitable Life	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.7**	**24.3**	**25.0**
Income (incl. contributions, bonuses, interest & transfers in)	-	6.6	6.6
Expenditure (incl. benefits, transfers out & change in market value)	-	(3.6)	(3.6)
Value at the end of the year	**0.7**	**27.3**	**28.0**

Note 19 - Current assets

31 March 2017		31 March 2018
£m		£m
14.1	Contributions due – employers	7.7
4.6	Contributions due – members	6.3
12.0	Debtors	9.4
30.7		**23.4**

31 March 2017	Analysis of debtors	31 March 2018
£m		£m
14.6	Other local authorities	8.5
16.1	Other entities and individuals	14.9
30.7		**23.4**

Note 20 – Current liabilities

31 March 2017		31 March 2018
£m		**£m**
5.7	Unpaid benefits	1.6
7.1	Accrued expenses	10.8
12.8		**12.4**

31 March 2017	Analysis of creditors	31 March 2018
£m		**£m**
5.0	Other local authorities	1.9
7.8	Other entities and individuals	10.5
12.8		**12.4**

Note 21 - Contractual commitments

As at 31 March 2018 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £546.6m (2017: £663.4m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £462.4m (2017: £390.7m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £47.3m (2017: £24.6m). These amounts are expected to be drawn down over the next 10 months based on valuation certificates.

There is no outstanding commitment on indirect property investments (2017: £0.6m).

Note 22 - Related party transactions

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

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

Lancashire County Council

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

The Council incurred costs of £0.6m (2016/17: £0.4m) 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 £152.0m to the fund in 2017/18, including a prepayment of £78m for the years ending 31 March 2019 and 2020. (2016/17: £87.0m). All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2018 amount to £6.8m (2016/17: £8.2m).

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 2018 payroll, are included within the debtors figure in note 20.

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 2017/18 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2018.

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

Note 23 - Key management personnel

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

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

2017/18

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/17 – 31/03/18	54,699	8,228	62,927
Director of Financial Resources	01/04/17 – 31/03/18	4,653	703	5,356
Chief Executive and Director of Resources [2]	03/01/18 – 31/03/18	874	0	874

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

[2] The Chief Executive and Director of Resources is a new post and was appointed on 3 January 2018.

2016/17

	Employment period	Salary[1]	Employer Pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/16 – 31/03/17	52,175	6,664	58,839
Director of Financial Resources	01/04/16 – 31/03/17	4,732	563	5,295

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

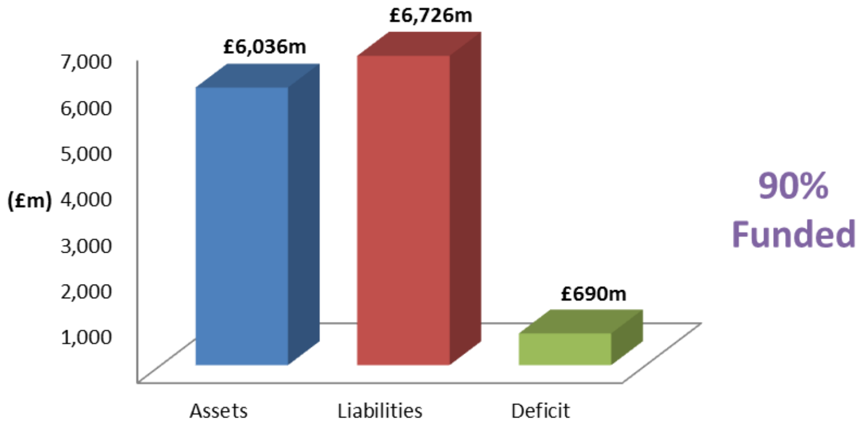
Note 24 - Funding arrangements

Accounts for the year ended 31 March 2018 - 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 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,036 million represented 90% of the Fund's past service liabilities of £6,726 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £690 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the "Secondary rate") for 2018/19 is approximately £43 million. The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years' contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Note 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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.3% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £10,065 million. Interest over the year increased the liabilities by c£253 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£105 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £401 million due to "actuarial gains" (i.e. the effect of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £10,022 million.

John Livesey
Fellow of the Institute and
Faculty of Actuaries
Mercer Limited
May 2018

Mark Wilson
Fellow of the Institute and
Faculty of Actuaries
Mercer Limited
May 2018

Governance statements

County Hall, Preston

Executive Summary

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

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

On the 30 April 2018 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run.

The final statement is signed by the Leader of the Council and Interim Chief Executive.

Governance Issues

Overall it can be confirmed that the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these generally work well our review has identified the following issues:

Key Delivery/Improvement Area	Lead Officer	To be delivered by
Delivering the new Operational Plan: • Establish a new leadership and management team • Embed a focus on service delivery • Develop a sustainable financial strategy • Delivering economic growth and prosperity	Interim CEO/S151 Officer	 Autumn 2018 First component completed by September 2018 On-going On-going
Delivery of the Ofsted improvement plan	Executive Director - Children Services	March 2019
Special Educational Needs and Disability	Executive Director - Children Services	March 2019
Improving health and wellbeing	Executive Director – Adult Services	March 2019
Managing major projects	Executive Director -Growth Environment Transport and Community Services	March 2019
Core systems	Executive Director -Growth Environment Transport and Community Services	March 2019

Progress made against the issues identified in the 2016/17 AGS is reported in this year's statement.

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

-- County Councillor Geoff Driver CBE
Leader of the Council

-- Angie Ridgwell
Interim Chief Executive/S151 Officer

Signed on behalf of Lancashire County Council

Introduction

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

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

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

What is Corporate Governance?

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

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

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

Key elements of the Council's Governance Framework

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

How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

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

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

Managing Risk and Performance

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

Service risk and opportunity registers are updated regularly and the Corporate Risk and Opportunity register is reported to Corporate Management Team, Cabinet Committee for Performance Improvement and Audit, Risk and Governance Committee on a quarterly basis. A recent Internal Audit review gave full assurance over the process by which the corporate register is prepared. Corporate Management Team have recently reviewed and updated both the content of the register and the governance arrangements. The Corporate Risk and Opportunity register and further information about the approach to risk management can be found on our website.

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

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

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

Quarterly performance monitoring reports are presented to both CMT and Cabinet Committee for Performance Improvement. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary). An Internal Audit review of the Performance Management Framework in March 2017 provided substantial assurance. Since then further work has been undertaken to develop a corporate performance dashboard that provides a snapshot of the 'health' of the organisation.

Managing our resources (value for money)

The Council's external auditors, in their assessment of 2017/18, regarded the following as the significant challenges that were faced by the Council during the year:

- Financial sustainability, and the
- Ofsted inspection of children's services

The Council ensures that it provides timely support, information and responses to its external auditors – properly considering audit findings and recommendations through the Corporate Management Team and the Audit, Risk and Governance Committee.

Financial Sustainability

Consultation on budget proposals were undertaken with a variety of stakeholders and partners including discussions with the Trades Unions prior to finalising the 2018/19 budget. A number of savings proposals included within the agreed 2018/19 budget were subject to specific consultation exercises, with decisions to be made at future Cabinet meetings as to their final implementation. Any changes to these proposals resulting from the consultation which reduces the level of savings achievable is planned to be covered by reserves.

The Council regularly monitors its medium term financial forecast. The forecast for future years takes into account anticipated cost pressures (both inflationary and demand led), planned savings and expected resource levels.

The forecast is necessarily underpinned by a range of estimates and assumptions around what may happen in the future particularly relating to those elements that cannot be directed by the Council.

The projections are reported to both Corporate Management Team and Cabinet in the 'Money Matters' report which forms a regular review point for assessing the effectiveness of financial plans. The current budget strategy remains to use budget savings with the use of reserves and capital receipts to ensure funding requirements are met. Proposals to develop a sustainable financial strategy are set out in the Council's new Operational Plan (details of which are set out later in this statement).

The forecast will need to be reviewed in light of any central government funding proposals for local government, in particular the impact of a policy direction on business rate retention and a new fair funding formula.

The Financial management arrangements of the Council conform to the governance requirements of the CIPFA Statement on the *Role of the Chief Finance Officer in Local Government*.

How do we know our arrangements are working?

There are a number of ways we do this:

The role of management

The Corporate Management Team oversee the review of the Council's governance arrangements. Following this review, they can confirm that appropriate internal controls for which they have responsibility are in place, in particular their scrutiny of regular budget and performance reports including performance against savings targets within the Medium Term Financial Strategy.

Directors have the day to day responsibility for managing and controlling services – they are accountable for their successful delivery. They set the culture, develop and implement policies, procedures, processes and controls. Directors have completed an 'assurance statement' for 2017/18 that reports on service compliance and they produce in-year quarterly service risk registers that set out appropriate mitigating actions for significant risks. Where the evidence needed to provide full assurance is not available improvement plans are in place.

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

During the year, a review of our governance framework was undertaken by the Internal Audit service. The outcome confirmed that we comply with current best practice – with strong governance arrangements in place that are up to date and relevant to the environment we work in. The review suggested several minor improvements that are being implemented.

The Role of the Audit, Risk and Governance Committee

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

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

Earlier in the year, the committee reviewed its term of reference and agreed some changes to further improve its effectiveness.

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. The Internal Audit Annual Report and opinion has been considered in the development of the Annual Governance Statement and any significant issues incorporated as appropriate.

Audit work has progressed throughout the year and almost 80% of the work completed by the year end has yielded substantial assurance over the design and operation of the services, systems and processes audited. However, across the last two years we have identified through our assurance framework, service areas where improvements needed to be made. In these instances the Council has introduced improvement plans in the context of a new Operational Plan. Whilst the overall direction of travel in these areas is positive, the evidence needed to provide substantial assurance is currently not available.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that only limited assurance can be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2017/18.

External Assurances

The opinions and recommendations of the External Auditor and other inspection and review agencies and peer reviews offer us further assurance. For example, Government recently conducted a 'spot check' audit of our Troubled Families programme. The inspectors found high quality work and were confident that we were working within the terms of the programme's Financial Framework.

Scrutiny Committees

The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

Elections

All out County Council elections were held in May 2017. No petitions (challenges) were received and the election was delivered within budget.

Information Governance

The Council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer. Advanced plans are in place for the implementation of the new General Data Protection Regulations in May 2018.

Local Government and Social Care Ombudsman

During 2017/18 Full Council considered two public reports from the Local Government and Social Care Ombudsman. In both instances the Ombudsman found fault causing injustice in relation to adult social care. In both cases Full Council noted the actions already taken and endorsed further actions to remedy the complaints.

Looking back on 2017/18

A number of improvement actions were identified as part of the 2016/17 Annual Governance Statement. All of these risk areas have been the subject of detailed reports to Cabinet and/or committees or Full Council. Set out below is an update in relation to each area:

The Council's financial position

The Statement of Accounts for 2017/18 includes a narrative statement from the s151 Officer which highlights the most significant financial aspects of the year.

In 2017/18, the medium term financial forecast for the Council estimated that there would be a gap of around £144 million between forecast expenditure and income from 2021/22. This was after allowing for planned savings of £135 million which included £81 million of savings newly agreed.

The delivery of the savings programme has been identified as a key challenge for the Council and performance against the savings plans are subject to detailed and regular scrutiny by programme managers and the finance service.

The financial challenge facing the Council continues to be the key governance issue for 2018/19.

Delivery of the Ofsted improvement plan

Since the local authority was judged inadequate following an Ofsted review in September 2015, there have been six monitoring visits. The last monitoring visit took place in February 2018 and focused on the MASH (Multi-Agency Safeguarding Hub) and the interface with early help services.

Ofsted agreed with our self-assessment of the service and that significant progress has been made in the quality of service practice. They also agreed with our partnership priorities around responding to domestic abuse.
Prior to this, Ofsted undertook a monitoring visit at the end of October 2017. This focused on the quality of help and support given to children in need. It was noted that the authority continued to make progress in the improvement of services for children and the quality of auditing activity had improved significantly.

Lancashire's annual conversation with Ofsted took place in January 2018 to review progress and performance. In line with the introduction of a new inspection framework there was a particular focus on the quality and impact of social work practice, how this monitored and evaluated and the plans for the next twelve months to improve practice. An update was provided on what we are doing to improve practice and the findings of recent external reviews.

The Local Government Association have worked with us to provide challenge and scrutiny of our savings and service redesign proposals around adult social care.

Special Educational Needs and Disability (SEND) Inspection

In November 2017, Ofsted and the Quality Care Commission conducted a joint inspection of the local area of Lancashire, to judge how effectively we have implemented the special educational needs and disability (SEND) reforms, set out in the Children and Families Act 2014.

The inspection identified weaknesses in the local area's practice and the Council and clinical commissioning groups have been asked to write a joint written statement of action.

Partners are working together to deliver a SEND action plan to address the issues identified by the inspectors. To help achieve these improvements, we have taken a number of early actions that include:

- Improving governance arrangements by setting up a partnership board
- Changes to the local service offer
- Recruitment of Designated Clinical Officers
- Consultation with families to elicit their views
- Discussions to reduce school exclusions

Further information about what we plan to do during 2018/19 is in the next section of this statement.

Health and Social Care Integration

Further discussions have taken place with health colleagues on an integration agenda focused on joint commissioning, the proposed outcome being an improved service offer. Since the May 2017 elections regular meetings have taken place between the Cabinet and chief executives from across the Lancashire Health economy and an agreed priority is to improve the position for individuals whose discharge from hospital is delayed.

A Combined Authority for Lancashire

During 2017 the Shadow Combined Authority accepted that it was unlikely that all the constituent members would be able to secure approval to move to a fully constituted Combined Authority. It was however agreed that there remained significant benefit in continuing to meet on a pan-Lancashire basis and work collaboratively to improve economic development and public service outcomes.

Systems development and data quality

Good progress has been made on improving the quality of service data and update reports have been presented to Audit, Risk and Governance Committee throughout the year. Issues remain in some areas and action plans are in place to address them.

Governance challenges for 2018/19 and actions to be taken

The County Council's elections in May 2017 saw a change of political administration. This change has resulted in revised Council policies across several service delivery areas and the way in which political decisions are made. For example, a number of previously closed libraries have been reopened and the Council is consulting on its policy on the availability of halal meat in schools. In terms of decision making, all executive decisions (except urgent decisions) are made collectively by Cabinet.

Alongside of this there has been a senior management restructure. A new Interim Chief Executive/Section 151 officer has been appointed for 12 months until January 2019. The Deputy s151 Officer is the Director of Finance who is a member of Corporate Management Team. A new monitoring officer has also been appointed and several directors have assumed new responsibilities. All statutory posts have been appointed to. One of the three Executive Director posts is currently filled on an interim basis.

A new Operational Plan has been developed. The Plan summarises the priorities, delivery focus approach and aspirations for 2018/19. Building on past achievements the Council will pursue four operational priorities over the coming year:

1. Establish a new leadership and management team
   Current vacancies in the leadership team are being filled. It is expected that all posts will be filled by April 2018, acknowledging that in the case of Children and Young People, this will be covered by an interim appointment until the recruitment process is completed. A new Chief Executive will be recruited by autumn 2018. To provide visible leadership and engage the organisation, the management team will work closely together and undertake several individual and collective actions.

2. Embed a focus on service delivery
   The focus in 2018 is to view our services through the eyes of users and developing them to be the best they can. A 'service challenge' will be applied to each service area. This will seek to put users at the heart of the service and empower delivery staff to design the optimum solution. In all cases the objective of the service challenge will be to secure a better service at a lower cost.

3. Develop a sustainable financial strategy
   Like many councils, Lancashire County Council is facing significant financial pressures, and while good progress has been made in addressing the forecast financial shortfall over the medium term, further work is required to ensure the Council can achieve a financially sustainable position.

   To achieve a balanced budget from 2021/22 the Council will need to address a funding gap of around £144 million. It is proposed therefore to address the budget deficit through a number of work streams, which include:

   - Service challenges
   - Commercialisation
   - Taxation and grants
   - Productivity
   - Commissioning and third sector

Each work stream will have a nominated senior responsible officer who will be responsible for developing detailed plans and putting together a team to support them in their task.

4. Delivering economic growth and prosperity
A thriving economy that improves the productivity and earning power of all residents is key if we are to deliver inclusive growth. To do this we will work collaboratively with partners on a number of fronts that include:

    - The Lancashire Enterprise Partnership (LEP) on its substantial growth programme. However, to realise its full potential its 15 authorities must demonstrate strategic leadership and help to deliver transformational change
    - Working with a range of public sector partners to improve public service outcomes, especially around health and social care
    - Engaging with government to take advantage of new strategic place making initiatives
    - A more prominent leadership role in the Northern Powerhouse and influencing the priorities of bodies such as Transport for the North
    - Refreshing the Strategic Economic Plan
    - Agreeing a new Local Industrial Strategy with Government

Continue to improve children's services following Ofsted inspection

The focus for improvement activity will continue to be driven through the refreshed Improvement Plan and the cycle of 12-week Improvement Plans. This will continue to be overseen by the Improvement Board. The following are the overarching outcomes for the future:

- Prevention
- Purposeful practice
- Permanence

The delivery of priorities and actions detailed in the refreshed Plan will embed improvements for vulnerable children and this will be underpinned by more detailed implementation plans for each of the following areas:

- Prevention and Demand Management
- Purposeful Practice
- Permanence and Corporate Parenting
- Workforce Strategy
- Children with Special educational Needs and Disabilities
- Youth Justice

A new governance structure has been established to streamline the existing arrangements.

It is anticipated that Ofsted will undertake a full four-week final inspection in the spring/early summer of 2018.

Improving Health and Wellbeing

Health and social care integration is seen as one of the key drivers for public sector reform whilst also providing a means by which the demand pressures experienced by Health and Social care can be managed within constrained budgets. Collaborative working must be underpinned by appropriate strategic alignment across all the relevant organisations that can lead change. However, the organisational landscape in Lancashire is complex, with six Clinical Commissioning Groups and other health economies that overlap into the County Council's responsibilities. The improved Better Care Fund (iBCF) continues to be supported by government to provide a formal platform from which some aspects of funding can be pooled and services jointly managed.

The iBCF paid to a local authority may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

The Lancashire Health and Wellbeing Board has agreed that iBCF monies will be used in line with the following overarching principles, which are consistent with the Grant conditions:

- Improving all aspects of Assessment
- Making Home 1st work
- Creating appropriate and effective 7-day services and aligned Integrated Discharge Services.

Governance arrangements for the Lancashire Health and Wellbeing Boards are also being reviewed and membership is being strengthened by making links to the housing sector, economic development and fire and rescue service. The board also convened a check and challenge session to review expenditure and delivery of the high impact changes known to be effective in reducing delays in discharges as part of its assurance process.

The Council is also engaged in the development of the integrated care system across Lancashire and South Cumbria.

Respond to SEND inspection

As stated earlier in the statement, work has already begun on addressing the issues found by the inspectors. The main issues we will be working on are as follows:

- Ensuring children and families are at the heart of all we do
- Robust and comprehensive assessments of children who have SEND are carried out in a timely way
- Developing a strategic oversight of SEND across the local area
- The appointment of designated clinical officers to fulfil the designated medical officer function
- Developing what support and services are needed and put in place with children, young people and their families
- Refreshing and publicising the Lancashire local service offer
- Further development of pathways for Autistic Spectrum Disorder including diagnosis across the local area
- Collaboration with school leaders to reduce the exclusion of pupils with SEND

The development and delivery of an improvement plan will be closely monitored by the DfE and Lancashire Improvement and Accountability Board. The Written Statement of Action was submitted in April 2018. The effective implementation of the improvement plan will be critical to achieving an improved outcome when Ofsted undertakes a further, shorter inspection of these services in due course.

Managing major projects

The Council is currently involved in several major projects such as the development of the Preston Youth Zone. Significant risks can be associated with such projects and the Council will be implementing steps to ensure robust risk management practices are in place.

Core Systems

During 2017/18 work to improve the quality of data in core systems continued at a pace. In Children's Services the improved confidence in the quality of the data in Lancashire Children's System led to a refocusing of the 'Accuracy Working Group'. It was renamed 'Performance and Data Quality Group' and the emphasis switched from dealing with data quality problems to using data to manage Performance. Although data quality issues continue to be identified and resolved by this group they are now relatively minor.

In Adults Social Care, there has been a significant improvement in the quality of data within the systems as a result of data cleansing exercises undertaken throughout the year. An Accuracy Working Group in this services area has also been established which is looking at further improving data quality, developing exception reports and establishing processes to improve the quality of data by dealing with issues before they've caused a problem.

Concerns remain about the quality of data in other core systems, primarily the Highways Asset Management System and the Project and Portfolio Management System. Governance arrangements have been put in place to oversee progress and set targets.

Monitoring implementation

The key governance challenges facing the Council in 2018/19 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register.

The governance arrangements relating to the Register involve its review by the Corporate Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit, Risk and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a 'risk score' and a residual score after mitigating actions have been applied.

Conclusion

Overall, the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst these work generally well, the Council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the Council will continue to be monitored by the Audit, Risk and Governance Committee, Cabinet and Corporate Management Team.

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 31 March 2018 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 172,074 members across 287 organisations with active members and a range of other organisations with only deferred or pensioner members.

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. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition). The Framework defines the 7 core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;

- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance

The Purpose of the Governance Framework

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

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2018.

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 a clear objectives as established by statute and it has an established planning process focussed around the triennial actuarial review. The Fund has a communication strategy which keeps both Members and employing bodies informed. This is supported by the role of the Local Pension Board.

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

The Head of Fund reviews 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.

Lancashire County Pension Fund - annual governance statement

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling 3 year strategic Plan and for monitoring the 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. Many of these functions are now performed under contract by Local Pension Partnership (LPP). These and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance of the Investment Strategy 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.

The administration service is now undertaken by LPP. As part of its responsibility for the Governance of the Fund the Pension Fund Committee are responsible for overseeing the administration function. To do this the Committee receives a quarterly update report on the activities of LPP.

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

Appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken. Matters reserved for the Pension Fund Committee and the Head of Fund are defined in the Governance Policy Statement and more widely 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, meet the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

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 the Fund has continued to develop and update its risk register. Key areas of risk include:

- Investment and Funding Risk – all financial risks associated with the Fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – the temporary risks associated with change. Once the change is embedded, the risk lies in one of the other categories above.

Through the use of a detailed Risk Management Framework, LCPF maintain a detailed risk register covering all the risks identified within the four main risk groups. Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed and risk ratings are updated accordingly.

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit, Risk 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 pension's 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 by either the Fund's or LPP's custodian. LPP investments is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance Team which is independent from the Investment Management.

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 Fund participates in the National Fraud Initiative, 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.

Whistle blowing and receiving and investigating complaints from the public

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

Complaint handling is carried out in line with either the Internal Dispute Resolution Procedure (in relation to complaints by members in relation to the level of benefit awarded) or the County Council's complaints procedure (in relation to other matters). These policies are publicly available and the numbers and outcomes of complaints under the Internal Dispute Resolution Procedure are reported annually 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided.

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

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

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

- 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 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.
- An annual members meeting focussed on the performance of the fund.
- 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 number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the pension fund is LPP. For all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. The responsibility for fulfilling the County Council's functions as administering authority rests with the Head of Fund.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, an annual review of the effectiveness of its governance framework. This is informed by the work of the Head of the Pension Fund, the Chief Internal Auditor's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2017/18 were:

- To support the new Committee especially by providing appropriate training for new members.
- The review and amend the Admissions and Terminations Policy for implementation from 1 April 2018.
- The production of a new 3 year Strategic Plan.
- The Investment Panel completed a full review of the Fund's investment strategy and recommended some small changes to the asset allocations.

Actions Planned for 2018/19

The following specific actions are proposed for completion during 2018/19.

- Review the Communications Policy
- Continued development of a socially responsible investment policy
- Monitor Pensions administration including impact of LPP's administration transformation plan
- To review the compliance of employers and undertake an assessment of the risk they pose to the Fund.

County Councillor Eddie Pope	Abigail Leech
Chair of the Pension Fund Committee	Head of Fund
	Lancashire County Pension Fund

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

Independent auditor's report

This version of the Statement of Accounts is presented in advance of Audit. The published version will include the Audit Certification on these pages.

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Lancashire County Pension Fund - independent auditor's report

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Glossary of terms and contact information

Gawthorpe Hall

A

Accounting policies

The rules and practices applied by the Council that determine how the transaction and other events are reflected in the financial statements.

Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred (known as experience gains and losses) or because the actuarial assumptions have been changed.

Associate

An associate is an entity over which an investor (the Council) has significant influence.

C

Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads, and computer equipment.

Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the comprehensive income and expenditure statement and transferred into capital grants unapplied via the movement in reserves statement.

Capital receipts

Income received from the sale of land, buildings or equipment.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a ‘true and fair’ view of the financial position, financial performance and cash flows of the Council.

Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council’s control.

Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Creditors

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

D

Debtors

Amounts owed to the Council for goods and services provided but where the income had not been received by 31 March.

Depreciation

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the Council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

E

Earmarked reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

F

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

I

Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

Intangible assets

Assets which do not have a physical substances for example computer software licences.

International financial reporting standards (IFRS)

Defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

J

Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

M

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Minimum revenue provision

The minimum amount that the Council must charge to the accounts to provide for the repayment of borrowing associated with capital expenditure.

N

Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

O

Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Council.

Operational assets

Assets used by the Council in the delivery of services for which it has responsibility.

P

Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of errors.

Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

R

Related party

Related parties are bodies or individuals that have the potential to control or influence the Council or be controlled or influenced by the Council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Members, and senior officers and their close family members.

Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the Council. Examples include works on property owned by other parties and capital grants to other organisations.

S

Subsidiary

A subsidiary is an entity that is controlled by another entity (the Council).

Contact details

I would like to thank you for showing an interest in the Council's finances and hope you find this information useful. We feel it is important that residents or businesses in the County 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:

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