# Statement of accounts 2018/19

Lancashire County Council

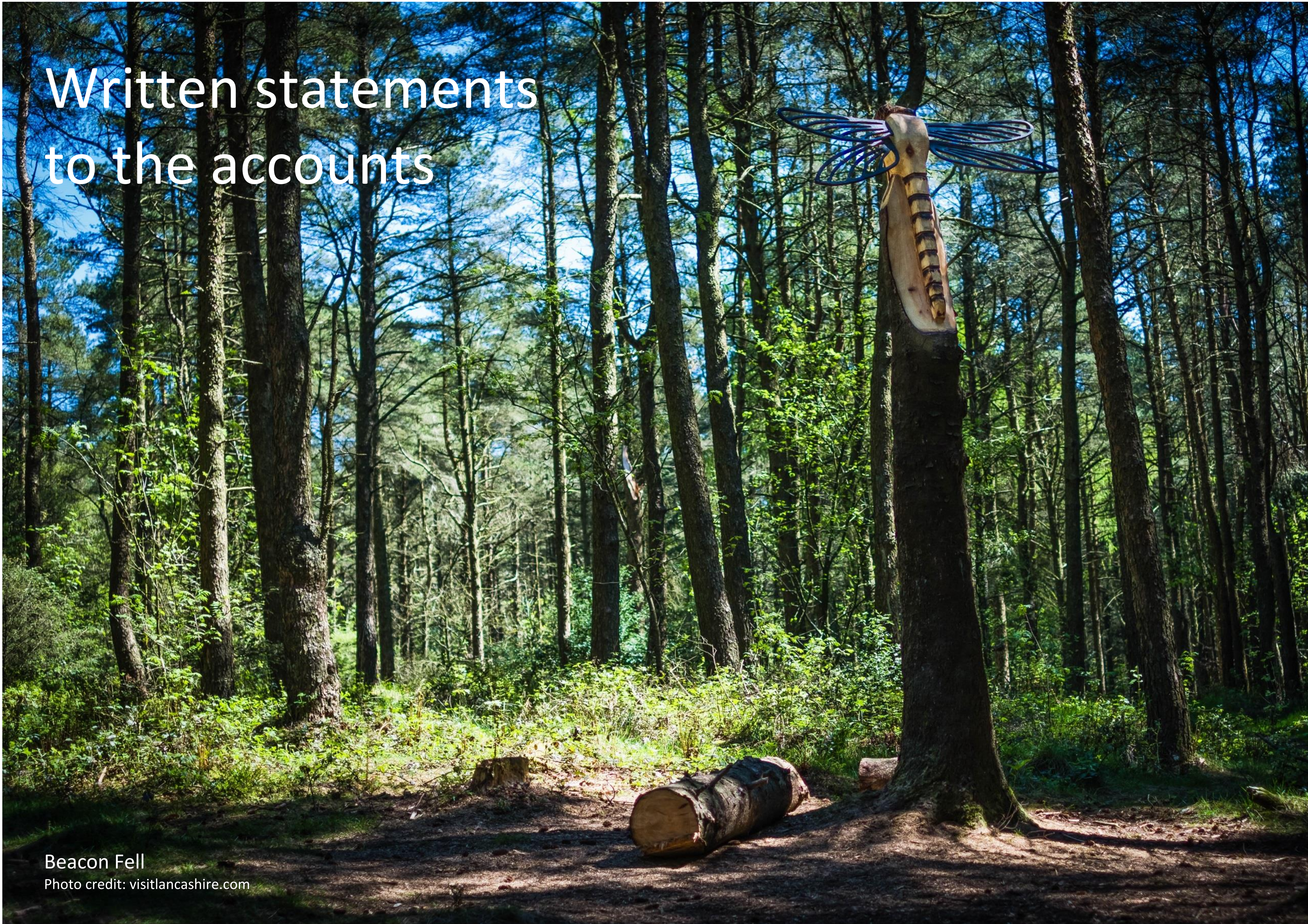
# Contents



Front cover: Mary's Shell, Cleveleys
Photo credit: Sonia Bashir

# Contents

# Written statements to the accounts



Beacon Fell
Photo credit: visitlancashire.com

## Foreword by the Chief Executive and Director of Resources

I am pleased to introduce the statement of accounts for the 2018/19 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. Further details on the group structure are provided in the notes supporting the group accounts. The accounts also include the Lancashire County Pension Fund accounts for which Lancashire County Council is the administering authority.

In February 2019 the council presented its vision for Lancashire that forms the basis of the corporate strategy. The strategy describes our key objectives and ambitions, highlighting how the council, its partners and the residents of Lancashire can all work together to achieve these outcomes.

We aim to ensure that the residents of Lancashire can be proud of the services that the council provides. In doing so, we have received recognition in a number of areas in 2018/19.

For example, the Telecare programme in Lancashire supporting more than 10,000 residents won the prestigious LaingBuisson Award that recognises excellent health and social care services across the country.
90% of schools and 100% of adult community care services delivered by the council were rated 'Good' or 'Outstanding'.

Also in 2018/19, Ofsted published a report into the inspection of children's services in Lancashire noting improvements in engaging with children, better support of care leavers and particular praise for the council's adoption services. We will continue the work with partners to take forward children's services across the county and make sure our children are safe, healthy and supported to achieve.

With reductions in funding and increasing demand, delivering services that meet the needs of citizens presents huge challenges. The council has continued to deliver against its programmed savings, meaning that we have maintained healthy reserve levels retaining our resilience to meet these challenges going forward.

*A Ridgwell*

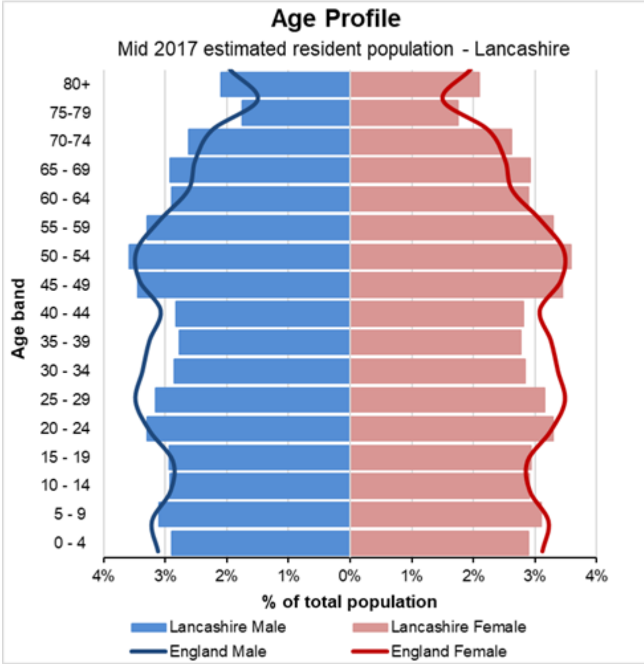
Angie Ridgwell
Chief Executive and Director of Resources (Section 151 officer)

## The county of Lancashire

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

Lancashire contrasts a network of densely populated urban centres set within countryside of outstanding natural beauty. At £27 billion, it is one of the largest economies in the north of England, with around 44,000 businesses supporting 515,000 jobs.

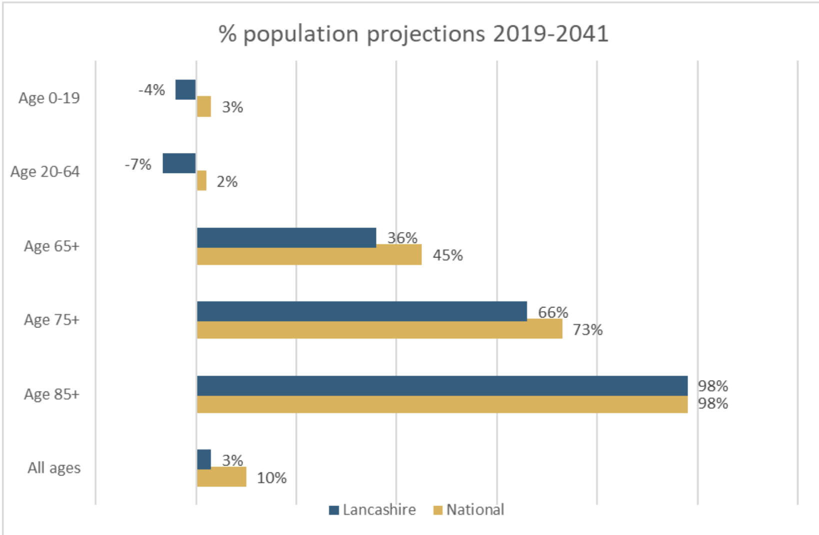
Lancashire has a diverse heritage and a track record of innovation and productivity with manufacturing still retaining a key presence, providing around one eighth of total employment. Lancashire is home to the world's 4th largest aerospace cluster, as well as core strengths and capabilities in advanced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




## Demographic profile of Lancashire

The Office of National Statistics mid-year population estimate for Lancashire in 2017 showed that there were 1,201,855 people living in the county. The population is projected to increase to 1.24 million by 2041, with significant increases forecast in the age over 65 population.

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




2016-based population projections for local authorities 2016

## About Lancashire County Council

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

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


## Our vision

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

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

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

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

## Lancashire will be the place to live

Lancashire is a county of diverse communities.

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

It will be a county where:

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

## Lancashire will be the place to work

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

It will be a county where:

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

## Lancashire will be the place to prosper

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

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

It will be a county where:

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

## Lancashire will be the place to visit

Lancashire is a beautiful county with a wealth of culture.

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

It will be a county where:

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

## Lancashire will be the place where everyone acts responsibly

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

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

It will be a county where:

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

## Our 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:

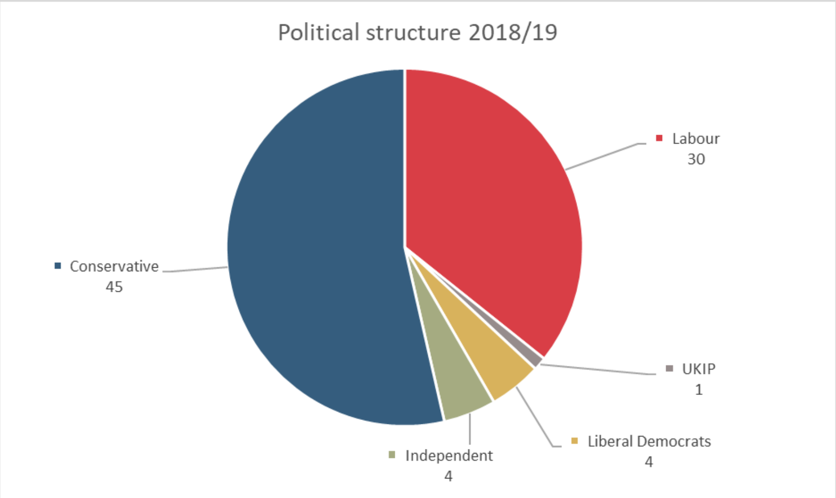
| Risk description | Possible consequences | Mitigating actions |
|---|---|---|
| Reshaping the county council. | Inability to deliver service improvements at pace and a balanced budget in future years. | This risk is being monitored by the service challenge board, financial monitoring boards and corporate management team. |
| Protect and safeguard children. | Children are put at risk of harm. | Safeguarding arrangements have been strengthened.<br>Annual Improvement Plan developed.<br>New Children and Families Board to be established following the conclusion of the Improvement Board. |
| Delivering a statutory compliant service for children and young people with special educational needs and/or disabilities. | Unmet need will result in children and young people failing to meet their potential and therefore not be supported as positively as possible into adulthood. | Recruitment of qualified staff funded by the SEND reform grant.<br>Commissioning arrangements with the NHS being reviewed.<br>Strategic reporting and monitoring of the improvement plan carried out at Cabinet and corporate management team. |
| Adult social care provision is adequate and responsive to meet current and future demand. | People's needs are not met due to non-availability of care provision. The market is not responsive enough to respond to demand. People living in rural areas or with very complex needs are difficult to find appropriate support for. | Through the work of the Passport to Independence programme, people are able to optimise their independence, and reduce dependency on formal support as appropriate. This in turn will support the demand on the market. |

## Our governance structure

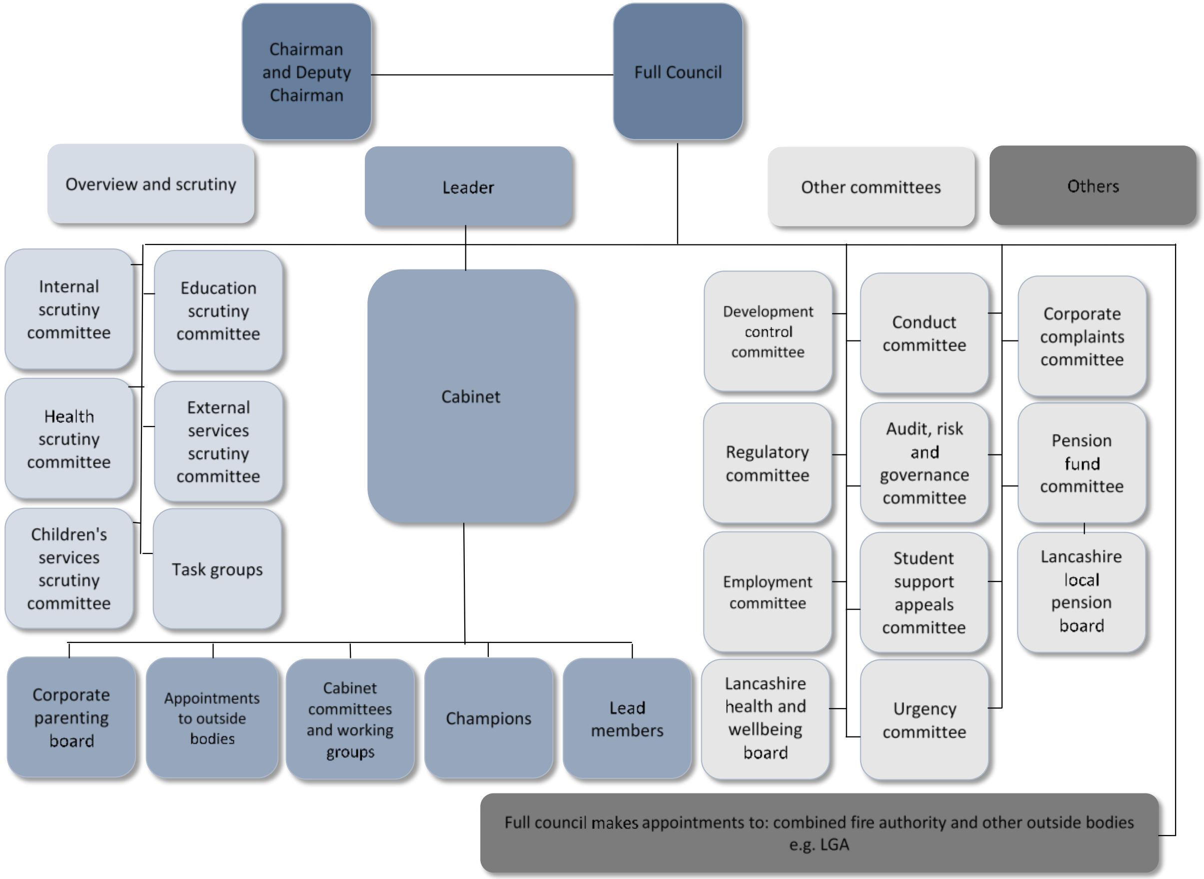
There are 84 county councillors elected to cover all the electoral divisions in the 12 Lancashire district areas. County councillors represent their communities in the council's decision making processes.

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

The chart below shows the political structure of the council as at 31 March 2019.




The political management structure of the council is shown below.

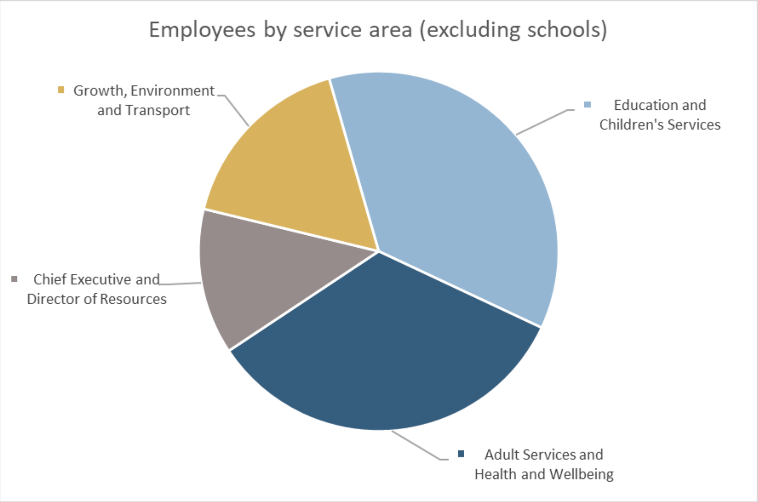



Further details of the council's governance arrangements are provided in the Annual Governance Statement.

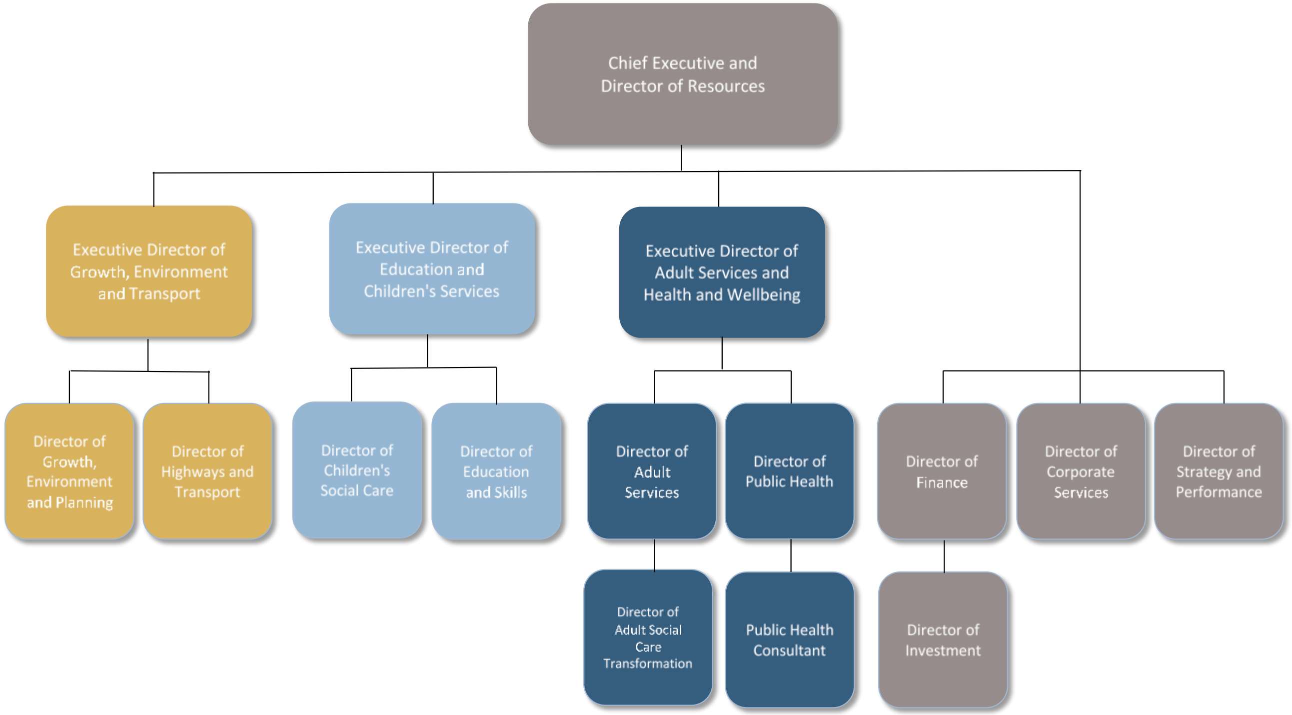
## Our staff

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 12,200 people in full time and part time contracts with around a further 28,000 people employed in schools.




The council's management structure is shown below.



## Our performance

### Adult services

Our priority is to support people to be independent by investing in prevention, early intervention and the use of technology. The focus on enabling people to achieve independence is demonstrated by the effectiveness of our reablement service and reducing the number of people admitted to residential care. The number of people using telecare services to help them to remain independent has increased.

We are committed to ensuring the quality of services for people needing our support and safeguarding and protecting vulnerable people from harm. The proportion of care homes and community based services rated as 'Good' or 'Outstanding' by the Care Quality Commission have both increased significantly and are better than regional and national averages. User feedback from our adult social care survey was very positive for people having enough choice over the care and support services they receive helping them to have control over their daily lives.

| | 2017/18 | 2018/19 |
|---|---|---|
| Percentage of people satisfied with adult social care | 90% | 90% |
| Rate of supported permanent admissions to residential and nursing care homes per 100,000 population aged 65 or over | 728.9 | 714.6 |
| Number of people receiving telecare services | 7,745 | 10,641 |
| Percentage of service users who completed reablement and left as self-caring | 82.2% | 84.3% |
| Percentage of people who use services who say that those services have made them feel safe and secure | 87% | 88% |

Care Quality Commission ratings for Lancashire residential care homes and community based adult social care services as at March 2019

| Proportion rated as Good or Outstanding | % |
|---|---|
| Residential care homes | 83.1% |
| In-house residential care homes | 82.4% |
| Community based adult social care services | 94.3% |
| In-house community based services | 100.0% |

## Education and children's services

Our aim is that all children, young people and their families in Lancashire are safe, healthy and achieve their full potential. The number of schools judged to be good or better has consistently been above the national average in recent years. Lancashire school place planning remains good; with levels of pupils offered one of their three preferences above national average for both primary and secondary schools.

Attainment under a range of measures at Lancashire schools continues to vary for children at the end of early years or those taking key stage 2 and 4 examinations. There are some groups of pupils that are still under performing due to deprivation, circumstances and needs, and they remain a priority. Overall absence levels in Lancashire schools remain low with the Lancashire rate significantly lower than national and regional rates. Lancashire is ranked 21 of 152 authorities against this indicator. Post school education indicators suggest the average point score per entry for Lancashire A-level pupils has increased each year since 2015/16. However the proportion of pupils NEET (Not in Education, Employment or Training) continues to rise.

Lancashire has experienced an increased level of demand placed on its social care service for children. Considerable work has been undertaken by the council in managing this demand through improving its early help services and managing access points more effectively. Referral rates have stabilised however the number of children being supported by social care remains above national benchmarks. Outcomes for vulnerable groups such as care leavers remain a priority as the performance remains below national benchmarks.

| | 2017/18 | 2018/19 |
|---|---:|---:|
| Absence levels in primary, secondary, and special schools | 4.3% | 4.5% |
| Percentage of education settings rated Good/Outstanding | 90% | 89.5% |
| Percentage of pupils offered one of top three preferences primary / secondary | 97.4%/96.1% | 97.9%/95.9% |
| Referrals to children's social care per 10,000 population | 449.0 | 474.0 |
| Stability of placements: Percentage of 'children looked after' with 3 or more placements | 7.9% | 8.8% |
| First time entrants to Youth Justice System per 100,000 of 10-17 year old population | 180 | 207 |

## Growth, environment, transport and community services

Our priority 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, and have access to a modern transport infrastructure as well as having free unlimited access to information and knowledge. These objectives 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.

Aside from the percentage of urban unclassified roads that require maintenance, our performance shows that we are making progress towards our vision of making Lancashire a great place to live, work, visit and prosper. We have improved our highways maintenance services overall and increased the amount of waste that is diverted away from landfill. In addition, increased coverage for superfast broadband means that our citizens are better connected than ever and the increased number of e-book downloads shows how successful our library service is and the demand for it is rising. We are aware of the issues that have caused the percentage of urban unclassified roads that require maintenance to rise and will address them going forward.

| | **2017/18** | **2018/19** |
|---|---:|---:|
| Average number of working days to repair a street lighting fault | 7.0 days | 6.7 days |
| Percentage of rural unclassified roads requiring maintenance | 35.7% | 36.5% |
| Percentage of urban unclassified (residential) roads requiring maintenance | 28.3% | 33.8% |
| Percentage diversion of municipal waste away from landfill | 51.0% | 61.0% * |
| Number of e-book downloads | 212,925 | 255,572 |
| Superfast Broadband coverage | 97.0% | 97.6% |

* Provisional figure, final to be approved by Defra in November 2019

## Public health and wellbeing

Our priority is to develop Lancashire into a safer, fairer and healthier place for our residents. Influencing and improving sustainable behaviour change is a key area of focus as it is estimated that around 40% of all deaths in England relate to health behaviours.

We are seeing a worsening in health inequalities, particularly in males. This means that people are living with more disease burden that leads to higher levels of demand on public services, much of which can be prevented by behaviour change programmes and early intervention services. Childhood obesity in 4-5 year olds is improving. We will continue the momentum with early years and healthy child programmes along with improving infant feeding practices. There has been a drop in the prevalence of smoking and our services have become much more targeted. We will continue to focus on vulnerable groups to enable them to stop smoking.

One of our key concerns is the fall in successful drug and alcohol treatment completion rates. This means that the alcohol and drug related burden continues to increase. We will maintain our focus on this area through peer support and recovery based models of care.

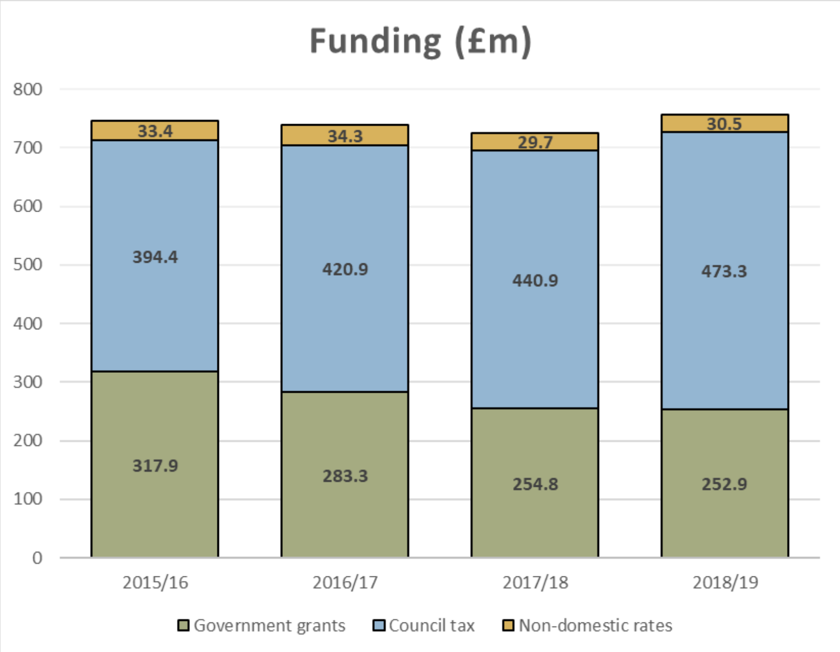
| | **2017/18** | **2018/19** |
|---|---:|---:|
| Variation in life expectancy at birth due to deprivation across different areas of Lancashire (male) | 9.9 years | 10.2 years |
| Variation in life expectancy at birth due to deprivation across different areas of Lancashire (female) | 8.2 years | 8.1 years |
| Estimated percentage of persons aged 18 and over that smoke | 18.3% | 14.8% |
| Estimated percentage of adults classified as overweight or obese | 63.9% | 63.9% |
| Percentage of children (aged 4-5 years) classified as overweight or obese | 23.5% | 22.7% |
| Percentage of children (aged 11 years) classified as overweight or obese | 33.0% | 33.0% |
| Rate of alcohol related hospital admissions (narrow) (per 100,000) | 645 | 625 |
| Percentage of successful drug treatments in adults (opiate) | 9.5% | 7.7% |
| Percentage of successful drug treatments in adults (non-opiate) | 57.2% | 52.9% |
| Estimated percentage of residents (aged 19+) exercising at least 150 minutes per week (Sport England survey) | 65.3% | 65.3% |

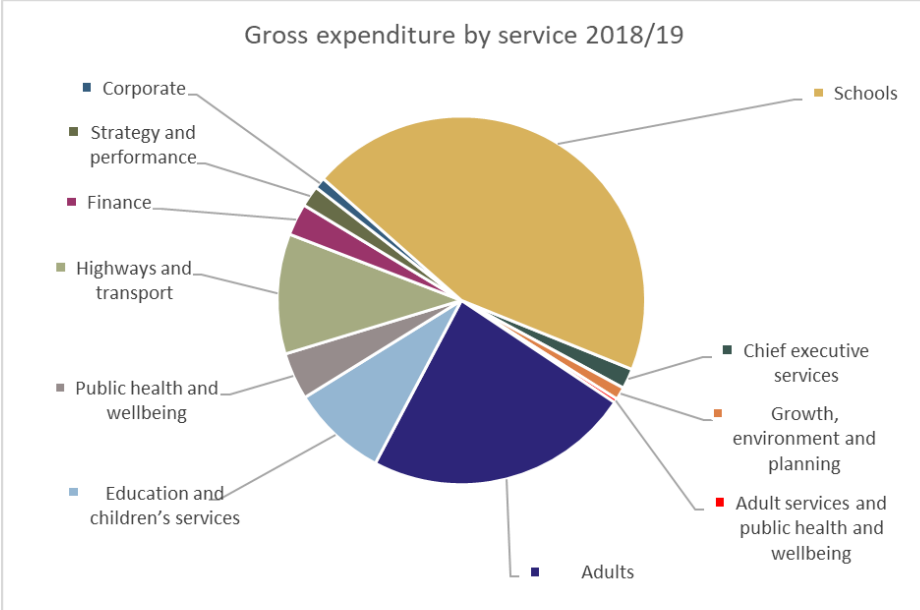
## Our financial performance

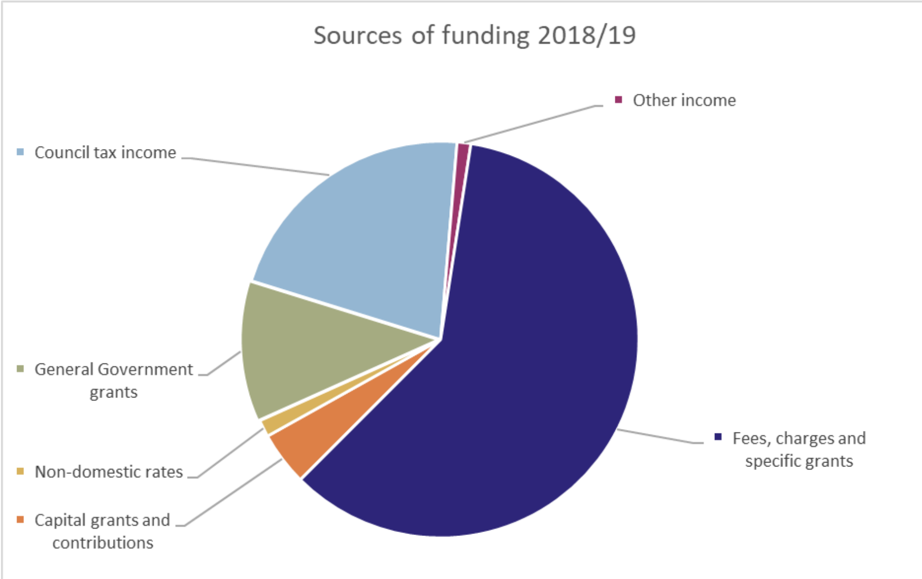
### Revenue summary

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

In February 2018, the council approved a net revenue budget of £764.6 million. The revenue budget shows the annual cost of delivering against the council's duties and responsibilities to the community, many of which are given to the council under statute.

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

| Service | Approved budget | Outturn | Variation |
|---|---|---|---|
| | £m | £m | £m |
| Chief executive services | 21.7 | 4.3 | (17.4) |
| Growth, environment and planning | 4.2 | 3.2 | (1.0) |
| Adults | 344.9 | 345.0 | 0.1 |
| Education and children's services | 157.5 | 160.4 | 2.9 |
| Public health and wellbeing | 14.9 | 10.9 | (4.0) |
| Highways and transport | 133.2 | 132.2 | (1.0) |
| Finance | 32.0 | 32.4 | 0.4 |
| Adult services and public health and wellbeing | 6.3 | 6.4 | 0.1 |
| Strategy and performance | 31.8 | 32.4 | 0.6 |
| Corporate | 18.1 | 18.2 | 0.1 |
| **Sub total** | **764.6** | **745.4** | **(19.2)** |
| Schools | 0 | 2.3 | 2.3 |
| **Total** | **764.6** | **747.7** | **(16.9)** |

The final outturn position (excluding schools) of £745.4 million, results in an underspend of £19.2 million compared to the budget. The underspending is largely due to treasury management activity which has yielded strong returns for the council and lower than budgeted operational costs. This is in part offset by overspending on children's social care services arising from additional placements and staffing as a result of growth in demand.

The final schools outturn position shows an overspend of £2.3 million against the budget. This is mainly due to the increase in costs of inflation and staffing with significant demand increases relating to students with special educational needs, whilst the school grant funding from government continues to increase at rates below the demand and inflationary pressures.

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

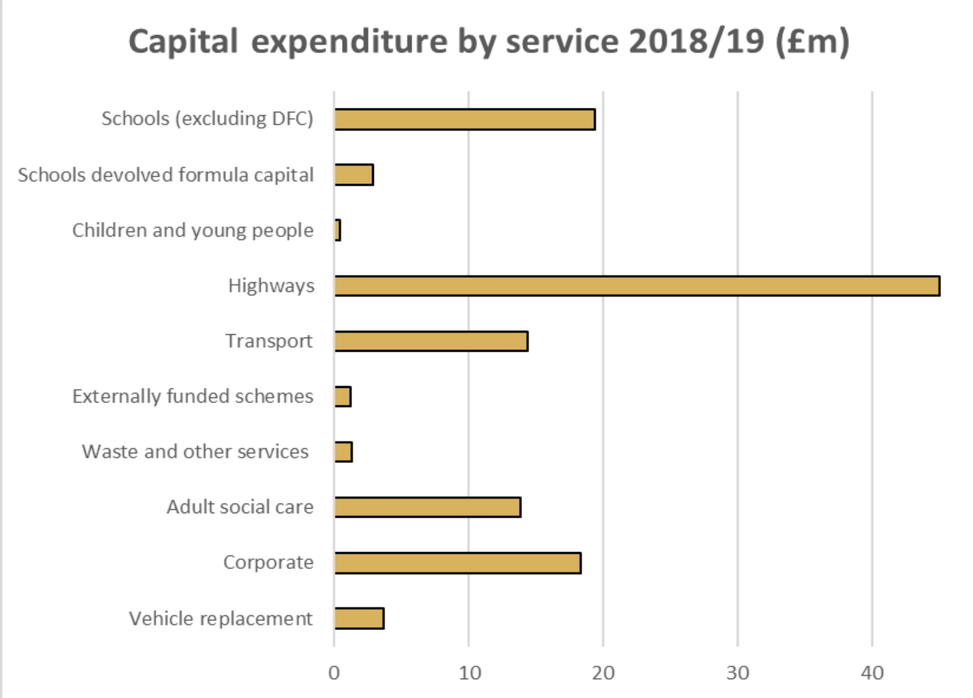
## Capital investment programme

In February 2018, the council approved a capital budget of £161.4 million for 2018/19. A comprehensive review of projects was undertaken in order to propose a delivery programme for 2018/19 which had been risk-assessed as being deliverable. The final capital programme for the year following this review totalled £120.9 million.

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

- Enhancements and improvements to schools, and buildings the council delivers services from including residential care homes;
- Upgrading of carriageways, street lighting and improvements to road junctions;
- Investment in the council's ICT infrastructure to support corporate priorities;
- Investment in waste and recycling facilities;
- Support for schemes to deliver economic growth in the county and the roll out of superfast broadband.

The total spend on capital works in 2018/19 was £120.5 million which represents 99.7% of the budgeted programme. The £0.4 million underspend is largely due to works that were not fully delivered during the year and have now been re-profiled to be completed in future years.



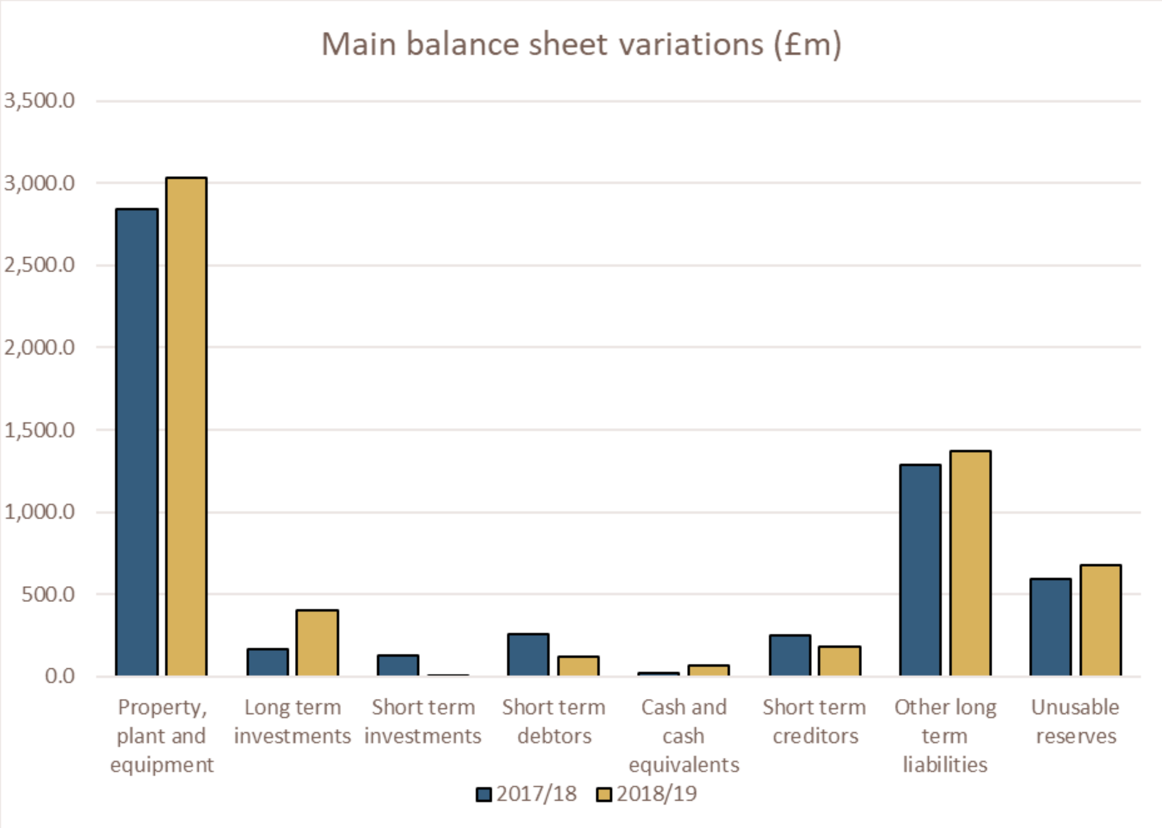

| | Revised budget £m | Actual spend £m | Variation £m |
|---|---|---|---|
| Schools (excluding DFC) | 22.1 | 19.4 | (2.7) |
| Schools devolved formula capital | 2.8 | 2.9 | 0.1 |
| Children and young people | 0.6 | 0.4 | (0.2) |
| Highways | 48.3 | 45.0 | (3.3) |
| Transport | 13.8 | 14.4 | 0.6 |
| Externally funded schemes | 1.9 | 1.2 | (0.7) |
| Waste and other services | 0.7 | 1.3 | 0.6 |
| Adult social care | 13.7 | 13.9 | 0.2 |
| Corporate | 13.3 | 18.3 | 5.0 |
| Vehicle replacement | 3.7 | 3.7 | 0 |
| **Total expenditure** | **120.9** | **120.5** | **(0.4)** |

## 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 £95.8 million from £986.2 million at 31 March 2018 to £1,082.0 million at 31 March 2019.

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




The balance sheet shows an increase in property, plant and equipment of £191.4 million which includes capital expenditure incurred in year together with the impact of revaluations (also reflected in the unusable reserves).

The decrease in short term debtors of £137.2 million and the decrease in short term creditors of £65.2 million is mainly due to the cross-year sales and purchases of bond investments at 31 March 2018 where the settlement date fell in April. This net increase in cash balances enabled additional long term investments and an increase in cash deposits in 2018/19.

The decrease in short term investments of £128.4 million is largely due to sales in year which enabled an increased investment in long term bonds. In addition, the adoption of IFRS 9 has resulted in the reclassification of some bonds from short term to long term investments.

The cash and cash equivalents increased by £49.7 million, this is mainly due to an increase in working capital following the re-profiling of the capital programme.

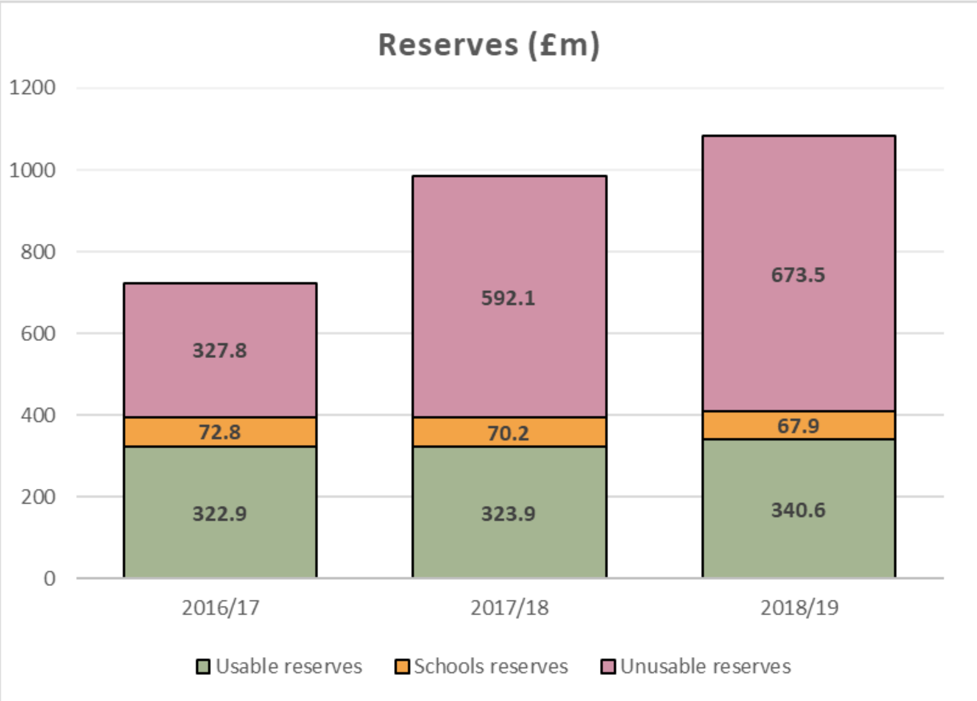
Other long term liabilities increased by £84.7 million mainly owing to an increase in the pension liability valuation.

The increase in unusable reserves of £81.4 million is largely due to an increase in property valuations which is reduced by changes in the pension liability.

## Reserves

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

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




Usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. The revenue budget has been supported in recent years by the use of reserves and therefore it has been expected that usable reserves would reduce. However, in 2018/19 usable reserves have actually increased largely due to underspends generated in the year and capital grants received that are available for future use.

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

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.

## Prior period adjustments

The council's departments were realigned following changes to the senior management structure in 2018/19. The 2017/18 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

The council continues to deliver an extensive savings programme. Full Council in February 2019 approved a further c£77 million of additional savings, based on proposals generated through a detailed service challenge process which encompassed all of our services. Some of these are subject to the outcome of specific public consultations with final decisions due to be taken by Cabinet during 2019/20. The requirement for reserves to support the revenue budget is much lower in 2019/20 than in recent years, however, while significantly reduced, a forecast funding gap of around £47 million by 2022/23 remains. Further savings need to be identified to make services affordable within projected income levels.

The council will build on the service challenge process during 2019/20 with a second phase of this approach being to review service costs in light of cross cutting organisational themes, in order that further cost reductions can be identified.

It is currently anticipated that a new system of local government finance, covering business rates retention and the fair funding formula, will be implemented in 2020/21. Although this may change the funding environment in a significant way, the details of the scheme are still being consulted on and are not yet available. This means that the impact on the council's funding level is not known at this time.

## Explanation of the accounting statements

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

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

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

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

### Comprehensive income and expenditure statement

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

The comprehensive income and expenditure statement has two sections:

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

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

### Movement in reserves statement

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

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

The statutory adjustments largely relate to arrangements for funding capital expenditure or the timing with which some items, for example pension costs, are charged to council tax. Further details of the adjustments are shown in 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 2019.

A Ridgwell
Chief Executive and Director of Resources
29 July 2019

## Approval of Accounts

I confirm that these accounts were approved at the meeting of the Audit, Risk and Governance Committee on 29 July 2019.

A Schofield
Chair of Audit, Risk and Governance Committee
29 July 2019

# Financial statements

Halo, Rossendale

# Comprehensive income and expenditure statement

| 2017/18 restated | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Gross expenditure | Gross income | Net expenditure | | Gross expenditure | Gross income | Net expenditure |
| £m | £m | £m | | £m | £m | £m |
| 947.4 | (921.4) | 26.0 | Schools | 968.0 | (941.3) | 26.7 |
| 29.7 | (2.9) | 26.8 | Chief executive services ◦ | 38.6 | (3.5) | 35.1 |
| 25.5 | (6.4) | 19.1 | Growth, environment and planning ◦ | 24.0 | (8.6) | 15.4 |
| 504.2 | (153.7) | 350.5 | Adults ◦ | 507.2 | (155.9) | 351.3 |
| 173.8 | (12.9) | 160.9 | Education and children's services ◦ | 183.0 | (14.6) | 168.4 |
| 96.5 | (80.2) | 16.3 | Public health and wellbeing ◦ | 89.6 | (75.7) | 13.9 |
| 232.9 | (58.6) | 174.3 | Highways and transport ◦ | 228.8 | (55.1) | 173.7 |
| 61.0 | (26.1) | 34.9 | Finance ◦ | 61.0 | (28.0) | 33.0 |
| 7.4 | (0.4) | 7.0 | Adult services and public health and wellbeing ◦ | 7.9 | (0.5) | 7.4 |
| 44.8 | (24.9) | 19.9 | Strategy and performance ◦ | 40.2 | (25.2) | 15.0 |
| 24.0 | (2.1) | 21.9 | Corporate ◦ | 21.4 | (2.7) | 18.7 |
| **2,147.2** | **(1,289.6)** | **857.6** | **Cost of services** | **2,169.7** | **(1,311.1)** | **858.6** |
| 19.5 | (6.5) | 13.0 | Other operating income and expenditure (Note 6) | 54.0 | (8.8) | 45.2 |
| 65.6 | (14.7) | 50.9 | Financing and investment income and expenditure (Note 7) | 83.9 | (25.0) | 58.9 |
| 0 | (846.2) | (846.2) | Taxation and non-specific grant income and expenditure (Note 8) | 0 | (853.5) | (853.5) |
| **2,232.3** | **(2,157.0)** | **75.3** | **(Surplus)/deficit on provision of services** | **2,307.6** | **(2,198.4)** | **109.2** |
| | | (125.8) | (Surplus)/deficit on revaluation of non-current assets (Note 29) | | | (170.9) |
| | | (200.4) | Re-measurement of the net defined benefit pension liability/(asset) (Note 29) | | | (44.1) |
| | | 0 | (Surplus)/deficit on financial assets measured at fair value through other comprehensive income | | | 10.0 |
| | | (11.8) | (Surplus)/deficit on revaluation of available for sale assets | | | 0 |
| | | **(338.0)** | **Other comprehensive income and expenditure** | | | **(205.0)** |
| | | **(262.7)** | **Total comprehensive income and expenditure** | | | **(95.8)** |

◦ The council has restructured its services during 2018/19. The 2017/18 comparative figures have been restated to reflect the new structure. The adjustments are shown in detail in Note 4 – Prior period adjustments

## 2018/19

| | General fund / earmarked reserves | Capital receipts reserve | Capital grants unapplied | Total usable reserves (Note 29) | Unusable reserves (Note 29) | Total reserves |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2018** | **(317.4)** | **0** | **(76.7)** | **(394.1)** | **(592.1)** | **(986.2)** |
| Movement in reserves during 2018/19 | | | | | | |
| Total comprehensive income and expenditure | 109.2 | 0 | 0 | 109.2 | (205.0) | (95.8) |
| Adjustment between accounting basis and funding basis under regulations (Note 14) | (100.4) | (1.0) | (22.2) | (123.6) | 123.6 | 0 |
| **(Increase)/decrease in year** | **8.8** | **(1.0)** | **(22.2)** | **(14.4)** | **(81.4)** | **(95.8)** |
| **Balance at 31 March 2019** | **(308.6)** | **(1.0)** | **(98.9)** | **(408.5)** | **(673.5)** | **(1,082.0)** |

## 2017/18

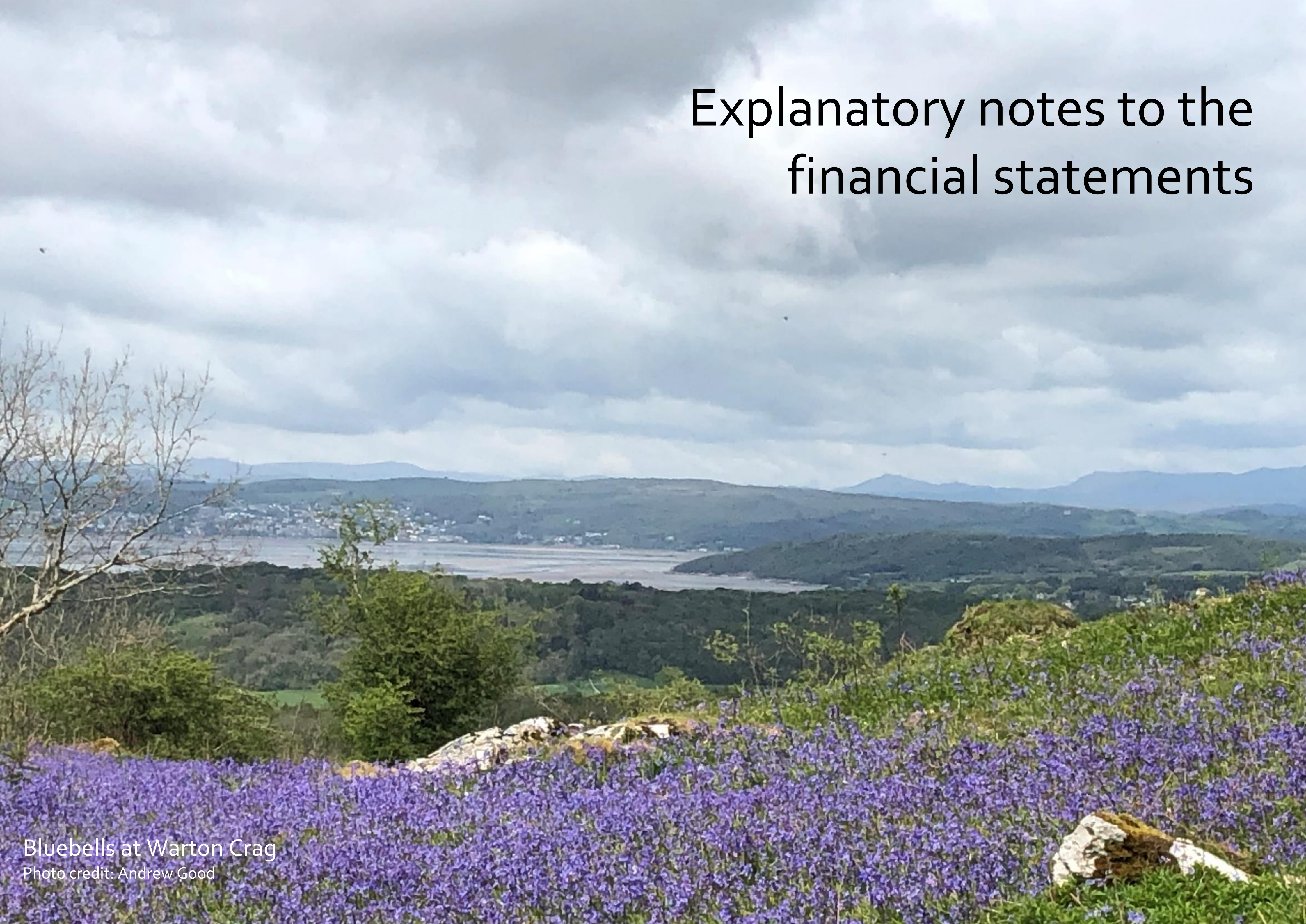
| | General fund / earmarked reserves | Capital receipts reserve | Capital grants unapplied | Total usable reserves (Note 29) | Unusable reserves (Note 29) | Total reserves |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2017** | **(341.3)** | **(4.5)** | **(49.9)** | **(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)** |

| 31 March 2018 | | Note | 31 March 2019 |
|---|---|---|---|
| **£m** | | | **£m** |
| 2,838.1 | Property, plant and equipment | 18 | 3,029.5 |
| 28.7 | Heritage assets | 20 | 28.7 |
| 1.6 | Investment properties | | 1.6 |
| 20.1 | Intangible assets | | 14.7 |
| 170.4 | Long term investments | 26 | 399.4 |
| 46.4 | Long term debtors | 21 | 44.5 |
| **3,105.3** | **Long term assets** | | **3,518.4** |
| 128.5 | Short term investments | 26 | 0.1 |
| 2.3 | Inventories | | 2.7 |
| 255.7 | Short term debtors | 22 | 118.5 |
| 8.9 | Payments in advance | | 8.5 |
| 18.8 | Cash and cash equivalents | 23 | 68.5 |
| 7.7 | Assets held for sale | | 5.5 |
| **421.9** | **Current assets** | | **203.8** |
| (487.5) | Short term borrowing | 26 | (571.3) |
| (250.1) | Short term creditors | 24 | (184.9) |
| (9.4) | Receipts in advance | | (11.7) |
| (7.1) | Short term provisions | 25 | (9.3) |
| (5.8) | Other current liabilities | 26 | (4.9) |
| **(759.9)** | **Current liabilities** | | **(782.1)** |
| (26.1) | Long term provisions | 25 | (18.6) |
| (471.4) | Long term borrowing | 26 | (471.2) |
| (1,283.6) | Other long term liabilities * | | (1,368.3) |
| **(1,781.1)** | **Long term liabilities** | | **(1,858.1)** |
| **986.2** | **Net assets** | | **1,082.0** |
| (394.1) | Usable reserves | 29 | (408.5) |
| (592.1) | Unusable reserves | 29 | (673.5) |
| **(986.2)** | **Total reserves** | | **(1,082.0)** |

* Other long term liabilities include both the pension and PFI liabilities

| 2017/18 | | Note | 2018/19 |
|---|---|---|---|
| £m | | | £m |
| (75.3) | Net surplus/(deficit) on the provision of services | | (109.2) |
| 63.8 | Adjustments to net surplus/deficit on the provision of services for non-cash movements | 30 | 213.8 |
| (127.4) | Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities | 30 | (114.1) |
| **(138.9)** | **Net cash flows from operating activities** | | **(9.5)** |
| 124.6 | Investing activities | 31 | (19.6) |
| (95.0) | Financing activities | 32 | 78.8 |
| **(109.3)** | **Net increase/(decrease) in cash or cash equivalents** | | **49.7** |
| 128.1 | Cash and cash equivalents at the beginning of the reporting period | | 18.8 |
| **18.8** | **Cash and cash equivalents at the end of the reporting period** | 23 | **68.5** |

# Explanatory notes to the financial statements



Bluebells at Warton Crag
Photo credit: Andrew Good

## 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 2019 but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2019/20 Code will introduce the following amendments:

### Amendments to IAS 40 *Investment property: Transfers of investment property*

This amendment provides further clarification on the circumstances in which a property can be reclassified as an investment property. This will have no impact on the council as it is already compliant.

### IFRIC 22 *Foreign currency transactions and advance consideration*

The interpretation provides clarification on the treatment of advance payments in a foreign currency. This will have no impact on the council.

### IFRIC 23 *Uncertainty over income tax treatments*

This interpretation provides guidance where there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. This will have no impact on the council's single entity accounts or group accounts.

### Amendments to IFRS 9 *Financial instruments: Prepayment features with negative compensation*

The amendment to IFRS 9 enables companies to measure at amortised cost some pre-payable financial assets with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest.

There will be no impact on the council as it currently has no loans to which this would apply.

### *Annual improvements to IFRS standards 2014 - 2016 cycle*

### *IFRS 12 Disclosure of interests in other entities*

Minor amendments clarify that the disclosure requirements in IFRS 12 apply to interests that are classified as held for sale or discontinued operations.

### *IAS 28 Investments in associates and joint ventures*

IAS 28 has been amended to clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) may choose, on an investment by investment basis, to account for its investments in joint ventures and associates at fair value or using the equity method.

These amendments will have no impact on the council's accounts.

## 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 £152.7 million as at 31 March 2019 (31 March 2018: £123.8 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 £752.1 million which are not owned by the council. These are principally voluntary aided, voluntary controlled and foundation schools for which the trustees have legal ownership rights. It is the council's policy to include these school assets on the balance sheet as the council benefits from using these properties in terms of delivery of service and the council also meets the costs of service provision. These assets are retained on the balance sheet of the council to fairly reflect the value of assets used in providing the service.

### Interests in companies and other entities

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

The council's relationships with other entities can be found within the related parties note. (Note 34).

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

## 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Consequence if actual results differ from assumptions |
| --- | --- | --- |
| **Property, plant and equipment valuations** | The council's internal valuers provide valuations as at 1 April based on a 3-year rolling programme of valuations. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.<br><br>The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation. | Valuations are compiled by an expert using recognised measurement techniques and based on professional guidance. The underlying data is considered to be reliable and the scope to use judgement and change assumptions limited.<br><br>The balance of assets not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the balance sheet date.<br><br>A variation of 10% in the value of the council's land and buildings would be approximately £206 million.<br><br>A reduction in the estimated valuations would result in a reduction to the revaluation reserve and / or a loss charged to the comprehensive income and expenditure statement.<br><br>An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and / or increases to the revaluation reserve and / or gains charged to the comprehensive income and expenditure statement. |

| 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.<br>For property assets, useful lives are estimated based on professional guidance and are reviewed on revaluation of the asset.<br>For non-property assets, only the useful life is estimated because the assets are held at cost on the balance sheet. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br>It is estimated that the annual depreciation charge for buildings would increase by c£1.0 million for every year that useful lives had to be reduced.<br>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.<br>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:<br>• For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;<br>• For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review.<br>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the council's assets and liabilities. | The fair values of 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.<br>As most estimates are based on current market information material changes to the carrying values are therefore not expected.<br>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 2019 the council had a debtors balance of £118.5 million. Of this total £81.9 million relates to trade debtors which is net of the impairment allowance. The balance of debtors relates to statutory debtors such as council tax and non-domestic rates for which a separate impairment exercise is undertaken.<br><br>An impairment figure of £18.2 million has been set aside in the accounts for the trade debtors. | 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.<br><br>Should an additional 5% of debts prove to be uncollectable (above the amount set aside) there would be a cost of £4.1 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 (Mercer) is engaged to provide the Council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. (See Technical Annex). | The effects on the net pension liability of changes in individual assumptions can be measured. For instance,<br>• A 0.5% increase in the discount rate assumption would reduce the value of the net pension liability by approximately £391 million;<br>• A 0.25% increase in assumed earnings inflation would increase the value of the net pension liability by approximately £199 million;<br>• An increase of one year in assumed life expectancy would increase the net pension liability by approximately £89 million. |

## Note 4 – Changes in accounting policies and prior period adjustments

### Changes in accounting policies

The accounting policies reflect changes resulting from the introduction of International Financial Reporting Standards (IFRS) 9 *Financial instruments* and IFRS 15 R*evenue from contracts with customers*.

IFRS 9 includes changes to the classification of some financial assets and liabilities and also to the impairment model. The changes to the opening balances are detailed in Note 26 – financial instruments.

The objective of IFRS 15 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. This standard has a limited impact on the council's accounts.

## Prior period adjustments

## Adjustments to the comprehensive income and expenditure statement

Following changes to the senior management structure, the council has restructured its services. The 2017/18 comparator figures in the comprehensive income and expenditure statement have been restated to reflect the revised structure.

| | Audited 2017/18 | Prior period adjustment | Restated 2017/18 |
|---|---|---|---|
| | £m | £m | £m |
| Schools | 26.0 | 0 | 26.0 |
| Chief executive services | 24.1 | 2.7 | 26.8 |
| Community services | 144.3 | (144.3) | 0 |
| Adults | 351.9 | (1.4) | 350.5 |
| Education and children's services | 163.5 | (2.6) | 160.9 |
| Public health and wellbeing | 22.2 | (5.9) | 16.3 |
| Programmes and projects | 36.4 | (36.4) | 0 |
| Economic development and planning | 17.8 | (17.8) | 0 |
| Finance, corporate and property services | 71.4 | (71.4) | 0 |
| Growth, environment and planning | 0 | 19.1 | 19.1 |
| Highways and transport | 0 | 174.3 | 174.3 |
| Finance | 0 | 34.9 | 34.9 |
| Adult services and public health and wellbeing | 0 | 7.0 | 7.0 |
| Strategy and performance | 0 | 19.9 | 19.9 |
| Corporate | 0 | 21.9 | 21.9 |
| **Cost of services** | **857.6** | **0** | **857.6** |

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

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

## Note 5 - Expenditure and funding analysis

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

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

### Expenditure and funding analysis - 2018/19

| | 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 | 2.3 | 0 | 2.3 | 24.4 | 26.7 |
| Chief executive services | 4.3 | 14.5 | 18.8 | 16.3 | 35.1 |
| Growth, environment and planning | 3.2 | (1.4) | 1.8 | 13.6 | 15.4 |
| Adults | 345.0 | (6.2) | 338.8 | 12.5 | 351.3 |
| Education and children's services | 160.4 | 2.0 | 162.4 | 6.0 | 168.4 |
| Public health and wellbeing | 10.9 | (0.2) | 10.7 | 3.2 | 13.9 |
| Highways and transport | 132.2 | 2.5 | 134.7 | 39.0 | 173.7 |
| Finance | 32.4 | 0.5 | 32.9 | 0.1 | 33.0 |
| Adult services and public health and wellbeing | 6.4 | 0.3 | 6.7 | 0.7 | 7.4 |
| Strategy and performance | 32.4 | (19.5) | 12.9 | 2.1 | 15.0 |
| Corporate | 18.2 | 0.3 | 18.5 | 0.2 | 18.7 |
| **Net cost of services** | **747.7** | **(7.2)** | **740.5** | **118.1** | **858.6** |
| Other income and expenditure | (764.6) | 32.9 | (731.7) | (17.7) | (749.4) |
| **(Surplus)/deficit** | **(16.9)** | **25.7** | **8.8** | **100.4** | **109.2** |
| **Opening general fund balance at 1 April** | | | **(317.4)** | | |
| (Surplus)/deficit | | | 8.8 | | |
| **Closing general fund balance at 31 March** | | | **(308.6)** | | |

## Expenditure and funding analysis - 2017/18 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 | 7.7 | 0 | 7.7 | 18.3 | 26.0 |
| Chief executive services ◦ | (5.0) | 28.0 | 23.0 | 3.8 | 26.8 |
| Growth, environment and planning ◦ | 2.0 | 1.3 | 3.3 | 15.8 | 19.1 |
| Adults ◦ | 325.1 | (0.7) | 324.4 | 26.1 | 350.5 |
| Education and children's services ◦ | 143.9 | 6.1 | 150.0 | 10.9 | 160.9 |
| Public health and wellbeing ◦ | 11.0 | 0.7 | 11.7 | 4.6 | 16.3 |
| Highways and transport ◦ | 126.4 | 0 | 126.4 | 47.9 | 174.3 |
| Finance ◦ | 31.0 | 3.7 | 34.7 | 0.2 | 34.9 |
| Adult services and public health and wellbeing ◦ | 5.8 | 0.3 | 6.1 | 0.9 | 7.0 |
| Strategy and performance ◦ | 31.6 | (17.0) | 14.6 | 5.3 | 19.9 |
| Corporate ◦ | 18.9 | 2.5 | 21.4 | 0.5 | 21.9 |
| **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)** | | |

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

◦ The 2017/18 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.

| 2017/18 restated | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| 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 |
| (4.2) | 32.2 | 28.0 | Chief executive services ◦ | (11.9) | 26.4 | 14.5 |
| (0.4) | 1.7 | 1.3 | Growth, environment and planning ◦ | (0.4) | (1.0) | (1.4) |
| 0 | (0.7) | (0.7) | Adults ◦ | (1.1) | (5.1) | (6.2) |
| 5.4 | 0.7 | 6.1 | Education and children's services ◦ | 1.7 | 0.3 | 2.0 |
| 0 | 0.7 | 0.7 | Public health and wellbeing ◦ | 0 | (0.2) | (0.2) |
| (0.7) | 0.7 | 0 | Highways and transport ◦ | (1.2) | 3.7 | 2.5 |
| 0 | 3.7 | 3.7 | Finance ◦ | (0.1) | 0.6 | 0.5 |
| 0 | 0.3 | 0.3 | Adult services and public health and wellbeing ◦ | 0 | 0.3 | 0.3 |
| (15.4) | (1.6) | (17.0) | Strategy and performance ◦ | (15.5) | (4.0) | (19.5) |
| 0 | 2.5 | 2.5 | Corporate ◦ | 0 | 0.3 | 0.3 |
| **(15.3)** | **40.2** | **24.9** | **Net cost of services** | **(28.5)** | **21.3** | **(7.2)** |
| 15.3 | 10.1 | 25.4 | Other income and expenditure | 28.5 | 4.4 | 32.9 |
| **0** | **50.3** | **50.3** | **(Surplus)/deficit** | **0** | **25.7** | **25.7** |

◦ The 2017/18 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.

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

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

## Net change for the pensions adjustments

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

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

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

## Other statutory adjustments

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

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

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

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

## Adjustments between the funding and accounting basis - 2018/19

| | Adjustments for capital purposes | Net change for the pensions adjustments | Other statutory differences | Total statutory adjustments |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Schools | (7.9) | 34.6 | (2.3) | 24.4 |
| Chief executive services | 13.7 | 2.6 | 0 | 16.3 |
| Growth, environment and planning | 13.0 | 0.6 | 0 | 13.6 |
| Adults | 1.8 | 10.5 | 0.2 | 12.5 |
| Education and children's services | 2.2 | 3.4 | 0.4 | 6.0 |
| Public health and wellbeing | 0 | 3.1 | 0.1 | 3.2 |
| Highways and transport | 30.4 | 8.3 | 0.3 | 39.0 |
| Finance | 0.1 | 0.3 | (0.3) | 0.1 |
| Adult services and public health and wellbeing | 0 | 0.7 | 0 | 0.7 |
| Strategy and performance | 2.0 | 0.3 | (0.2) | 2.1 |
| Corporate | 0 | 0.2 | 0 | 0.2 |
| **Net cost of services** | **55.3** | **64.6** | **(1.8)** | **118.1** |
| Other income and expenditure from the expenditure and funding analysis | (63.8) | 29.7 | 16.4 | (17.7) |
| **Difference between general fund surplus or deficit and comprehensive income and expenditure statement surplus or deficit on the provision of services** | **(8.5)** | **94.3** | **14.6** | **100.4** |

## Adjustments between the funding and accounting basis - 2017/18 restated

| | Adjustments for capital purposes | Net change for the pensions adjustments | Other statutory differences | Total statutory adjustments |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Schools | 18.3 | 0 | 0 | 18.3 |
| Chief executive services ◦ | 0 | 3.8 | 0 | 3.8 |
| Growth, environment and planning ◦ | 15.0 | 0.8 | 0 | 15.8 |
| Adults ◦ | 11.0 | 15.2 | (0.1) | 26.1 |
| Education and children's services ◦ | 2.4 | 8.6 | (0.1) | 10.9 |
| Public health and wellbeing ◦ | 0.1 | 4.8 | (0.3) | 4.6 |
| Highways and transport ◦ | 36.2 | 11.6 | 0.1 | 47.9 |
| Finance ◦ | 0.2 | 0 | 0 | 0.2 |
| Adult services and public health and wellbeing ◦ | 0 | 0.9 | 0 | 0.9 |
| Strategy and performance ◦ | 2.9 | 2.3 | 0.1 | 5.3 |
| Corporate ◦ | 0 | 0.5 | 0 | 0.5 |
| **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** |

◦ The 2017/18 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:

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 807.6 | Employee expenses (excluding voluntary aided schools) | 825.7 |
| 227.1 | Employee expenses for voluntary aided schools | 231.8 |
| 1,062.0 | Other service expenses | 1,085.1 |
| 50.6 | Depreciation, amortisation and impairment | 26.9 |
| 34.0 | Interest payments | 54.4 |
| 1.1 | Precepts and levies | 1.1 |
| 31.6 | Net pension interest costs | 29.7 |
| 18.3 | Gain or loss on disposal of non-current assets | 52.9 |
| **2,232.3** | **Total expenditure** | **2,307.6** |
| (256.7) | Fees, charges and other service income | (268.0) |
| (14.4) | Interest and investment income | (24.9) |
| (440.9) | Income from council tax precept | (473.3) |
| (29.7) | Income from non-domestic- rates precept | (30.5) |
| (1,415.3) | Government grants and contributions | (1,401.7) |
| **(2,157.0)** | **Total income** | **(2,198.4)** |
| **75.3** | **(Surplus)/deficit on the provision of services** | **109.2** |

## Note 6 - Other operating income and expenditure

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 1.1 | Levies for flood defences and inshore fisheries and conservation authorities | 1.1 |
| 0.8 | Other operating (income)/expenditure | (0.3) |
| 11.1 | Net (gains)/losses on the disposal of non-current assets * | 44.4 |
| **13.0** | **Total** | **45.2** |

* The net loss on the disposal of non-current assets of £44.4m includes £44.5m in relation to the transfer of schools to academy status. (2017/18: £10.4m)

## Note 7 - Financing and investment income and expenditure

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 18.6 | Interest payable and other similar charges | 20.2 |
| 15.4 | Interest payable on PFI unitary payments | 15.3 |
| 0 | Premium on early repayment of debt * | 16.7 |
| 0 | Impairment of financial instruments | 2.2 |
| 31.6 | Net interest of the net defined benefit liability | 29.7 |
| (14.4) | Interest receivable and similar income | (24.9) |
| (0.3) | Changes in the fair value of investment properties | (0.3) |
| **50.9** | **Total** | **58.9** |

* The premium on early repayment of debt includes the redemption of the council's Lender Option Borrower Option (LOBO) loans. (Note 37).

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

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

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (254.8) | Non-ringfenced Government grants | (252.9) |
| (120.8) | Capital grants and contributions | (96.8) |
| **(375.6)** | **Total non-specific grant income** | **(349.7)** |
| (440.9) | Council tax income | (473.3) |
| (29.7) | Non-domestic rates income | (30.5) |
| **(846.2)** | **Total** | **(853.5)** |

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

### Non-ringfenced government grants

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (82.7) | Revenue support grant | (57.0) |
| (152.6) | Top-up grant (business rates retention scheme) | (164.0) |
| (5.5) | Education services grant | (2.0) |
| (14.0) | Other | (29.9) |
| **(254.8)** | **Total** | **(252.9)** |

## Capital grants and contributions

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (46.5) | Department for transport | (43.6) |
| (35.2) | Department of education | (27.4) |
| (14.0) | Ministry of housing, communities and local government | (13.7) |
| (12.6) | Other government grants | (3.0) |
| (12.5) | Other grants | (9.1) |
| **(120.8)** | **Total** | **(96.8)** |

## 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.

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (787.3) | Dedicated schools grant | (800.6) |
| (45.2) | Pupil premium grant | (45.3) |
| (89.2) | Other Government grants | (89.5) |
| (21.9) | PFI grant | (21.9) |
| (70.2) | Public health grant | (68.4) |
| (0.1) | Other grants | 0 |
| (25.8) | Other contributions | (26.3) |
| **(1,039.7)** | **Total** | **(1,052.0)** |

## Note 10 - Dedicated schools grant

| | Central expenditure | Individual schools budget | Total |
|---|---|---|---|
| | £m | £m | £m |
| Final DSG for 2018/19 before academy recoupment | | | (925.5) |
| Academy figure recouped for 2018/19 | | | 124.9 |
| **Total DSG after academy recoupment for 2018/19** | | | **(800.6)** |
| Brought forward from 2017/18 | | | **(14.4)** |
| Carry forward to 2019/20 agreed in advance | | | 0 |
| **Agreed initial budgeted distribution for 2018/19** | **(38.5)** | **(776.5)** | **(815.0)** |
| In-year adjustments | 0 | 10.6 | 10.6 |
| **Final budget distribution for 2018/19** | **(38.5)** | **(765.9)** | **(804.4)** |
| Actual central expenditure relating to DSG | 25.8 | | 25.8 |
| Actual ISB deployed to schools | | 765.9 | 765.9 |
| **Carry forward to 2019/20** | **(12.7)** | **0** | **(12.7)** |

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 2018/19 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.

### 2018/19

| Post holder | Note | Salary, fees and allowances | Benefits in kind (lease car payments) | Pension contributions | Total |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| Chief Executive and Director of Resources (Section 151 officer) - A Ridgwell | 1 | 206,728 | 0 | 0 | 206,728 |
| Executive Director of Adult Services and Health & Wellbeing | | 134,434 | 5,509 | 20,300 | 160,243 |
| Executive Director of Education and Children's Services – E Grant | 2 | 47,990 | 0 | 0 | 47,990 |
| Executive Director of Growth, Environment and Transport | 3 | 118,607 | 0 | 17,174 | 135,781 |
| Director of Community Services | 4 | 8,521 | 0 | 1,220 | 9,741 |
| Director of Corporate Services | | 92,434 | 5,876 | 13,958 | 112,268 |
| Director of Economic Development and Planning | 4 | 8,080 | 816 | 1,220 | 10,116 |
| Director of Finance | | 96,912 | 6,216 | 14,634 | 117,762 |
| Director of Programmes and Project Management | 4 | 8,359 | 0 | 1,196 | 9,555 |
| Director of Property Services | 5 | 88,500 | 7,404 | 13,363 | 109,267 |
| Director of Public Health | | 124,958 | 0 | 17,207 | 142,165 |
| Director of Strategy and Performance | 6 | 19,076 | 1,574 | 2,880 | 23,530 |
| Head of Service – Communications | | 67,097 | 0 | 10,132 | 77,229 |

Notes

1 The Interim Chief Executive and Director of Resources (S151) was appointed to the post of Chief Executive and Director of Resources (S151) with effect from 18 October 2018.

2 The Executive Director of Education and Children's Services was appointed on 18th December 2018. The post was undertaken on an interim basis between January and December 2018.

3 The Executive Director of Growth, Environment and Transport is a new post appointed to with effect from 30 April 2018.

4 The Director of Community Services, the Director of Economic Development and Planning and the Director of Programmes and Project Management reported to the Interim Chief Executive and Director of Resources (S151) until 30 April 2018, when the new Executive Director of Growth, Environment and Transport commenced in post.

5 The post of Director of Property Services was disestablished with effect from 31 January 2019.

6 The Director of Strategy and Performance is a new post established with effect from 1 February 2019.

## 2017/18

| Post holder | Note | Salary, fees and allowances | Benefits in kind (lease car payments) | Compensation for loss of employment | Pension contributions | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Interim Chief Executive and Director of Resources (Section 151 officer) – A Ridgwell | 1, 11 | 48,611 | 0 | 0 | 0 | 48,611 |
| Chief Executive – J Turton | 2 | 134,999 | 0 | 113,997 | 19,780 | 268,776 |
| Corporate Director Commissioning and Deputy Chief Executive (Executive Director) | 3 | 99,776 | 5,389 | 110,430 | 14,980 | 230,575 |
| Executive Director of Adult Services and Health and Wellbeing | 4 | 32,241 | 1,266 | 0 | 4,868 | 38,375 |
| Corporate Director Operations and Delivery | 5 | 99,557 | 3,702 | 0 | 15,033 | 118,292 |
| Director of Children's Services | 6 | 114,015 | 0 | 0 | 16,416 | 130,431 |
| Director of Corporate Services | 7 | 21,814 | 1,102 | 0 | 3,293 | 26,209 |
| Director Governance, Finance and Public Services | 7 | 90,691 | 0 | 95,924 | 13,090 | 199,705 |
| Director Public Health | 8 | 29,994 | 0 | 0 | 4,127 | 34,121 |
| Director Public Health and Wellbeing | 8 | 92,618 | 0 | 0 | 12,743 | 105,361 |
| Director of Development and Corporate Services | 9 | 87,344 | 8,691 | 48,979 | 12,799 | 157,813 |
| Director of Finance | 10 | 22,766 | 1,408 | 0 | 3,438 | 27,612 |
| Director of Financial Resources | 11 | 70,299 | 4,118 | 0 | 10,615 | 85,032 |
| Director of Adult Services | 12 | 84,762 | 4,705 | 0 | 12,799 | 102,266 |
| Director of Economic Development and Planning | 13 | 23,717 | 2,753 | 0 | 3,581 | 30,051 |
| Director of Property Services | 14, 15 | 26,240 | 2,025 | 0 | 3,955 | 32,220 |
| Director of Programmes and Project Management | 13, 15 | 24,062 | 0 | 0 | 3,438 | 27,500 |
| Director of Community Services | 13, 15 | 25,014 | 0 | 0 | 3,581 | 28,595 |
| Director of Education, Schools and Care | 16 | 18,702 | 1,107 | 87,371 | 2,824 | 110,004 |
| Head of Service – Communications | | 64,936 | 0 | 0 | 9,805 | 74,741 |

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.

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

| | 2018/19 | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| Remuneration Banding £ | LCC non-schools staff [1] | Schools [2] | Total | Redundancies | LCC non-schools staff [1] | Schools [2] | Total | Redundancies |
| 50,000 to 54,999 | 46 | 336 | 382 | 5 | 40 | 330 | 370 | 4 |
| 55,000 to 59,999 | 49 | 239 | 288 | 5 | 37 | 256 | 293 | 4 |
| 60,000 to 64,999 | 25 | 177 | 202 | 1 | 32 | 160 | 192 | 0 |
| 65,000 to 69,999 | 38 | 93 | 131 | 2 | 44 | 80 | 124 | 2 |
| 70,000 to 74,999 | 18 | 39 | 57 | 0 | 4 | 30 | 34 | 2 |
| 75,000 to 79,999 | 0 | 11 | 11 | 0 | 1 | 19 | 20 | 1 |
| 80,000 to 84,999 | 2 | 15 | 17 | 0 | 2 | 18 | 20 | 2 |
| 85,000 to 89,999 | 1 | 13 | 14 | 0 | 2 | 8 | 10 | 1 |
| 90,000 to 94,999 | 2 | 8 | 10 | 0 | 1 | 7 | 8 | 0 |
| 95,000 to 99,999 | 0 | 4 | 4 | 0 | 0 | 5 | 5 | 0 |
| 100,000 to 104,999 | 0 | 1 | 1 | 0 | 2 | 3 | 5 | 1 |
| 105,000 to 109,999 | 0 | 4 | 4 | 0 | 1 | 2 | 3 | 1 |
| 110,000 to 114,999 | 1 | 1 | 2 | 0 | 0 | 1 | 1 | 0 |
| 120,000 to 124,999 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| 140,000 to 144,999 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 1 |
| 145,000 to 149,999 | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| 150,000 to 154,999 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **185** | **941** | **1,126** | **14** | **167** | **919** | **1,086** | **19** |

[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 (£)** | **2018/19** | **2017/18** | **2018/19** | **2017/18** | **2018/19** | **2017/18** | **2018/19** | **2017/18** |
| 0 to 20,000 | 39 | 35 | 259 | 367 | **298** | **402** | **1,835** | **2,490** |
| 20,001 to 40,000 | 1 | 1 | 25 | 38 | **26** | **39** | **670** | **1,046** |
| 40,001 to 60,000 | 1 | 2 | 4 | 10 | **5** | **12** | **237** | **598** |
| 60,001 to 80,000 | 4 | 0 | 0 | 6 | **4** | **6** | **273** | **431** |
| 80,001 to 100,000 | 0 | 0 | 0 | 3 | **0** | **3** | **0** | **283** |
| 100,001+ | 0 | 1 | 2 | 5 | **2** | **6** | **257** | **1,603** |
| **Total** | **45** | **39** | **290** | **429** | **335** | **468** | **3,272** | **6,451** |

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

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 2018/19, the council terminated the contracts of a number of employees, incurring liabilities of £3.3 million (2017/18: £6.5 million). Of the £3.3 million, £0.6 million is for enhanced pension benefits and £2.7 million relates to redundancy payments.

## Note 12 - Members' allowances

| 2017/18 | | 2018/19 |
|---:|---|---:|
| **£000** | | **£000** |
| 1,236 | Allowances payable to Members | 1,283 |
| 63 | Expenses payable to Members | 60 |
| **1,299** | **Total** | **1,343** |

## Note 13 - Fees payable to auditors

The council incurred the following fees relating to external audit.

| 2017/18 | | 2018/19 |
|---:|---|---:|
| **£000** | | **£000** |
| 113 | Fees incurred with regard to external audit services provided by Grant Thornton | 87 |
| 4 | Fees incurred for other audit work undertaken by Grant Thornton | 4 |
| 9 | Fees payable in respect of other services provided by Grant Thornton | 9 |
| **126** | **Total** | **100** |

## 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 in reserves.

### Adjustments between accounting basis and funding basis under regulations - 2018/19

| | Usable reserves | | | | Unusable reserves |
|---|---|---|---|---|---|
| | General fund balance | Capital receipts reserve | Capital grants unapplied | Total | |
| | £m | £m | £m | £m | £m |
| **Adjustments to the revenue resources** | | | | | |
| **Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:** | | | | | |
| Pensions costs (transferred to or from the pensions reserve) | (94.3) | 0 | 0 | (94.3) | 94.3 |
| Financial instruments (transferred to the financial instruments adjustments account) | (13.5) | 0 | 0 | (13.5) | 13.5 |
| Council tax and NDR (transferred to or from the collection fund) | (3.0) | 0 | 0 | (3.0) | 3.0 |
| Holiday pay (transferred to the accumulated absences adjustment account) | 1.9 | 0 | 0 | 1.9 | (1.9) |
| Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (charged to the capital adjustment account) | (60.7) | 0 | 27.7 | (33.0) | 33.0 |
| **Total adjustments to revenue resources** | **(169.6)** | **0** | **27.7** | **(141.9)** | **141.9** |
| **Adjustments between revenue and capital resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the capital receipts reserve | 1.0 | (1.0) | 0 | 0 | 0 |
| Statutory provision for the repayment of debt (transferred from the capital adjustment account) | 18.3 | 0 | 0 | 18.3 | (18.3) |
| **Total adjustments between revenue and capital resources** | **19.3** | **(1.0)** | **0** | **18.3** | **(18.3)** |
| **Adjustments to capital resources** | | | | | |
| Application of capital grants to finance capital expenditure | 49.9 | 0 | (49.9) | 0 | 0 |
| **Total adjustments to capital resources** | **49.9** | **0** | **(49.9)** | **0** | **0** |
| **Total adjustments** | **(100.4)** | **(1.0)** | **(22.2)** | **(123.6)** | **123.6** |

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

| | Usable reserves | | | | Unusable reserves |
|---|---|---|---|---|---|
| | General fund balance | Capital receipts reserve | Capital grants unapplied | Total | |
| | £m | £m | £m | £m | £m |
| **Adjustments to the revenue resources** | | | | | |
| **Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:** | | | | | |
| Pensions costs (transferred to or from the pensions reserve) | (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 adjustment account) | 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** |

## Note 15 - Transfers to and from earmarked reserves

| | Balance at 31 March 2017 | Transfers out 2017/18 | Transfers in 2017/18 | Balance at 31 March 2018 | Transfers out 2018/19 | Transfers in 2018/19 | Balance at 31 March 2019 |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| General fund | (36.0) | 12.6 | 0 | (23.4) | 0 | 0 | (23.4) |
| **Reserves held to deliver corporate priorities** | | | | | | | |
| Strategic investment reserve | (4.5) | 0.7 | 0 | (3.8) | 2.8 | (1.1) | (2.1) |
| **Reserves held to deliver organisational change** | | | | | | | |
| Downsizing reserve | (18.9) | 5.2 | (0.2) | (13.9) | 6.4 | 0 | (7.5) |
| Risk management reserve | (10.5) | 5.1 | (0.1) | (5.5) | 4.7 | (2.1) | (2.9) |
| Transitional reserve | (162.0) | 65.1 | (58.1) | (155.0) | 58.6 | (67.8) | (164.2) |
| **Reserves held to pay for expenditure commitments** | | | | | | | |
| Funding of capital projects | (0.1) | 0.1 | 0 | 0 | 0 | 0 | 0 |
| **School reserves** | | | | | | | |
| Individual school reserves | (45.3) | 10.5 | (9.4) | (44.2) | 1.4 | 0 | (42.8) |
| Other school reserves | (27.5) | 17.4 | (10.8) | (20.9) | 11.6 | (10.6) | (19.9) |
| Centrally managed schools maintenance reserve | (6.4) | 6.4 | (5.1) | (5.1) | 5.1 | (5.2) | (5.2) |
| **Reserves held to meet service priorities** | | | | | | | |
| Treasury management reserve | 0 | 0 | (10.0) | (10.0) | 0 | 0 | (10.0) |
| Directorate reserves | (28.5) | 8.6 | (15.2) | (35.1) | 17.4 | (12.0) | (29.7) |
| Election reserve | (1.6) | 1.1 | 0 | (0.5) | 0.6 | (1.0) | (0.9) |
| **Total earmarked revenue and capital reserves** | **(341.3)** | **132.8** | **(108.9)** | **(317.4)** | **108.6** | **(99.8)** | **(308.6)** |

# Notes supporting the movement in reserves statement

## Reserves held to deliver corporate priorities

### Strategic investment reserve

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

## Reserves held to deliver organisational change

### Downsizing reserve

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

### Risk management reserve

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

### Transitional reserve

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

## 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. Some of these reserves are not only the funds of the county council and could relate to partners.

## Note 16 - Capital expenditure and capital financing

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£m** | | **£m** |
| **1,002.1** | **Opening capital financing requirement** | **1,042.9** |
| | **Capital investment** | |
| 109.0 | Property, plant and equipment | 91.8 |
| 3.6 | Intangible assets | 0.5 |
| 35.3 | Revenue expenditure funded from capital under statute | 28.2 |
| **147.9** | **Total capital investment** | **120.5** |
| | **Sources of finance** | |
| (94.0) | Government grants and other contributions | (74.7) |
| | **Sums set aside from revenue:** | |
| 0 | Direct revenue contributions | (0.1) |
| (5.0) | Write down of PFI liability | (5.9) |
| (8.1) | Minimum revenue provision (MRP) for debt repayment | (12.5) |
| **1,042.9** | **Closing capital financing requirement** | **1,070.2** |
| | **Explanation of movement in year** | |
| 22.1 | Increase in underlying need to borrow (supported by Government financial assistance) | 0 |
| 23.7 | Increase in underlying need to borrow (unsupported by Government financial assistance) | 33.2 |
| (5.0) | Write down of PFI liability | (5.9) |
| **40.8** | **Total movement** | **27.3** |

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 2019 the council had not entered into any contracts for the construction or enhancement of property, plant and equipment in 2019/20 or future years. (2017/18: £nil)

## Note 18 - Property, plant and equipment

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

| | Land and buildings | Vehicles, plant, furniture and equipment | Infrastructure | Assets under construction | Surplus assets | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Carried at historical cost** | **108.3** | **73.8** | **1,106.7** | **7.8** | **0** | **1,296.6** |
| **Valued at current value as at:** | | | | | | |
| 31 March 2019 | 1,025.6 | 0 | 0 | 0 | 23.7 | **1,049.3** |
| 31 March 2018 | 496.7 | 0 | 0 | 0 | 0 | **496.7** |
| 31 March 2017 | 495.7 | 0 | 0 | 0 | 0 | **495.7** |
| **Total cost or valuation** | **2,126.3** | **73.8** | **1,106.7** | **7.8** | **23.7** | **3,338.3** |

## Property, plant and equipment - movements in 2018/19

| | 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 2018** | **1,963.7** | **90.2** | **1,053.4** | **3.5** | **25.2** | **3,136.0** | **126.3** |
| Additions | 27.7 | 6.5 | 53.1 | 4.5 | 0 | **91.8** | 0 |
| De-recognition – disposals | (47.7) | (22.8) | 0 | 0 | (0.5) | **(71.0)** | 0 |
| Revaluation increases/(decreases) recognised in the revaluation reserve | 149.7 | 0 | 0 | 0 | 1.1 | **150.8** | 3.1 |
| Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services | 35.6 | (0.1) | 0 | 0 | (2.4) | **33.1** | 28.6 |
| Assets reclassified * | (2.7) | 0 | 0.2 | (0.2) | 0.3 | **(2.4)** | 0 |
| **At 31 March 2019** | **2,126.3** | **73.8** | **1,106.7** | **7.8** | **23.7** | **3,338.3** | **158.0** |
| **Depreciation and impairment** | | | | | | | |
| **At 1 April 2018** | **(94.6)** | **(60.7)** | **(142.5)** | **0** | **(0.1)** | **(297.9)** | **(2.5)** |
| Depreciation charge | (34.1) | (6.3) | (17.2) | 0 | **0** | **(57.6)** | (2.8) |
| Depreciation written out to revaluation reserve | 20.0 | 0 | 0 | 0 | **0** | **20.0** | 0.5 |
| Depreciation written out to the surplus/deficit on provision of services | 3.2 | 0.1 | 0 | 0 | **0** | **3.3** | (0.5) |
| De-recognition | 1.1 | 22.3 | 0 | 0 | **0** | **23.4** | 0 |
| **At 31 March 2019** | **(104.4)** | **(44.6)** | **(159.7)** | **0** | **(0.1)** | **(308.8)** | **(5.3)** |
| **At 1 April 2018** | **1,869.1** | **29.5** | **910.9** | **3.5** | **25.1** | **2,838.1** | **123.8** |
| **At 31 March 2019** | **2,021.9** | **29.2** | **947.0** | **7.8** | **23.6** | **3,029.5** | **152.7** |

* The £2.4 million balance on assets reclassified relates to assets held for sale.

## Property, plant and equipment - movements in 2017/18 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 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 ◦ | (0.6) | 0 | 0 | 0 | (0.2) | **(0.8)** | 2.8 |
| Assets reclassified * | (5.4) | 0 | 0.1 | (0.1) | 7.1 | **1.7** | 0 |
| **At 31 March 2018** | **1,963.7** | **90.2** | **1,053.4** | **3.5** | **25.2** | **3,136.0** | **126.3** |
| **Depreciation and impairment** | | | | | | | |
| **At 1 April 2017** | **(78.4)** | **(58.7)** | **(127.7)** | **0** | **(0.1)** | **(264.9)** | **(1.6)** |
| Depreciation charge ◦ | (23.8) | (6.4) | (14.8) | 0 | **0** | **(45.0)** | (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 |
| **At 31 March 2018** | **(94.6)** | **(60.7)** | **(142.5)** | **0** | **(0.1)** | **(297.9)** | **(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** | **25.1** | **2,838.1** | **123.8** |

* The £1.7 million balance on assets reclassified relates to assets held for sale.
◦ The 2017/18 figures have been restated following an adjustment to the depreciation figure.

## Note 19 - School assets

### Schools included on the council's balance sheet

| 31 March 2018 | | | 31 March 2019 | |
|---|---|---|---|---|
| Number of schools | Value of land and buildings | | Number of schools | Value of land and buildings |
| | £m | | | £m |
| 265 | 747.4 | Community schools | 256 | 779.3 |
| 10 | 82.9 | Foundation schools | 11 | 110.4 |
| 268 | 566.8 | Voluntary aided schools | 267 | 641.0 |
| 50 | 100.1 | Voluntary controlled schools | 50 | 117.9 |
| **593** | **1,497.2** | **Total** | **584** | **1,648.6** |
| 14 | 123.9 | Schools included above subject to PFI contracts | 14 | 152.7 |

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

The number of schools has reduced as 9 schools chose to take up academy status in 2018/19.

The council has 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 2019** | **3.0** | **11.1** | **14.6** | **28.7** |
| **At 31 March 2018** | **3.0** | **11.1** | **14.6** | **28.7** |

There has been an addition of books to the libraries' collection worth £200.

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 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| 15.1 | Transferred Debt [1] | 14.2 |
| 31.3 | Finance Lease Debtor [2] | 30.3 |
| **46.4** | **Total** | **44.5** |

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

2 Finance lease debtor is a long term debtor due to the council from Blackpool Council in respect of the new borrowing raised to pay off the PFI liability with Lancashire County Council as the lessor (Note 28).

## Note 22 - Short term debtors

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| 18.0 | Council tax | 19.4 |
| 0.8 | Non-domestic rates | 0.8 |
| 17.6 | Other receivables | 16.5 |
| 235.3 | Trade receivables | 100.0 |
| (16.0) | Less impairment allowance | (18.2) |
| **255.7** | **Total** | **118.5** |

## Note 23 - Cash and cash equivalents

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

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| 0.6 | Cash held by the council | 0.3 |
| (31.5) | Bank current accounts | (27.9) |
| 49.7 | Short term deposits under 3 months | 96.1 |
| **18.8** | **Total** | **68.5** |

## Note 24 - Short term creditors

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| (182.9) | Trade payables | (116.9) |
| (15.5) | Council tax | (18.2) |
| (0.3) | Non domestic rates | (0.5) |
| (51.4) | Other payables | (49.3) |
| **(250.1)** | **Total** | **(184.9)** |

## Note 25 – Provisions

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

| | Balance at 1 April 2018 | Additional provision made in 2018/19 | Spending met from the provision in 2018/19 | Unused amounts reversed in 2018/19 | Balance at 31 March 2019 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Insurance provision | (22.3) | (9.2) | 16.9 | 0 | (14.6) |
| MMI provision | (2.8) | 0 | 0 | 0 | (2.8) |
| Other long term provisions | (1.0) | (0.6) | 0.1 | 0.3 | (1.2) |
| **Total long term provisions** | **(26.1)** | **(9.8)** | **17.0** | **0.3** | **(18.6)** |
| Business rates appeals | (4.4) | (1.0) | 0 | 0 | (5.4) |
| Early retirement | (0.5) | (0.1) | 0 | 0.5 | (0.1) |
| Other short term provisions | (2.2) | (3.3) | 0 | 1.7 | (3.8) |
| **Total short term provisions** | **(7.1)** | **(4.4)** | **0** | **2.2** | **(9.3)** |
| **Total provisions** | **(33.2)** | **(14.2)** | **17.0** | **2.5** | **(27.9)** |

### Insurance provision

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

### Municipal Mutual Insurance (MMI)

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

### Business rates appeals

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

### Early retirement provision

This provision is for future voluntary redundancy costs.

### Other provisions

All other provisions are individually insignificant.

## Note 26 - Financial instruments

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

The council has adopted IFRS 9 F*inancial Instruments* accounting standard with effect from 1 April 2018. The main changes include the reclassification and re-measurement of financial assets and the earlier recognition of the impairment of financial assets. IFRS 9 does not require the prior year to be restated.

The Council has assessed its financial assets in line with changes to the Code. The following table shows how the financial instruments have been reclassified at 1 April 2018. The effect of the impairment loss at 1 April is £54,000.

| | **31 March 2018** | **Impact of IFRS 9** | **1 April 2018** |
|---|---|---|---|
| Category | **£m** | **£m** | **£m** |
| Loans and receivables | 100.6 | (100.6) | 0 |
| Available for sale | 135.6 | (135.6) | **0** |
| Financial assets at fair value through profit and loss | 62.7 | (62.7) | **0** |
| Amortised cost | 0 | 139.8 | **139.8** |
| Financial assets measured at fair value through other comprehensive income | 0 | 159.1 | **159.1** |
| **Total investments** | **298.9** | **0** | **298.9** |
| Cash and cash equivalents | 18.8 | 0 | **18.8** |
| Debtors | 251.7 | 0 | **251.7** |
| **Total financial assets** | **569.4** | **0** | **569.4** |

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

The disclosures include:

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

## Financial assets

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

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

- cash in hand;
- bank current;
- loans to other local authorities;
- loans to companies;
- lease receivables, and
- trade receivables for goods and services provided.

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

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

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

| 31 March 2018 | | | Category | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| **Long term** | **Short term** | **Total** | | **Long term** | **Short term** | **Total** |
| **£m** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| 34.8 | 65.8 | 100.6 | Loans and receivables | 0 | 0 | **0** |
| 135.6 | 0 | 135.6 | Available for sale financial assets | 0 | 0 | **0** |
| 0 | 62.7 | 62.7 | Financial assets at fair value through profit and loss | 0 | 0 | **0** |
| 0 | 0 | 0 | Amortised cost | 123.1 | 0.1 | **123.2** |
| 0 | 0 | 0 | Financial assets at fair value through other comprehensive income | 276.3 | 0 | **276.3** |
| **170.4** | **128.5** | **298.9** | **Total investments** | **399.4** | **0.1** | **399.5** |
| 0 | 18.8 | **18.8** | Cash and cash equivalents | 0 | 68.5 | **68.5** |
| 31.3 | 220.4 | **251.7** | Debtors # | 30.3 | 81.9 | **112.2** |
| **201.7** | **367.7** | **569.4** | **Total financial assets** | **429.7** | **150.5** | **580.2** |
| *# 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* | | | | | | |
| *15.1* | *35.3* | *50.4* | *Debtors which do not meet the definition of a financial instrument* | *14.2* | *36.6* | *50.8* |
| *46.4* | *255.7* | *302.1* | *Balance sheet total* | *44.5* | *118.5* | *163.0* |

## Financial liabilities

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

- short-term loans from other local authorities;
- long-term loans from the Public Works Loan Board and other local authorities;
- private finance initiative contracts;
- trade payables for goods and services received.

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

| 31 March 2018 | | | Category | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| **Long term** | **Short term** | **Total** | | **Long term** | **Short term** | **Total** |
| **£m** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| (471.4) | (487.5) | **(958.9)** | Financial liabilities at amortised cost | (471.2) | (571.3) | **(1,042.5)** |
| 0 | (210.3) | **(210.3)** | Creditors # | 0 | (141.9) | **(141.9)** |
| (151.6) | (5.8) | **(157.4)** | Other financial liabilities (PFI) at amortised cost | (146.6) | (4.9) | **(151.5)** |
| **(623.0)** | **(703.6)** | **(1,326.6)** | **Total financial liabilities** | **(617.8)** | **(718.1)** | **(1335.9)** |
| *# The creditors figure stated is lower than the creditors shown on the balance sheet because it excludes the following amounts which do not meet the definition of a financial liability – payments in advance and non-exchange transactions* | | | | | | |
| *0* | *(39.8)* | *(39.8)* | *Creditors which do not meet the definition of a financial instrument* | *0* | *(43.0)* | *(43.0)* |
| *0* | *(250.1)* | *(250.1)* | *Balance sheet total* | *0* | *(184.9)* | *(184.9)* |

## Note 27 - Private finance initiative (PFI)

The council has the following PFI contracts:

### Fleetwood High School

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

### Building schools for the future (BSF)

As part of wave 1 of the BSF scheme, secondary schools in Burnley and part of Pendle have been rebuilt in 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.

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the council for nil consideration. The significant risks that the council is exposed to under these PFI schemes are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, 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 2.44% is made for future inflation within the model.

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

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

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

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

## Fleetwood High School

| | Payment for services | Repayment of liability | Interest charges | Total payments due |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payment in 2019/20 | 0.3 | 0.5 | 1.0 | 1.8 |
| Payment within 2 to 5 years | 1.5 | 2.8 | 3.5 | 7.8 |
| Payment within 6 to 10 years | 1.7 | 3.1 | 1.9 | 6.7 |
| **Total** | **3.5** | **6.4** | **6.4** | **16.3** |

## Building schools for the future (BSF)

| | Payment for services | Repayment of liability | Interest charges | Total payments due |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payment in 2019/20 | 12.1 | 4.4 | 13.3 | 29.8 |
| Payment within 2 to 5 years | 46.6 | 25.3 | 50.6 | 122.5 |
| Payment within 6 to 10 years | 70.2 | 42.4 | 49.1 | 161.7 |
| Payment within 11 to 15 years | 72.0 | 62.0 | 30.8 | 164.8 |
| Payment within 16 to 20 years | 7.2 | 11.0 | 3.3 | 21.5 |
| **Total** | **208.1** | **145.1** | **147.1** | **500.3** |

## Outstanding PFI liability

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| **(162.4)** | **Balance outstanding at start of year** | **(157.4)** |
| 5.0 | Payments during the year | 5.9 |
| **(157.4)** | **Balance outstanding at year end** | **(151.5)** |

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

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

## Note 28 - Leases

### Council as lessor – finance leases

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

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| 1.0 | Current | 1.0 |
| 31.3 | Non-current | 30.3 |
| 16.1 | Unearned finance income | 14.8 |
| **48.4** | **Gross investment in the finance lease** | **46.1** |

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

| 31 March 2018 | | | 31 March 2019 | |
|---|---|---|---|---|
| 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 | 4.4 | Later than one year and not later than 5 years | 9.0 | 4.6 |
| 37.2 | 26.9 | Later than 5 years | 34.9 | 25.7 |
| **48.4** | **32.3** | **Total** | **46.1** | **31.3** |

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

| 31 March 2018 £m | | 31 March 2019 £m |
|---|---|---|
| (23.4) | General fund | (23.4) |
| (223.8) | Earmarked reserves | (217.3) |
| (70.2) | School reserves | (67.9) |
| **(317.4)** | **Total earmarked reserves** | **(308.6)** |
| (76.7) | Capital grants unapplied reserve | (98.9) |
| 0 | Capital receipts reserve | (1.0) |
| **(394.1)** | **Total usable reserves** | **(408.5)** |

### Unusable reserves

| 31 March 2018 £m | | 31 March 2019 £m |
|---|---|---|
| (4.1) | Available for sale financial instruments reserve | 0 |
| 38.4 | Financial instruments adjustment account | 52.0 |
| 0 | Financial instruments revaluation reserve | 5.9 |
| (857.7) | Revaluation reserve | (989.9) |
| (995.6) | Capital adjustment account | (1,019.7) |
| 1,210.7 | Pensions reserve | 1,260.9 |
| (10.4) | Collection fund adjustment account | (7.4) |
| 26.6 | Accumulated absences adjustment account | 24.7 |
| **(592.1)** | **Total** | **(673.5)** |

## Financial instruments adjustment account

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| **41.7** | **Balance at 1 April** | **38.4** |
| 0 | Premium on early repayment of debt | 16.7 |
| (3.3) | Proportion of premiums incurred in previous financial years to be charged against general fund balance | (3.1) |
| **38.4** | **Balance at 31 March** | **52.0** |

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

## Financial instruments revaluation reserve

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| **0** | **Balance at 31 March** | **0** |
| **0** | Transition to IFRS 9 | (4.1) |
| **0** | **Balance at 1 April** | **(4.1)** |
| 0 | Downward revaluation of investments | 10.0 |
| **0** | **Balance at 31 March** | **5.9** |

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

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

## Revaluation reserve

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| **(754.7)** | **Balance at 1 April** | **(857.7)** |
| (142.8) | Upward revaluation of assets | (212.1) |
| 17.0 | Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services | 41.2 |
| **(125.8)** | **(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services** | **(170.9)** |
| 13.4 | Difference between fair value depreciation and historical cost depreciation | 17.8 |
| 9.4 | Accumulated gains on assets sold or scrapped | 20.9 |
| **22.8** | **Amount written off to the capital adjustment account** | **38.7** |
| **(857.7)** | **Balance at 31 March** | **(989.9)** |

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

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

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

## Capital adjustment account

| 2017/18 restated | | 2018/19 |
|---|---|---|
| £m | | £m |
| **(970.5)** | **Balance at 1 April** | **(995.6)** |
| | **Reversal of items relating to capital expenditure charged to the comprehensive income and expenditure statement** | |
| 45.0 | Charges for depreciation and impairment of non-current assets ◦ | 57.6 |
| 1.1 | Revaluation losses/(gains) on property, plant and equipment including assets held for sale ◦ | (36.7) |
| 5.3 | Amortisation of intangible assets | 5.8 |
| 35.3 | Revenue expenditure funded from capital under statute | 28.2 |
| 18.3 | 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 | 52.9 |
| (5.0) | Write down of PFI liability | (5.9) |
| (22.8) | Adjusting amount written out of the revaluation reserve | (38.7) |
| **(893.3)** | **Net written out amount of the cost of non-current assets consumed in the year** | **(932.4)** |
| | **Capital financing applied in the year** | |
| (67.1) | Capital grants and contributions credited to the comprehensive income and expenditure statement | (52.3) |
| (26.8) | Application of capital grants to capital financing from the capital grants unapplied account | (22.2) |
| (8.1) | Statutory provision for the financing of capital investment charged against the general fund | (12.5) |
| 0 | Capital expenditure charged against the general fund | (0.1) |
| **(102.0)** | | **(87.1)** |
| (0.3) | Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement | (0.2) |
| **(995.6)** | **Balance at 31 March** | **(1,019.7)** |

◦ The 2017/18 figures have been restated following an adjustment to the depreciation figure.

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

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

## Pensions reserve

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| **1,331.1** | **Balance at 1 April** | **1,210.7** |
| (200.4) | Re-measurement of the net defined benefit liability/(asset) | (44.1) |
| 163.2 | 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 | 182.9 |
| (83.2) | Employer's pension contributions and direct payments to pensioners payable in the year | (88.6) |
| **1,210.7** | **Balance at 31 March** | **1,260.9** |

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

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

## Accumulated absences adjustment account

| 2017/18 £m | | 2018/19 £m |
|---|---|---|
| **26.8** | **Balance at 1 April** | **26.6** |
| (26.8) | Settlement or cancellation of accrual made at the end of the preceding year | (26.6) |
| 26.6 | Amounts accrued at the end of the current year | 24.7 |
| **(0.2)** | **Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements** | **(1.9)** |
| **26.6** | **Balance at 31 March** | **24.7** |

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

## Note 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:

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (15.3) | Interest received | (24.7) |
| 33.9 | Interest paid | 33.6 |

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

| 2017/18 restated | | 2018/19 |
|---|---|---|
| £m | | £m |
| 45.0 | Depreciation ◦ | 57.6 |
| 1.1 | Impairment and downward/(upward) valuations ◦ | (36.7) |
| 5.3 | Amortisation of intangible assets | 5.8 |
| (6.3) | Increase/(decrease) in provision for bad debts | (4.1) |
| (18.7) | Increase/(decrease) in creditors | 24.4 |
| 9.7 | (Increase)/decrease in debtors | (13.1) |
| 1.2 | (Increase)/decrease in inventories | (0.3) |
| 1.4 | Movement in pension liability | 133.7 |
| 18.5 | Carrying amount of non-current assets sold | 52.9 |
| 6.6 | Other non-cash items charged to the surplus or deficit on the provision of services | (6.4) |
| **63.8** | **Total** | **213.8** |

◦ The 2017/18 figures have been restated following an adjustment to the depreciation figure.

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

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| (6.6) | Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries) | (16.3) |
| 0 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (1.0) |
| (120.8) | Capital grants credited to the surplus on the provision of services | (96.8) |
| **(127.4)** | **Total** | **(114.1)** |

## Note 31 - Cash flows from investing activities

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| (113.4) | Purchase of property, plant and equipment, investment property and intangible assets | (93.0) |
| (6,237.9) | Purchase of short term and long term investments | (11,373.4) |
| 2.8 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1.0 |
| 6,332.5 | Proceeds from the sale of short term and long term investments | 11,346.1 |
| 140.6 | Other capital grants and receipts from investing activities | 99.7 |
| **124.6** | **Net cash flows from investing activities** | **(19.6)** |

## Note 32 - Cash flows from financing activities

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 1,029.3 | Cash receipts from short term and long term borrowing | 1,319.8 |
| (0.5) | Appropriate to/from Collection Fund Adjustment Account | 3.1 |
| (1,118.8) | Repayment of short term and long term borrowing | (1,239.2) |
| (5.0) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | (4.9) |
| **(95.0)** | **Net cash flows from financing activities** | **78.8** |

## Note 33 - Reconciliation of liabilities arising from financing activities

| | 1 April 2018 | Financing cash flows | | Non-cash changes | 31 March 2019 |
|---|---|---|---|---|---|
| | | Acquisitions | Repayments | LOBO | |
| | £m | £m | £m | £m | £m |
| Long term borrowing | 471.4 | 256.8 | (257.4) | 0.4 | 471.2 |
| Short term borrowing | 493.3 | 1,063.0 | (981.8) | 1.7 | 576.2 |
| PFI liabilities | 151.5 | 0 | (4.9) | 0 | 146.6 |
| **Total** | **1,116.2** | **1,319.8** | **(1,244.1)** | **2.1** | **1,194.0** |

| | 1 April 2017 | Financing cash flows | | 31 March 2018 |
|---|---|---|---|---|
| | | Acquisitions | Repayments | |
| | £m | £m | £m | £m |
| Long term borrowing | 584.4 | 93.4 | (206.4) | 471.4 |
| Short term borrowing | 469.8 | 935.9 | (912.4) | 493.3 |
| PFI liabilities | 156.5 | 0 | (5.0) | 151.5 |
| **Total** | **1,210.7** | **1,029.3** | **(1,123.8)** | **1,116.2** |

## Note 34 - Related party transactions

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

### Central government

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

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

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

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

### Lancashire County Pension Fund

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

The council incurred costs of £0.5 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 £73.0 million to the fund in 2018/19.

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

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

### 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.

For 2018/19 there are no transactions for services to organisations in which chief officers have declared interests.

## Members

Members of the council have direct control over the council's financial and operating policies. Members are also appointed by the council to boards or committees of various organisations to act on behalf of the council in their official capacities. The total of Members' allowances paid in 2018/19 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 transactions during 2018/19 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 2019 |
|---|---|---|---|
| | £ | £ | £ |
| Transport for the North | (514) | 4,183 | 0 |

## Interests in companies and other entities

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

| Company | Interest | Relationship |
|---|---:|---|
| Lancashire Renewables Limited | 87.5% | Subsidiary |
| Marketing Lancashire Limited | 100% | Subsidiary |
| Local Pensions Partnership Limited | 50% | Joint venture |
| Active Lancashire Limited | 100% | Subsidiary |
| Lancashire Partnership Against Crime Limited | 25% | Associate |
| Lancashire Environmental Fund Limited | 25% | Associate |
| Lancashire Enterprise Partnership Limited | 100% | Subsidiary (Dormant company) |
| Lancashire Workforce Development Partnership Limited | 100% | Subsidiary (Company dissolved 29 June 2018) |
| Burnley Education Trust | 75% | Member (Dormant entity) |

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.

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

## Lancashire Renewables 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. The company was renamed Lancashire Renewables Limited with effect from 28 March 2018.

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (0.4) | Income received during the year from Lancashire Renewables Limited | 0 |
| 23.3 | Payments made during the year to Lancashire Renewables Limited | 31.5 |
| 0.2 | Amounts owed at the year end from Lancashire Renewables Limited | 0.2 |
| (1.0) | Amounts owed at the year end to Lancashire Renewables Limited | (1.6) |

## 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.

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 1.0 | Payments made during the year to Marketing Lancashire Limited | 0 |
| (0.5) | Amounts owed at the year end to Marketing Lancashire Limited | 0 |

## Active Lancashire Limited

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

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 0.2 | Payments made during the year to Active Lancashire Limited | 0 |

## 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.

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (0.9) | Income received during the year from Local Pensions Partnership | (0.8) |
| 0.2 | Payments made during the year to Local Pensions Partnership | 0.2 |
| 0.3 | Amounts owed at the year end from Local Pensions Partnership | 0.1 |
| 0 | Amounts owed at the year end to Local Pensions Partnership | (0.5) |
| 17.5 | Loan to Local Pensions Partnership | 17.5 |

## Penna PLC

Penna PLC is a recruitment consultancy company, which during the course of 2017/18 and 2018/19 has provided recruitment and key management personnel services to Lancashire County Council.

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 0.1 | Payments made during the year to Penna PLC | 0.3 |

## Note 35 - Pooled budgets

### Pooled budget for learning disabilities

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| | **Funding provided to the pooled budget** | |
| (113.7) | Lancashire County Council | (113.8) |
| (1.4) | NHS Morecambe Bay CCG | (1.2) |
| (1.4) | NHS Fylde and Wyre CCG | (1.6) |
| (0.2) | NHS Blackpool CCG | (0.2) |
| (0.1) | NHS Greater Preston CCG | 0 |
| (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) |
| **(123.4)** | **Total** | **(123.4)** |
| | **Expenditure met from the pooled budget** | |
| 136.6 | Lancashire County Council | 141.7 |
| 1.9 | NHS Morecambe Bay CCG | 1.6 |
| 1.9 | NHS Fylde and Wyre CCG | 2.2 |
| 0.3 | NHS Blackpool CCG | 0.3 |
| 0.1 | NHS Greater Preston CCG | 0 |
| 2.7 | NHS Chorley and South Ribble CCG | 2.8 |
| 1.5 | NHS Greater Preston – central pool | 1.5 |
| 1.4 | NHS West Lancashire CCG | 1.5 |
| 1.5 | NHS East Lancashire CCG | 1.7 |
| **147.9** | **Total** | **153.3** |
| **24.5** | **Net (surplus)/deficit arising on the pooled budget during the year** | **29.9** |
| **22.5** | **Council share of the net (surplus)/deficit** | **27.6** |

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

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

## Better care fund

| 2017/18 £m | | 2018/19 £m |
|---|---|---|
| | **Funding provided to the pooled budget** | |
| (12.6) | Lancashire County Council (Disabled facilities grant) | (13.7) |
| (26.5) | NHS East Lancashire CCG | (27.0) |
| (13.7) | NHS Greater Preston CCG | (13.5) |
| (11.8) | NHS Chorley and South Ribble CCG | (12.0) |
| (11.1) | NHS Fylde and Wyre CCG | (11.8) |
| (10.7) | NHS Morecambe Bay CCG | (10.9) |
| (7.5) | NHS West Lancashire CCG | (7.7) |
| **(93.9)** | **Total** | **(96.6)** |
| | **Expenditure met from the pooled budget** | |
| 25.8 | Lancashire County Council (Social care) | 26.3 |
| 18.2 | NHS East Lancashire CCG | 18.5 |
| 9.3 | NHS Greater Preston CCG | 9.2 |
| 8.3 | NHS Chorley and South Ribble CCG | 8.5 |
| 7.3 | NHS Fylde and Wyre CCG | 7.8 |
| 7.3 | NHS Morecambe Bay CCG | 7.5 |
| 5.1 | NHS West Lancashire CCG | 5.1 |
| 12.6 | Lancashire County Council (Disabled facilities grant) | 13.7 |
| **93.9** | **Total** | **96.6** |
| **0** | **Net surplus/(deficit) arising on the pooled budget during the year** | **0** |

Highlighted as a key element of public service reform, the better care fund (BCF) has a primary aim to drive closer integration and improve outcomes for patients 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 36 – 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

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| (44.7) | Growth deal | (34.8) |
| (26.1) | City deal * | (27.9) |
| (0.8) | LEP core activity funding | (0.8) |
| (0.3) | Growth hub | (0.3) |
| **(71.9)** | **Total income** | **(63.8)** |

* The City deal total includes contributions of £13 million from Lancashire County Council in 2018/19. (2017/18: £11 million)

### Expenditure

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| 44.7 | Growth deal | 34.8 |
| 35.0 | City deal | 20.9 |
| 0.4 | LEP core activity funding | 0.8 |
| 0.3 | Growth hub | 0.3 |
| 1.4 | Growing places investment fund | 3.7 |
| **81.8** | **Total expenditure** | **60.5** |

In 2018/19 expenditure totalling £18 million was spent on LCC schemes. (2017/18: £28.7 million)

### Reserves

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| **(38.3)** | **Balance at 1 April** | **(28.4)** |
| (71.9) | Income | (63.8) |
| 81.8 | Expenditure | 60.5 |
| **(28.4)** | **Balance at 31 March** | **(31.7)** |

## Note 37 – Material items of income and expense

In 2018/19 the council redeemed its Lender Option Borrower Option (LOBO) loans. The amount paid in total was £69 million. This transaction is estimated to result in a net saving to the council of £20 million over the remaining life of the loans.

## Note 38 – Events after the reporting period

The statement of accounts was authorised for issue by the Chief Executive and Director of Resources on 22 May 2019. The statement of accounts has subsequently been adjusted to reflect the estimated increase in pension liabilities as a result of the McCloud judgement.

### McCloud judgement

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the ruling.

In a written statement by the Treasury on 15 July 2019 in respect of public service pensions the government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

This would lead to an increase in Local Government Pension Scheme liabilities. The council's actuaries have estimated the potential increase in scheme liabilities for the council to be approximately £17.7 million. The pension valuation process determines employer and employee contribution rates. The next triennial actuarial valuation will take effect from 1 April 2020.

# Technical annex

Singing ringing tree, Burnley

## Income, expense, gains and losses on financial instruments – 2018/19

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

| | Financial liabilities | Financial assets | | | Total |
|---|---|---|---|---|---|
| | Amortised cost | Amortised cost | Fair value through other comprehensive income | Fair value through profit and loss | |
| | £m | £m | £m | £m | £m |
| Interest expense | 51.0 | 0 | 0 | 0 | 51.0 |
| Loss on de-recognition | 0 | 0 | 7.8 | 0 | 7.8 |
| Impairment losses | 0 | 2.2 | 0.1 | 0 | 2.3 |
| Fees paid | 1.2 | 0 | 0 | 0 | 1.2 |
| **Interest payable and similar charges** | **52.2** | **2.2** | **7.9** | **0** | **62.3** |
| Interest income | 0 | (6.2) | (2.3) | 0 | (8.5) |
| Gain on de-recognition | 0 | 0 | (21.9) | (2.3) | (24.2) |
| **Interest and investment income** | **0** | **(6.2)** | **(24.2)** | **(2.3)** | **(32.7)** |
| **Net impact on the surplus or deficit on provision of services** | **52.2** | **(4.0)** | **(16.3)** | **(2.3)** | **29.6** |
| Loss on revaluation | 0 | 0 | 10.0 | 0 | 10.0 |
| **Impact on other comprehensive income** | **0** | **0** | **10.0** | **0** | **10.0** |
| **Net gain/(loss) for the year** | **52.2** | **(4.0)** | **(6.3)** | **(2.3)** | **39.6** |

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

| | Financial liabilities | Financial assets | | Financial assets and liabilities | Total |
|---|---|---|---|---|---|
| | Amortised cost | Loans and receivables | Available for sale | Fair value through profit and loss | |
| | £m | £m | £m | £m | £m |
| Interest expense | 33.6 | 0 | 0 | 0 | 33.6 |
| Loss on de-recognition | 0 | 0 | 9.6 | 0.1 | 9.7 |
| Fees paid | 0.4 | 0 | 0 | 0 | 0.4 |
| **Interest payable and similar charges** | **34.0** | **0** | **9.6** | **0.1** | **43.7** |
| Interest income | 0 | (4.4) | (2.3) | (1.3) | (8.0) |
| Gain on de-recognition | 0 | 0 | (15.4) | (1.0) | (16.4) |
| **Interest and investment income** | **0** | **(4.4)** | **(17.7)** | **(2.3)** | **(24.4)** |
| Increase in fair value | 0 | 0 | 0 | 0.3 | 0.3 |
| **Net impact on the surplus or deficit on provision of services** | **34.0** | **(4.4)** | **(8.1)** | **(1.9)** | **19.6** |
| Gain on revaluation | 0 | 0 | (11.8) | 0 | (11.8) |
| **Impact on other comprehensive income** | **0** | **0** | **(11.8)** | **0** | **(11.8)** |
| **Net gain/(loss) for the year** | **34.0** | **(4.4)** | **(19.9)** | **(1.9)** | **7.8** |

## Fair value of financial assets and liabilities

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

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

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

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

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

## Fair value of financial assets

| 31 March 2018 | | | | 31 March 2019 | |
|---|---|---|---|---|---|
| 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** | | | |
| 39.2 | 39.2 | Local authority bonds | | 0 | 0 |
| 96.4 | 96.4 | Bonds, equity and property funds | | 0 | 0 |
| **135.6** | **135.6** | **Subtotal** | | 0 | 0 |
| | | **Financial assets at fair value through other comprehensive income** | | | |
| 0 | 0 | Bond, equity and property funds | 1 | 276.3 | 276.3 |
| 0 | 0 | Local authority bonds | | 0 | 0 |
| **0** | **0** | **Subtotal** | | **276.3** | **276.3** |
| | | **Financial assets at fair value through profit and loss** | | | |
| 62.7 | 62.7 | Bond, equity and property funds | 1 | 0 | 0 |
| | | **Financial assets held at amortised cost** | | | |
| 0 | 0 | Local authority bonds | 2 | 88.3 | 117.1 |
| 11.5 | 12.3 | Long term bank deposits | 2 | 11.5 | 12.3 |
| 31.3 | 37.2 | Lease receivables | 2 | 30.3 | 37.6 |
| 23.3 | 31.9 | Long term loans to companies | 2 | 23.3 | 26.9 |
| **66.1** | **81.4** | **Subtotal** | | **153.4** | **193.9** |
| **264.4** | **279.7** | **Total** | | **429.7** | **470.2** |
| 305.0 | | Assets for which fair value is not disclosed # | | 150.5 | |
| **569.4** | | **Total financial assets** | | **580.2** | |
| | | **Recorded on balance sheet as:** | | | |
| 31.3 | | Long term debtors | | 30.3 | |
| 170.4 | | Long term investments | | 399.4 | |
| 220.4 | | Short term debtors | | 81.9 | |

| | | | | | |
|---|---|---|---|---|---|
| 128.5 | | Short term investments | | 0.1 | |
| 18.8 | | Cash and cash equivalents | | 68.5 | |
| **569.4** | | **Total financial assets** | | **580.2** | |

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

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

## Fair value of financial liabilities

| 31 March 2018 | | | | 31 March 2019 | |
|---|---|---|---|---|---|
| **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 | 400.0 | Long term PWLB loans | 2 | 353.9 | 414.5 |
| 52.0 | 106.9 | Long term LOBO loans | 2 | 0 | 0 |
| 80.5 | 84.4 | Other long term loans | 2 | 117.3 | 120.5 |
| 157.4 | 248.7 | PFI liabilities | 2 | 151.5 | 243.1 |
| **628.8** | **840.0** | **Total** | | **622.7** | **778.1** |
| 697.8 | | Liabilities for which fair value is not disclosed # | | 713.2 | |
| **1,326.6** | | **Total financial liabilities** | | **1,335.9** | |
| | | **Recorded on balance sheet as:-** | | | |
| 210.3 | | Short term creditors | | 141.9 | |
| 487.5 | | Short term borrowings | | 571.3 | |
| 471.4 | | Long term borrowings | | 471.2 | |
| 157.4 | | Other long term liabilities | | 151.5 | |
| **1,326.6** | | **Total financial liabilities** | | **1,335.9** | |

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

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

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

## Nature and extent of risks arising from financial instruments

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

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

The strategy also imposes a maximum sum and duration which the council can invest in an institution. This is dependent upon the quality of credit rating and in 2018/19 the investment portfolio has maintained a very high AA credit rating.

A main principle of the 2018/19 credit risk strategy was to invest mainly in UK government bonds along with corporate bonds with a high credit rating.

## Credit risk

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

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

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

## Credit risk – treasury investments

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

| 2017/18 | | Credit rating | 2018/19 | |
|---|---|---|---|---|
| **Long term** | **Short term** | | **Long term** | **Short term** |
| **£m** | **£m** | | **£m** | **£m** |
| 0.5 | 62.7 | AAA | 198.6 | 0 |
| 146.1 | 65.5 | AA | 177.3 | 0 |
| **146.6** | **128.2** | **Total** | **375.9** | **0** |
| 23.8 | 0.3 | Credit rating not applicable | 23.5 | 0.1 |
| **170.4** | **128.5** | **Total investments** | **399.4** | **0.1** |

The maximum single commercial exposure is to Svenska Handelsbanken at £45 million, which is lower than the 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. Loss allowances on treasury investments have been calculated on the 12 month expected credit loss model by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. For local government and central government investments these have been excluded for this loss allowance calculation.

In 2018/19 there are no treasury investments that have suffered a significant increase in credit risk since initial recognition.

## Credit risk: trade receivables

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

| | Trade debtors | Financial investments | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 1 April** | **(16.0)** | **0** | **(16.0)** |
| Impairment allowance for trade debtors | (2.2) | | **(2.2)** |
| Impairment allowance for corporate bonds and long term loans | | (0.1) | **(0.1)** |
| **Balance at 31 March** | **(18.2)** | **(0.1)** | **(18.3)** |

## 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:

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 493.9 | Less than 1 year | 568.6 |
| **493.9** | **Total short term borrowing** | **568.6** |
| 57.9 | 1 to 2 years | 264.6 |
| 194.7 | 3 to 5 years | 75.6 |
| 91.2 | 6 to 10 years | 110.4 |
| 269.6 | More than 10 years | 167.2 |
| **613.4** | **Total long term borrowing** | **617.8** |
| **1,107.3** | **Total borrowing** | **1,186.4** |

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

## Market risk

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

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

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

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

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

As part of a balanced portfolio, the interest rate risk is further mitigated by 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.
- Long term loans of over £200 million with the Public Works Loans Board with maturity dates beyond 2025 with guaranteed interest rates.

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

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

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

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

| | **2018/19** |
|---|---|
| | **£m** |
| Increase in interest payable on variable rate borrowings | 5.4 |
| Increase in interest receivable on variable rate investments | (0.6) |
| **Impact on surplus on the provision of services** | **4.8** |
| Decrease in fair value of fixed rate other comprehensive income investment assets | (26.5) |
| **Impact on other comprehensive income and expenditure** | **(21.7)** |
| Decrease in fair value of fixed rate loans and investments | (25.3) |
| Decrease in fair value of fixed rate borrowings | (54.4) |

## Defined benefit pension schemes

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

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

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

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

These other arrangements relate to:

### Teachers

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

### NEST pension scheme

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

## Governance and risk management

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

### Lancashire County Pension Fund

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

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

## Risks and investment strategy

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

### Market risk

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

### Other price risk

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

### Interest rate risk

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

### Currency risk

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

### Credit risk

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

### Liquidity risk

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

### Other risks

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

### Amendments, curtailments and settlements

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

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

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

## Schemes for teachers and transferred NHS staff

### Governance

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

### Funding the liabilities

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

### Investment risk

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

## Transactions relating to retirement benefits

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

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

- In 2018/19 £50.5 million was paid to the Department for Education for teachers' pension costs. This represents 16.5% of teachers' pensionable pay (2017/18: £51.4 million and 16.5%).
- In 2018/19 the council paid £0.1 million to the NHS Pension Scheme in respect of former NHS staff retirement benefits representing 15% of pensionable pay (2017/18: £0.1 million and 14%).
- The council is also responsible for all discretionary pension payments awarded to teachers, together with related increases. In 2018/19 these amounted to £8.4 million, representing 2.7% of pensionable pay (2017/18: £8.6 million and 2.7%).

In addition to the recognised gains and losses included in the comprehensive income and expenditure statement, a re-measurement of the net defined liability gain of £44.1 million (2017/18: £200.4 million gain) was included. The cumulative amount of actuarial gains and losses recognised in the comprehensive income and expenditure statement is a loss £248.3 million.

## Transactions relating to retirement benefits

| | Local Government Pension Scheme | | Teachers' Pension Scheme | |
|---|---|---|---|---|
| | 2018/19 | 2017/18 | 2018/19 | 2017/18 |
| | £m | £m | £m | £m |
| **Comprehensive income and expenditure statement** | | | | |
| **Cost of services** | | | | |
| Current service cost | 125.1 | 128.0 | 0 | 0 |
| Past service cost | 25.5 | 0 | 0 | 0 |
| (Gain)/loss from settlements and curtailments | 0.7 | 1.9 | 0 | 0 |
| Administration expenses | 2.0 | 1.9 | 0 | 0 |
| **Financing and investment income and expenditure** | | | | |
| Net Interest expense | 26.5 | 28.3 | 3.1 | 3.3 |
| **Total post-employment benefit charged to the surplus or deficit on the provision of services** | **179.8** | **160.1** | **3.1** | **3.3** |
| **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) | (277.0) | (32.4) | 0 | 0 |
| Experience (gains)/losses on liabilities | 0 | 0 | 0 | 0 |
| Actuarial (gains)/losses arising on changes in financial assumptions | 227.9 | (165.4) | 5.1 | (2.7) |
| Actuarial (gains)/losses arising on changes in demographic assumptions | 0 | 0 | 0 | 0 |
| **Total re-measurement recognised in other comprehensive income** | | | | |
| **Total post-employment benefit charged to the comprehensive income and expenditure statement** | **130.7** | **(37.7)** | **8.2** | **0.6** |
| **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 | 179.8 | 160.1 | 3.1 | 3.3 |
| **Actual amount charged against the general fund balance for pensions in the year** | | | | |
| **Employers' contributions payable to the scheme** | **78.5** | **73.0** | **10.1** | **10.2** |

## Assets and liabilities in relation to retirement benefits

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

| 2017/18 | | | 2018/19 | |
|---|---|---|---|---|
| Local government pension scheme | Teachers' pension scheme | | Local government pension scheme | Teachers' pension scheme |
| £m | £m | | £m | £m |
| 3,033.9 | 0 | Fair value of plan assets | 3,376.7 | 0 |
| (4,040.3) | (125.6) | Present value of the defined benefit obligation | (4,474.6) | (123.7) |
| **(1,006.4)** | **(125.6)** | **Net liability arising from defined benefit obligation** | **(1,097.9)** | **(123.7)** |

The pension liability on the balance sheet is £1,221.6 million, reflecting a payment in advance of £39.3 million in respect of the contributions and deficit payable for 2019/20. The pensions reserve balance of £1,260.9 million represents the valuation provided by the actuary for the pension liability as at 31 March 2019, which does not take account of the payment in advance.

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

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| **2,944.8** | **Opening balance as at 1 April** | **3,033.9** |
| 32.4 | Re-measurement (assets) | 276.9 |
| 74.1 | Interest on plan assets | 79.6 |
| (1.9) | Admin expenses | (2.0) |
| (1.1) | Settlements | 0 |
| 73.0 | Employer contributions | 78.5 |
| 22.7 | Contributions from scheme participants | 24.1 |
| (110.1) | Benefits/transfers paid | (114.3) |
| **3,033.9** | **Closing balance as at 31 March** | **3,376.7** |

## Reconciliation of present value of the scheme liabilities

| 2017/18 | | | 2018/19 | |
|---|---|---|---|---|
| Funded liabilities: Local government pension scheme | Unfunded liabilities: Teachers' pension scheme | | Funded liabilities: Local government pension scheme | Unfunded liabilities: Teachers' pension scheme |
| £m | £m | | £m | £m |
| **(4,140.7)** | **(135.2)** | **Opening balance as at 1 April** | **(4,040.3)** | **(125.6)** |
| (128.0) | 0 | Current service cost | (125.1) | 0 |
| 0 | 0 | Past service cost | (25.5) | 0 |
| (102.4) | (3.3) | Interest on pension liabilities | (106.0) | (3.1) |
| (22.8) | 0 | Contributions from scheme participants | (24.1) | 0 |
| 110.1 | 10.2 | Benefits/transfers paid | 114.3 | 10.1 |
| (3.4) | 0 | Curtailment cost | (0.7) | 0 |
| 2.8 | 0 | Gain/loss from settlements | 0 | 0 |
| | | **Re-measurement gains and (losses):** | | |
| 0 | 0 | - Experience gains/(losses) on liabilities | 0 | 0 |
| 165.4 | 2.7 | - Actuarial gains/(losses) arising from changes in financial assumptions | (227.8) | (5.1) |
| 0 | 0 | - Actuarial gains/(losses) arising from changes in demographic assumptions | 0 | 0 |
| 78.7 | 0 | Lump sum early payment of contributions | (39.4) | 0 |
| **(4,040.3)** | **(125.6)** | **Closing balance as at 31 March** | **(4,474.6)** | **(123.7)** |

## Local Government Pension Scheme assets comprised:

| 31 March 2018 | Asset category | Quoted in active markets (Y/N) | 31 March 2019 |
|---|---|---|---|
| **£m** | | | **£m** |
| **(12.7)** | **Cash and cash equivalents** | N | **19.6** |
| | **Bonds (by sector):** | | |
| 56.3 | Corporate | Y | 39.6 |
| 72.4 | Government | Y | 118.7 |
| **128.7** | **Sub-total bonds** | | **158.3** |
| | **Property (by type):** | | |
| 83.4 | Retail | N | 81.3 |
| 201.9 | Commercial | N | 233.4 |
| **285.3** | **Sub-total property** | | **314.7** |
| | **Private equity:** | | |
| 0 | UK | N | 0 |
| 220.2 | Overseas | N | 259.5 |
| **220.2** | **Sub-total private equity** | | **259.5** |
| | **Other investment funds:** | | |
| 384.5 | Infrastructure | N | 477.3 |
| 46.1 | Property | N | 51.7 |
| 1,981.8 | Miscellaneous | N | 2,095.6 |
| **2,412.4** | **Sub-total other investment funds** | | **2,624.6** |
| **3,033.9** | **Total assets** | | **3,376.7** |

## Basis for estimating assets and liabilities

| 2017/18 | | 2018/19 |
|---|---|---|
| **Mortality assumptions** | | |
| **Longevity at 65 for current pensioners** | | |
| 22.7 years | Male | 22.8 years |
| 25.4 years | Female | 25.5 years |
| **Longevity at 65 for future pensioners** | | |
| 25.0 years | Male | 25.1 years |
| 28.0 years | Female | 28.2 years |
| **Financial assumptions** | | |
| 2.1% | Rate of CPI inflation | 2.2% |
| 3.6% | Rate of increase in salaries | 3.7% |
| 2.2% | Rate of increase in pensions | 2.3% |
| 2.6% | Rate for discounting scheme liabilities | 2.4% |

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates and salary levels. Both the Teachers' Pension Scheme and County Council Fund liabilities have been assessed by Mercer, an independent firm of actuaries. The estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

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

## Sensitivity analysis

| | Impact on the defined benefit obligation in the scheme | |
|---|---|---|
| | **Increase in assumption** | **Decrease in assumption** |
| | **£m** | **£m** |
| Longevity (increase or decrease in 1 year) | 89.3 | (89.3) |
| Rate of inflation (increase or decrease by 1%) | 796.7 | (796.7) |
| Rate of increase in salaries (increase or decrease by 1%) | 102.2 | (102.2) |
| Rate for discounting scheme liabilities (increase or decrease by 1%) | (782.9) | 782.9 |

The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same.
This approach is not necessarily realistic since some assumptions are related.

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

## Impact on the council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible.

Actuarial valuations are required to be carried out every 3 years. The last 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 deficit at the valuation was therefore £690 million. The fund's employers are paying additional contributions in order to meet the shortfall.

The impact of an increase in scheme liabilities arising from the McCloud/Sargeant judgement will be measured through the pension valuation process, which determines employer and employee contribution rates. The next triennial actuarial valuation of the Fund will take effect from 1 April 2020.

The total contributions expected to be made to the Lancashire County Pension Fund by the council in the year to 31 March 2020 are £66.1 million. Expected contributions for the teachers and health workers in the year to 31 March 2020 are £50.5 million and £0.1 million respectively.

## Guaranteed minimum pension equalisation

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

## 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 2019. 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:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## Council tax and non-domestic rates income

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

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. 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 has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

### Charges to revenue for non-current assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off;
- 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 | 5-50 years depending upon the nature of the asset |
| Vehicles, plant and equipment | 10 years unless the life of the asset is considered to be less |
| IT equipment | 7-10 years depending upon the nature of the asset |

| | |
|---|---|
| Roads and highways infrastructure | 10-120 years depending upon the nature of the asset |
| 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 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets, measured at:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI), and;
- Fair value through profit or loss (FVPL).

## Financial assets measured at amortised cost

Where the council's business model is to hold investments to collect contractual cash flows, the financial assets are classified as amortised cost.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the balance sheet is the outstanding principal receivable plus accrued interest and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

There is no recognition of gains or losses on fair value until reclassification or derecognition of the asset.

## Financial assets measured at fair value through other comprehensive income (FVOCI)

The council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the council is not subject to a high degree of credit risk. These assets are measured at FVOCI.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For these financial assets held by the council, this means that the amount presented in the balance sheet is the fair value of the financial instrument and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price;

- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any changes in the fair value of the assets are charged to other comprehensive income and expenditure in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

Any gains or losses that arise on the derecognition of the asset are credited or 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 financial instruments revaluation reserve.

## Financial assets measured at fair value through profit of loss (FVPL)

Financial assets that are measured at FVPL are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair value gains and losses are recognised in the surplus or deficit on the provision of services as they arise.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

## Expected credit loss model

The council recognises expected credit losses on its financial assets held at amortised cost or FVOCI, (subject to materiality) either on a 12-month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the council.

## 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 effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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.

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's policy is to spread the gain or loss over the term remaining on the loan, against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

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

## 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 |
| Operational property, plant and equipment | Current value - existing use value |

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

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

Assets 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 three 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.

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

The balance of control for local authority maintained schools, foundation, voluntary aided and voluntary controlled schools are all deemed to lie with the council, therefore schools' assets, liabilities, reserves and cash flows are recognised in the council's financial statements as if they were transactions of the council.

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

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

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

School assets are derecognised in full on the date that a school transfers to academy status.

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

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

# Group accounts and explanatory notes

St Annes Pier

## 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

| 2017/18 restated | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| Gross expenditure | Gross income | Net expenditure | | Gross expenditure | Gross income | Net expenditure |
| £m | £m | £m | | £m | £m | £m |
| 947.4 | (921.4) | 26.0 | Schools | 968.0 | (941.3) | 26.7 |
| 29.7 | (2.9) | 26.8 | Chief executive services ◦ | 38.6 | (3.5) | 35.1 |
| 28.2 | (9.3) | 18.9 | Growth, environment and planning ◦ | 24.2 | (9.2) | 15.0 |
| 504.2 | (153.7) | 350.5 | Adults ◦ | 507.2 | (155.9) | 351.3 |
| 173.8 | (12.9) | 160.9 | Education and children's services ◦ | 183.0 | (14.6) | 168.4 |
| 96.5 | (80.2) | 16.3 | Public health and wellbeing ◦ | 89.6 | (75.7) | 13.9 |
| 232.9 | (58.6) | 174.3 | Highways and transport ◦ | 228.8 | (55.1) | 173.7 |
| 61.0 | (26.1) | 34.9 | Finance ◦ | 61.0 | (28.0) | 33.0 |
| 7.4 | (0.4) | 7.0 | Adult services and public health and wellbeing ◦ | 7.9 | (0.5) | 7.4 |
| 44.8 | (24.9) | 19.9 | Strategy and performance ◦ | 40.2 | (25.2) | 15.0 |
| 24.0 | (2.1) | 21.9 | Corporate ◦ | 21.4 | (2.7) | 18.7 |
| **2,149.9** | **(1,292.5)** | **857.4** | **Cost of services** | **2,169.9** | **(1,311.7)** | **858.2** |
| 19.5 | (6.5) | 13.0 | Other operating income and expenditure | 54.0 | (9.1) | 44.9 |
| 65.6 | (10.9) | 54.7 | Financing and investment income and expenditure | 83.8 | (30.9) | 52.9 |
| 0 | (846.2) | (846.2) | Taxation and non-specific grant income | 0 | (853.5) | (853.5) |
| **2,235.0** | **(2,156.1)** | **78.9** | **(Surplus)/deficit on provision of services** | **2,307.7** | **(2,205.2)** | **102.5** |
| 0 | (0.7) | (0.7) | Taxation on profit on ordinary activities (Note 6) | 1.3 | 0 | 1.3 |
| **2,235.0** | **(2,156.8)** | **78.2** | **Group (surplus)/deficit** | **2,309.0** | **(2,205.2)** | **103.8** |
| | | (125.8) | (Surplus)/deficit on revaluation of non-current assets | | | (170.9) |
| | | (200.4) | Re-measurement of the net defined benefit pension liability/(asset) | | | (44.1) |
| | | 0 | (Surplus)/deficit on financial assets measured at fair value through other comprehensive income | | | 10.0 |
| | | (11.8) | (Surplus)/deficit on revaluation of available for sale assets | | | 0 |
| | | **(338.0)** | **Other comprehensive income and expenditure** | | | **(205.0)** |
| | | **(259.8)** | **Total comprehensive income and expenditure** | | | **(101.2)** |

◦ The 2017/18 figures have been restated following the changes detailed in the single entity accounts Note 4 – Prior period adjustments

## 2018/19

| | 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 2018** | **(317.4)** | **0** | **(76.7)** | **(394.1)** | **(592.1)** | **(986.2)** | **(41.7)** | **(1,027.9)** |
| Movement in reserves during 2018/19 | | | | | | | | |
| Total comprehensive income and expenditure | 109.2 | 0 | 0 | 109.2 | (205.0) | (95.8) | (5.4) | (101.2) |
| Adjustment between accounting basis and funding basis under regulations | (100.4) | (1.0) | (22.2) | (123.6) | 123.6 | 0 | 0 | 0 |
| **(Increase)/decrease in year** | **8.8** | **(1.0)** | **(22.2)** | **(14.4)** | **(81.4)** | **(95.8)** | **(5.4)** | **(101.2)** |
| **Balance at 31 March 2019** | **(308.6)** | **(1.0)** | **(98.9)** | **(408.5)** | **(673.5)** | **(1,082.0)** | **(47.1)** | **(1,129.1)** |

## 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)** |

| 31 March 2018 £m | | Note | 31 March 2019 £m |
|---|---|---|---|
| 2,838.1 | Property, plant and equipment | | 3,029.5 |
| 28.7 | Heritage assets | | 28.7 |
| 42.3 | Investment properties | 8 | 47.5 |
| 20.1 | Intangible assets | | 14.7 |
| 167.6 | Long term investments | | 397.4 |
| 46.4 | Long term debtors | | 44.5 |
| 3,143.2 | Long term assets | | 3,562.3 |
| 130.0 | Short term investments | | 1.4 |
| 2.3 | Inventories | | 2.7 |
| 256.8 | Short term debtors | | 118.6 |
| 9.1 | Payments in advance | | 9.3 |
| 18.8 | Cash and cash equivalents | | 68.6 |
| 7.7 | Assets held for sale | | 5.5 |
| 424.7 | Current assets | | 206.1 |
| (480.7) | Short term borrowing | | (564.9) |
| (249.8) | Short term creditors | | (184.0) |
| (11.5) | Receipts in advance | | (13.5) |
| (8.5) | Short term provisions | | (9.8) |
| (5.8) | Other current liabilities | | (5.0) |
| (756.3) | Current liabilities | | (777.2) |
| (26.1) | Long term provisions | | (18.6) |
| (1.3) | Deferred tax liability | 9 | (2.6) |
| (472.7) | Long term borrowing | | (472.6) |
| (1,283.6) | Other long term liabilities | | (1,368.3) |
| (1,783.7) | Long term liabilities | | (1,862.1) |
| 1,027.9 | Net assets | | 1,129.1 |
| (394.1) | Usable reserves | 10 | (408.5) |
| (592.1) | Unusable reserves | 10 | (673.5) |
| (27.0) | Subsidiary usable reserves | 10 | (27.5) |
| (14.7) | Subsidiary unusable reserves | 10 | (19.6) |
| (1,027.9) | Total reserves | | (1,129.1) |

| 2017/18 £m | | Note | 2018/19 £m |
|---|---|---|---|
| (78.2) | Net surplus/(deficit) on the provision of services | | (103.8) |
| 67.4 | Adjustments to net surplus/deficit on the provision of services for non-cash movements | 11 | 208.0 |
| (127.4) | Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities | 11 | (114.1) |
| (0.7) | Taxation paid | | 0 |
| **(138.9)** | **Net cash flows from operating activities** | | **(9.9)** |
| 124.8 | Investing activities | 12 | (18.8) |
| (95.4) | Financing activities | 13 | 78.5 |
| **(109.5)** | **Net increase/(decrease) in cash or cash equivalents** | | **49.8** |
| 128.3 | Cash and cash equivalents at the beginning of the reporting period | | 18.8 |
| **18.8** | **Cash and cash equivalents at the end of the reporting period** | | **68.6** |

## 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 2019 have been used for consolidation.

## Note 3 - Entities not consolidated

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

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

| Company | Interest | Relationship |
|---|---|---|
| Lancashire Renewables Limited | 87.5% | Subsidiary |
| Marketing Lancashire Limited | 100% | Subsidiary |
| Local Pensions Partnership Limited | 50% | Joint venture |
| Active Lancashire Limited | 100% | Subsidiary |
| Lancashire Partnership Against Crime Limited | 25% | Associate |
| Lancashire Environmental Fund Limited | 25% | Associate |
| Lancashire Enterprise Partnership Limited | 100% | Subsidiary (Dormant company) |
| Lancashire Workforce Development Partnership Limited | 100% | Subsidiary (Company dissolved 29 June 2018) |
| Burnley Education Trust | 75% | Member (Dormant entity) |

## Note 4 - Entities consolidated

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

### Lancashire County Developments Limited

Company registration number: 01624144

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

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

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

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

- Lancashire County Developments (Property) Limited - owns and manages 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

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Fees in respect of Lancashire County Council** | |
| 113 | Fees incurred with regard to external audit services provided by Grant Thornton | 87 |
| 4 | Fees incurred for other audit work undertaken by Grant Thornton | 4 |
| 9 | Fees payable in respect of other services provided by Grant Thornton | 9 |
| **126** | **Total fees for Lancashire County Council** | **100** |
| | **Fees in respect of Lancashire County Developments Limited** | |
| 30 | Fees incurred with regard to external audit services provided by Beever and Struthers | 32 |
| 10 | Fees payable in respect of other services provided by Beever and Struthers during the year | 0 |
| **40** | **Total fees for Lancashire County Developments Limited** | **32** |
| **166** | **Total** | **132** |

## Note 6 - Group taxation

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

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| (0.7) | Deferred tax: origination and reversal of timing differences | 1.3 |
| **(0.7)** | **Total deferred tax** | **1.3** |
| **(0.7)** | **Taxation on profit on ordinary activities** | **1.3** |

### Factors affecting the tax charge for the year

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| **(3.6)** | **Profit on ordinary activities before taxation** | **6.7** |
| (0.7) | Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19% | 1.3 |

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

| | Balance at 31 March 2017 restated | Transfers out 2017/18 | Transfers in 2017/18 | Balance at 31 March 2018 | Transfers out 2018/19 | Transfers in 2018/19 | Balance at 31 March 2019 |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Total earmarked reserves of the council** | **(341.3)** | **132.8** | **(108.9)** | **(317.4)** | **108.6** | **(99.8)** | **(308.6)** |
| Capital funding reserve | (8.7) | 0 | 0 | (8.7) | 0 | 0 | (8.7) |
| Profit and loss account | (18.4) | 0.1 | 0 | (18.3) | 0 | (0.5) | (18.8) |
| **Total revenue and capital reserves of the subsidiary** | **(27.1)** | **0.1** | **0** | **(27.0)** | **0** | **(0.5)** | **(27.5)** |
| **Total reserves** | **(368.4)** | **132.9** | **(108.9)** | **(344.4)** | **108.6** | **(100.3)** | **(336.1)** |

## Note 8 – Group investment properties

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| (3.9) | Rental Income from investment property | (4.2) |
| 1.2 | Direct operating expenses arising from investment property | 0 |
| **(2.7)** | **Total** | **(4.2)** |

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

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| **46.2** | **Balance as at 1 April** | **42.3** |
| 0 | Additions | 0 |
| (0.4) | Reclassifications | 0 |
| (0.3) | Disposals | (1.2) |
| (3.2) | Net gains/(losses) from fair value adjustments | 6.4 |
| **42.3** | **Balance as at 31 March** | **47.5** |

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

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

## Valuation process for investment properties

The fair value of the investment property is revalued annually by the council's internal estates department. Every three years the company obtains an external valuation for the commercial units.

The 2018/19 commercial unit valuations have been undertaken by Cushman and Wakefield in accordance with the appropriate sections of the current edition of the RICS Valuation — Global Standards which incorporate the International Valuation Standards and the RICS UK national supplement (RICS Red Book).

## Basis of valuation

The fair value of the investment property portfolio has been estimated using the income approach. This valuation technique converts future cash flows from the property (e.g. future rental income) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Where a market approach does not include significant unobservable adjustments, these assets are categorised as level 2.

The fair value level for the council's investment property portfolio is designated as level 2 inputs.

## Fair value hierarchy

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

| 31 March 2018 | | | Property type | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| Balance sheet value | Fair value | Fair value level | | Fair value level | Balance sheet value | Fair value |
| £m | £m | | | | £m | £m |
| 1.6 | 1.6 | 2 | Residential properties | 2 | 1.6 | 1.6 |
| 40.7 | 40.7 | 2 | Commercial units | 2 | 45.9 | 45.9 |
| **42.3** | **42.3** | | **Total** | | **47.5** | **47.5** |

## Note 9 - Deferred taxation

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| **2.0** | **Balance as at 1 April** | **1.3** |
| (0.7) | Charge for the year | 1.3 |
| **1.3** | **Balance as at 31 March** | **2.6** |

* The taxation figures for 2018/19 are not yet available

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:

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| (23.4) | General fund | (23.4) |
| (223.8) | Earmarked reserves | (217.3) |
| (70.2) | School reserves | (67.9) |
| **(317.4)** | **Total earmarked reserves of the council** | **(308.6)** |
| (76.7) | Capital grants unapplied reserve | (98.9) |
| 0 | Usable capital receipts | (1.0) |
| **(394.1)** | **Total usable reserves of the council** | **(408.5)** |
| (27.0) | Usable reserves of the subsidiary | (27.5) |
| **(421.1)** | **Total usable reserves of the group** | **(436.0)** |

The table below shows the group's unusable reserves:

| 31 March 2018 £m | | 31 March 2019 £m |
|---|---|---|
| (4.1) | Available for sale financial instruments reserve | 0 |
| 38.4 | Financial instruments adjustment account | 52.0 |
| 0 | Financial instruments revaluation reserve | 5.9 |
| (857.7) | Revaluation reserve | (989.9) |
| (995.6) | Capital adjustment account | (1,019.7) |
| 1,210.7 | Pensions reserve | 1,260.9 |
| (10.4) | Collection fund adjustment account | (7.4) |
| 26.6 | Accumulated absences adjustment account | 24.7 |
| **(592.1)** | **Total unusable reserves of the council** | **(673.5)** |
| (14.7) | Revaluation reserve for subsidiary | (19.6) |
| **(606.8)** | **Total unusable reserves of the group** | **(693.1)** |

The revaluation reserve for the subsidiary is detailed below.

| 31 March 2018 £m | | 31 March 2019 £m |
|---|---|---|
| **(17.5)** | **Balance as at 1 April** | **(14.7)** |
| 3.5 | Upward revaluation of assets | (6.2) |
| (0.7) | Deferred taxation | 1.3 |
| **2.8** | **(Surplus) or deficit on the revaluation of non-current assets not posted to the surplus or deficit on the provision of services** | **(4.9)** |
| **(14.7)** | **Balance as at 31 March** | **(19.6)** |

## Note 11 - Group cash flows from operating activities

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

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| (15.0) | Interest received | (24.5) |
| 33.9 | Interest paid | 33.6 |

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

| 31 March 2018 restated | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| 45.0 | Depreciation ◦ | 57.6 |
| 1.1 | Impairment and downward/(upward) valuations ◦ | (36.7) |
| 5.3 | Amortisation of intangible assets | 5.8 |
| (6.3) | Increase/(decrease) in provision for bad debts | (4.1) |
| (19.0) | Increase/(decrease) in creditors | 24.3 |
| 10.7 | (Increase)/decrease in debtors | (13.3) |
| 1.2 | (Increase)/decrease in inventories | (0.3) |
| 1.4 | Movement in pension liability | 133.7 |
| 18.5 | Carrying amount of non-current assets sold | 52.9 |
| 9.5 | Other non-cash items charged to the surplus or deficit on the provision of services | (11.9) |
| **67.4** | **Total** | **208.0** |

◦ The 2017/18 figures have been restated following changes to the depreciation charge

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

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| (6.6) | Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries) | (16.3) |
| 0 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets ◦ | (1.0) |
| (120.8) | Capital grants credited to the surplus on the provision of services | (96.8) |
| **(127.4)** | **Total** | **(114.1)** |

## Note 12 - Group cash flows from investing activities

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| (113.4) | Purchase of property, plant and equipment, investment property and intangible assets | (93.0) |
| (6,239.5) | Purchase of short term and long term investments | (11,375.8) |
| 4.6 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 4.1 |
| 6,332.5 | Proceeds from the sale of short term and long term investments | 11,346.2 |
| 140.6 | Other capital grants and receipts from investing activities | 99.7 |
| **124.8** | **Net cash flows from investing activities** | **(18.8)** |

## Note 13 - Group cash flows from financing activities

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £m | | £m |
| 1,028.9 | Cash receipts from short term and long term borrowing | 1,319.5 |
| (0.5) | Appropriate to/from collection fund adjustment account | 3.1 |
| (1,118.8) | Repayment of short term and long term borrowing | (1,239.2) |
| (5.0) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | (4.9) |
| **(95.4)** | **Net cash flows from financing activities** | **78.5** |

# Pension fund accounts and explanatory notes

River Lune
Photo credit: Jacqui White

## Lancashire County Pension Fund

## Fund account

| 2017/18 | | Note | 2018/19 |
|---|---|---|---|
| **£m** | **Dealing with members, employers and others directly involved in the Fund** | | **£m** |
| 374.9 | Contributions [1] | 6 | 170.9 |
| 11.5 | Transfers in from other pension funds | 7 | 11.0 |
| **386.4** | | | **181.9** |
| (254.8) | Benefits | 8 | (275.3) |
| (17.9) | Payments to and on account of leavers | 9 | (16.4) |
| **(272.7)** | | | **(291.7)** |
| **113.7** | **Net (withdrawals)/additions from dealings with members** | | **(109.8)** |
| (62.4) | Management expenses | 10 | (76.3) |
| **51.3** | **Net (withdrawals)/additions including fund management expenses** | | **(186.1)** |
| | **Returns on investments** | | |
| 138.7 | Investment income | 11 | 193.5 |
| 221.9 | Profit and losses on disposal of investments and changes in the value of investments | 13 | 781.5 |
| **360.6** | **Net return on investments** | | **975.0** |
| **411.9** | **Net increase in the net assets available for benefits during the year** | | **788.9** |
| **7,209.3** | **Opening net assets of the scheme** | | **7,621.2** |
| **7,621.2** | **Closing net assets of the scheme** | | **8,410.1** |

[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 for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m.

## Net assets statement as at 31 March 2019

| 31 March 2018 | | Note | 31 March 2019 |
|---|---|---|---|
| £m | | | £m |
| 7,448.2 | Investment assets | 13 | 8,327.3 |
| 162.0 | Cash deposits | 13 | 67.1 |
| **7,610.2** | **Total net investments** | | **8,394.4** |
| 23.4 | Current assets | 19 | 22.0 |
| (12.4) | Current liabilities | 20 | (6.3) |
| **7,621.2** | **Net assets of the fund available to fund benefits at the end of the reporting period** | | **8,410.1** |

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

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2019 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.

An up-front contribution of £137.0 m was received from employers during the year ended 31 March 2018, relating to the years ending 31 March 2019 and 2020. The upfront contribution was recognised in the year of receipt and therefore contribution income for the year ended 31 March 2019 is significantly reduced when compared to the prior year. Contribution income of £170.9m together with transfers in of £11.0m part funded the payment of £291.7m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2019, 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 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### General

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

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

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

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

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

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

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

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

The Lancashire Local Pension Board, established in 2015, assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at Lancashire Fund Information.

The investments of the Fund are managed by the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP 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 432 employer organisations (2017/18: 412) within Lancashire County Pension Fund including the County Council itself, of which 300 have active members (2017/18: 287) as detailed in the following table:

| 31 March 2018 | Lancashire County Pension Fund | 31 March 2019 |
|---:|---|---:|
| 412 | Total number of employers | 432 |
| 287 | Number of employers with active members[1] | 300 |
| | **Number of active scheme members[2]** | |
| 25,126 | County Council | 25,721 |
| 26,220 | Other employers | 27,422 |
| **51,346** | **Total** | **53,143** |
| | **Number of pensioners** | |
| 23,722 | County Council | 24,692 |
| 23,723 | Other employers | 24,651 |

| | | |
|---|---|---|
| **47,445** | **Total** | **49,343** |
| | **Number of deferred pensioners[2]** | |
| 37,410 | County Council | 37,691 |
| 35,873 | Other employers | 36,299 |
| **73,283** | **Total** | **73,990** |
| **172,074** | **Total membership** | **176,476** |

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

[2]March 2018 membership numbers have been adjusted to transfer 5,330 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 5,089 pending leavers has been made at 31 March 2019.

## 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 2019. 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.

Currently, employer contribution rates range from 0.0 % to 28.0 % of pensionable pay and are dependent on the assumptions applied by the actuary when carrying out the valuation. Examples of variables which may differ between employers are demographic assumptions regarding the age profile and life expectancy of employees, probability of dependant's pensions becoming payable and the likelihood of ill health retirements.

## Benefits

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

The scheme benefits are summarised in the following table.

| | Service Pre 1 April 2008 | Service post 1 April 2008 and pre 1 April 2014 | Service post 1 April 2014 |
|---|---|---|---|
| **Pension** | Each year worked is worth 1/80th x final pensionable salary. | Each year worked is worth 1/60th x final pensionable salary. | Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme). |
| **Lump sum** | Automatic lump sum of 3 x salary.<br>In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br>Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br>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 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2018/19* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The accounts have been prepared on a going concern basis.

### Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19,* 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 2019 but not yet adopted by the Code. It is anticipated that the 2019/20 code will introduce amendments in respect of:

- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- *Annual Improvements to IFRS Standards 2014 - 2016 Cycle*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

The amendments noted above are not considered likely to have a significant impact on the accounts of the Fund.

## Note 3 - Accounting policies

### Fund account - revenue recognition

#### Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 using common percentage rates for all schemes which rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the fund 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 or out are accounted for when received or paid, which is when the member liability is accepted or discharged.

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

## Investment income

### Interest income

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

### 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.

### 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.

### Movement in the net market value of investments

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

## Fund account – expense items

### Benefits payable

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

### Taxation

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

## Management expenses

The Fund discloses its pension fund management expenses 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 2018/19, £0.7m of fees is based on such estimates (2017/18: £11.5m).

## 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).

The investments of the Fund are managed by the Local Pensions Partnership and, other than direct property holdings and a number of legacy assets, the investments have been transitioned into pools within the partnership. Lancashire County Council is a shareholder of the Local Pensions Partnership. The Fund does not have a direct investment in the partnership itself and no investment balance is included on the net asset statement of the Fund. The pooled investments are disclosed in more detail in note 13 and note 22 provides information on the transactions between the Fund and the partnership.

### Freehold and leasehold properties

The properties were valued at open market value at 31 March 2019 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). 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, 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 and are recognised in the net asset statement at amortised cost.

## Cash and cash equivalents

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

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

## Financial liabilities

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

## Actuarial present value of promised retirement benefits

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

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

## Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The AVC providers to the Pension Fund 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 for information in note 18.

## Note 4 - Critical judgements in applying accounting policies

### Pension Fund liability

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

### 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.

### Directly held property

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. Under the classifications permitted by IAS7 and the Code, the Fund has determined that the tenant leases are operating leases. The risks and rewards of ownership of the properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.

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

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

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

| Item | Uncertainties | Impact if actual results differ from assumptions |
|---|---|---|
| Private equity and infrastructure investments | Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 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 £1,796.5 m.<br><br>There is a risk that these investments might be under or overstated in the accounts.<br><br>Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks. |
| Long-term credit investments | Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data. | The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing Trust listed separately below) totals £1,134.1m.<br><br>There is a risk that these investments might be under or overstated in the accounts.<br><br>Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks. |
| 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 £352.0m in the financial statements.<br><br>There is a risk that this may be under or overstated.<br><br>Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks. |
| 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 £124.0m.<br><br>There is a risk that these investments may be under or overstated in the accounts.<br><br>Note 17 provides information on the sensitivity of the value of these investments to currency fluctuations, market and other price risks. |

| | | |
|---|---|---|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex 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 (Mercer) 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 £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £185m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £220m. |

## Note 6 - Contributions receivable

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | **By category** | **£m** |
| 56.5 | Members | 58.7 |
| | Employers: | |
| 221.3 | Normal contributions [1] | 96.8 |
| 89.9 | Deficit recovery contributions [1] | 11.4 |
| 7.2 | Augmentation contributions [2] | 4.0 |
| 318.4 | Total employers contributions | 112.2 |
| **374.9** | **Total contributions receivable** | **170.9** |
| | **By type of employer** | |
| 174.9 | County Council [1] | 57.8 |
| 176.5 | Scheduled bodies [1] | 93.1 |
| 23.5 | Admitted bodies | 20.0 |
| **374.9** | | **170.9** |

[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 for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m

[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 2018/19, £0.3m is voluntary and additional regular contributions (2017/18: £0.4m).

## Note 7 - Transfers in from other pension funds

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| 11.5 | Individual transfers in from other schemes | 11.0 |
| **11.5** | | **11.0** |

## Note 8 - Benefits payable

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | **By category** | **£m** |
| 213.6 | Pensions | 226.5 |
| 35.1 | Commutation and lump sum retirement benefits | 43.0 |
| 6.1 | Lump sum death benefits | 5.8 |
| **254.8** | | **275.3** |
| | By type of employer | |
| 107.1 | County Council | 116.4 |
| 126.5 | Scheduled bodies | 137.5 |
| 21.2 | Admitted bodies | 21.4 |
| **254.8** | | 275.3 |

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

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| 0.6 | Refunds to members leaving service | 0.6 |
| 17.3 | Individual transfers | 15.8 |
| **17.9** | | **16.4** |

## Note 10 - Management expenses

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 3.8 | Fund administrative costs | 3.7 |
| 57.3 | Investment management expenses[1] | 71.7 |
| 1.3 | Oversight and governance costs [1,2] | 0.9 |
| **62.4** | | **76.3** |

[1]£3.2m investment property management expenses have been reclassified from oversight and governance costs to investment management expenses in the 2017/18 comparatives.
[2] Oversight and governance costs above include external audit fees which amounted to £34,169 (2017/18: £34,169). Additional fees of £10,500 were paid to the external auditor for IAS19 assurance work on behalf of Fund employers within the PSAA regime.

### Investment management expenses

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 0.4 | Transaction costs[1] | 1.0 |
| 45.0 | Fund value based management fees [2] | 48.3 |
| 0.3 | Transition fees | - |
| 11.5 | Performance related fees[3] | 22.4 |
| 0.1 | Custody fees | - |
| **57.3** | | **71.7** |

[1]Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.
[2] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.
[3]Performance related fees in the year ended 31 March 2018 included a non-recurring fee on global equities of £2.3m.

## Note 11 - Investment income

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 3.3 | Fixed interest securities | 2.1 |
| 0.8 | Index linked securities | - |
| 103.4 | Pooled investment vehicles | 157.2 |
| 2.2 | Pooled property investments | 1.7 |
| 28.9 | Net rents from properties | 32.0 |
| 0.1 | Interest on cash deposits | 0.5 |
| **138.7** | **Total investment income** | **193.5** |

## Note 12 - Property income

| 2017/18 | | 2018/19 |
|---|---|---|
| £m | | £m |
| 32.2 | Rental income | 36.7 |
| (3.3) | Direct operating expenses | (4.7) |
| **28.9** | **Net income** | **32.0** |

## Note 13 - Reconciliation of movements in investments and derivatives

| | Market value as at 1 April 2018 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in value during the year [1] | Market value as at 31 March 2019 |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Fixed interest securities | 116.8 | 321.3 | (329.1) | 1.7 | 110.7 |
| Index linked securities | 178.0 | 122.2 | (3.1) | (13.5) | 283.6 |
| Pooled investment vehicles | 6,321.5 | 507.0 | (496.3) | 711.0 | 7,043.2 |
| Pooled property investments | 113.3 | 8.3 | | 2.4 | 124.0 |
| Direct property | 715.5 | 34.8 | | 11.6 | 761.9 |
| | **7,445.1** | **993.6** | **(828.5)** | **713.2** | **8,323.4** |
| Other investment balances: | | | | | |
| Cash deposits | 162.0 | | | | 67.1 |
| Investment income due | 3.1 | | | | 3.9 |
| **Net investment assets** | **7,610.2** | | | | **8,394.4** |

[1] £781.5m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

| | 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.

## Investments analysed by fund manager

| 31 March 2018 | | | 31 March 2019 | |
|---|---|---|---|---|
| £m | % of net investment assets | | £m | % of net investment assets |
| **Investments managed by LPPI Private Equity Fund** | | | | |
| 83.5 | 1.1% | Capital Dynamics | 75.9 | 0.9% |
| 37.1 | 0.5% | HGGC | 67.6 | 0.8% |
| 22.1 | 0.3% | Hermes GPE | 38.5 | 0.5% |
| 26.1 | 0.3% | Insight Venture Partners | 38.0 | 0.5% |
| 30.0 | 0.4% | Permira | 35.3 | 0.4% |
| 32.1 | 0.4% | Genstar Capital | 33.6 | 0.4% |
| 10.0 | 0.1% | Adveq TMC | 25.7 | 0.3% |
| 13.1 | 0.2% | Colbeck Capital Management | 23.4 | 0.3% |
| 17.4 | 0.2% | BV Investment Partners | 22.3 | 0.3% |
| 15.1 | 0.2% | Waterland | 20.4 | 0.2% |
| 14.1 | 0.2% | ECI Partners | 18.8 | 0.2% |
| 14.4 | 0.2% | Mid Europa Partners | 17.6 | 0.2% |
| 15.1 | 0.2% | CVC Capital Partners | 17.2 | 0.2% |
| 21.4 | 0.3% | Nordic Capital | 16.8 | 0.2% |
| 15.2 | 0.2% | Thoma Bravo | 15.4 | 0.2% |
| 9.6 | 0.1% | CBPE Capital | 14.8 | 0.2% |
| 10.0 | 0.1% | Advent Life Sciences | 14.0 | 0.2% |
| 16.5 | 0.2% | Apax Partners | 14.0 | 0.2% |
| 16.1 | 0.2% | Hg Capital | 13.2 | 0.2% |
| 10.8 | 0.1% | Rutland Fund Management | 12.5 | 0.2% |
| 7.5 | 0.1% | Endeavour Vision | 12.0 | 0.1% |

| | | | | |
|---|---|---|---|---|
| 14.1 | 0.2% | Ironbridge Equity Partners | 11.3 | 0.1% |
| 13.2 | 0.2% | SL Capital Partners | 10.9 | 0.1% |
| 6.3 | 0.1% | NorthEdge Capital | 9.9 | 0.1% |
| 6.0 | 0.1% | Advent Venture Partners | 9.8 | 0.1% |
| 9.9 | 0.1% | Alpha Group | 7.9 | 0.1% |
| 6.1 | 0.1% | Littlejohn & Co | 6.5 | 0.1% |
| 6.0 | 0.1% | Advent International | 5.7 | 0.1% |
| 6.3 | 0.1% | Triton Partners | 5.7 | 0.1% |
| 7.0 | 0.1% | LPP internal managers | 4.5 | 0.1% |
| 6.5 | 0.1% | Chequers Capital | 3.6 | - |
| 3.5 | 0.1% | Charterhouse Capital Partners | 3.4 | - |
| 4.4 | 0.1% | Accent | 3.0 | - |
| - | - | True Capital | 1.8 | - |
| - | - | MCP | 1.6 | - |
| 1.8 | - | Abingworth Management | 1.0 | - |
| 0.8 | - | Private Equity Partners | 0.8 | - |
| 1.8 | - | EQT Partners | 0.5 | - |
| 0.1 | - | Italian Capital Management | 0.1 | - |
| **531.0** | **7.0%** | | **635.0** | **7.6%** |
| **Private equity investments managed outside of LPPI Private Equity Fund** | | | | |
| 16.7 | 0.2% | Trilantic Capital Partners | 15.4 | 0.2% |
| **16.7** | **0.2%** | | **15.4** | **0.2%** |
| **Investments managed by LPPI Credit Investments Fund** | | | | |
| 200.4 | 2.6% | Prima Mortgage Investment Trust LLC | 180.6 | 2.2% |
| 114.8 | 1.5% | Bluebay | 96.1 | 1.2% |
| - | - | Robeco | 87.4 | 1.0% |
| 73.8 | 1.0% | White Oak | 78.8 | 0.9% |
| - | - | Primerica | 70.3 | 0.8% |
| 84.3 | 1.1% | Apollo | 67.1 | 0.8% |

| | | | | |
|---|---|---|---|---|
| 61.9 | 0.8% | Venn Commercial Real Estate | 66.7 | 0.8% |
| 67.2 | 0.9% | King Street | 59.2 | 0.7% |
| 64.5 | 0.9% | Permira | 49.3 | 0.6% |
| 51.7 | 0.7% | Monarch | 47.1 | 0.6% |
| 38.5 | 0.5% | M&G | 32.3 | 0.4% |
| 37.2 | 0.5% | MFO King Street | 29.3 | 0.3% |
| 35.7 | 0.5% | Kreos | 26.7 | 0.3% |
| 10.4 | 0.1% | Muzinich Private Debt Fund | 13.5 | 0.1% |
| 14.4 | 0.2% | Blackrock | 6.6 | 0.1% |
| 8.5 | 0.1% | Westmill | 6.6 | 0.1% |
| 79.7 | 1.0% | LPPI internal managers | 5.4 | 0.1% |
| 128.1 | 1.7% | Pictet | - | - |
| **1,071.1** | **14.1%** | | **923.0** | **11.0%** |
| **Credit investments managed outside of LPPI Credit Investments Fund** | | | | |
| 198.3 | 2.6% | Heylo Housing Trust | 352.0 | 4.2% |
| 138.0 | 1.8% | CRC | 111.5 | 1.3% |
| 56.6 | 0.7% | Neuberger Berman | 52.1 | 0.6% |
| 48.3 | 0.6% | Pimco Bravo | 31.8 | 0.4% |
| 31.2 | 0.4% | EQT | 10.1 | 0.1% |
| 18.8 | 0.3% | Hayfin | 5.6 | 0.1% |
| **491.2** | **6.4%** | | **563.1** | **6.7%** |
| **Investments managed by LPPI Fixed Income Fund** | | | | |
| 92.0 | 1.2% | PIMCO | 157.6 | 1.9% |
| 91.8 | 1.2% | Wellington | 155.9 | 1.8% |
| - | - | LPPI internal managers | 1.2 | - |
| **183.8** | **2.4%** | | **314.7** | **3.7%** |
| **Liquid credit investments managed outside of LPPI Fixed Income Fund** | | | | |
| 282.0 | 3.7% | LPPI internal and LCC Treasury Management | 181.6 | 2.1% |

| | | | | |
|---|---|---|---|---|
| **282.0** | **3.7%** | | **181.6** | **2.1%** |
| **Investments managed by LPPI Global Equities Fund** | | | | |
| 1,306.2 | 17.2% | LPPI internal managers | 1,531.8 | 18.3% |
| 482.5 | 6.3% | Magellan | 551.1 | 6.6% |
| 469.0 | 6.2% | Robeco | 548.8 | 6.5% |
| 466.7 | 6.1% | First Eagle | 540.4 | 6.4% |
| 315.1 | 4.1% | Wellington | 368.6 | 4.4% |
| 174.9 | 2.3% | Baron | 188.2 | 2.2% |
| - | - | MFS | 0.5 | - |
| - | - | Macquarie | 0.2 | - |
| **3,214.4** | **42.2%** | | **3,729.6** | **44.4%** |
| **Investments managed by LPPI Infrastructure Investments Fund** | | | | |
| 84.2 | 1.1% | GLIL Infrastructure LLP | 266.9 | 3.2% |
| 95.0 | 1.2% | Guild Investments Limited | 105.4 | 1.3% |
| 111.4 | 1.5% | Elisandra Spain | 102.1 | 1.2% |
| 79.5 | 1.0% | Semperian PPP | 93.6 | 1.1% |
| 44.8 | 0.6% | ISquared Global Infrastructure | 56.7 | 0.7% |
| 47.2 | 0.6% | Global Infrastructure Partners | 54.3 | 0.5% |
| 61.6 | 0.8% | Cape Byron Infrastructure | 41.6 | 0.5% |
| 34.2 | 0.5% | Meridiam Infrastructure | 41.6 | 0.5% |
| 30.8 | 0.4% | ISQ Viridian | 34.6 | 0.4% |
| 32.7 | 0.4% | EQT Infrastructure | 31.8 | 0.4% |
| 35.6 | 0.5% | LPPI internal managers | 29.9 | 0.4% |
| 24.9 | 0.3% | Capital Dynamics | 27.8 | 0.4% |
| 20.7 | 0.3% | Stonepeak Infrastructure | 24.2 | 0.3% |
| 15.5 | 0.2% | Glennmont | 9.0 | 0.1% |
| 6.3 | 0.1% | Icon Infrastructure Partners | 6.9 | 0.1% |
| 3.0 | 0.1% | Stonepeak Claremont | 3.9 | - |
| **727.4** | **9.6%** | | **930.3** | **11.1 %** |

| Infrastructure investments managed outside of LPPI Infrastructure Investments Fund | | | | |
|---|---|---|---|---|
| 104.6 | 1.4% | Arclight Energy | 103.2 | 1.2% |
| 77.1 | 1.0% | Icon Infrastructure Partners | 55.6 | 0.7% |
| 49.4 | 0.7% | Highstar Capital | 31.5 | 0.4% |
| 32.7 | 0.4% | Capital Dynamics Red Rose | 25.5 | 0.3% |
| **263.8** | **3.5%** | | **215.8** | **2.6%** |
| **Property** | | | | |
| 715.5 | 9.4% | Knight Frank | 761.9 | 9.1% |
| 46.0 | 0.6% | M&G Europe fund | 47.9 | 0.6% |
| 39.0 | 0.5% | Gatefold Hayes | 40.3 | 0.5% |
| 28.3 | 0.4% | Kames Target | 28.3 | 0.3% |
| - | - | BaseCamp Real Estate Partners Ltd | 7.4 | 0.1% |
| **828.8** | **10.9%** | | **885.9** | **10.6%** |
| **7,610.2** | **100.0%** | | **8,394.4** | **100.0%** |

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

| **31 March 2018** | | | **31 March 2019** | |
|---|---|---|---|---|
| **£m** | **% of total fund** | | **£m** | **% of total fund** |
| 3,214.4 | 42.2% | LPPI Global Equity Fund | 3,729.6 | 44.4% |
| 727.4 | 9.6% | LPPI Infrastructure Fund | 930.3 | 11.1% |
| 1,071.1 | 14.1% | LPPI Credit Strategies Fund | 923.0 | 11.0% |
| 531.0 | 7.0% | LPPI Private Equity Fund | 635.0 | 7.6% |

## Fixed interest securities

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| 32.5 | UK corporate bonds quoted | 63.8 |
| 14.2 | Overseas public sector | 12.0 |
| 70.1 | Overseas corporate bonds quoted | 34.9 |
| **116.8** | | **110.7** |

## Index linked securities

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| 178.0 | UK quoted | 283.6 |
| **178.0** | | **283.6** |

## Pooled investment vehicles

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | **UK funds:** | **£m** |
| 183.8 | Fixed income funds | 314.7 |
| 108.2 | Private equity | 137.0 |
| 760.1 | Infrastructure | 955.8 |
| 1,110.3 | Long term credit investments | 997.0 |
| 67.3 | Property funds | 68.6 |
| | **Overseas funds:** | |
| 242.8 | Fixed income funds | 195.3 |
| 439.5 | Private equity | 513.4 |
| 231.1 | Infrastructure | 190.3 |
| 31.2 | Long term credit investments | 10.1 |
| 3,214.4 | Equity funds[1] | 3,729.6 |
| 46.0 | Property funds | 55.4 |
| **6,434.7** | | **7,167.2** |

[1]Equity funds are held in the LPPI Global Equity Fund which includes UK equities.

## Direct property investments

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| 601.8 | UK – freehold | 624.8 |
| 113.7 | UK – long leasehold | 137.1 |
| **715.5** | | **761.9** |

## 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 2018 | | 31 March 2019 |
|---|---|---|
| **£m** | | **£m** |
| **637.0** | **Opening balance** | **715.5** |
| | **Additions:** | |
| 18.3 | • Purchases | 3.4 |
| 15.5 | • New construction | 31.2 |
| 9.2 | • Subsequent expenditure | 0.9 |
| (17.9) | Disposals | - |
| 53.4 | Net increase in market value | 10.9 |
| **715.5** | **Closing balance** | **761.9** |

## 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.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£m** | | **£m** |
| 29.3 | Leases expiring within one year | 36.3 |
| 81.1 | Leases expiring between one and five years | 109.8 |
| 126.1 | Leases expiring later than five years | 112.2 |
| **236.5** | **Total future minimum lease payments receivable under existing non-cancellable leases** | **258.3** |

The above disclosures have been reduced by a credit loss allowance of 2.1 % per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property management agents.

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 property managers to fill these voids.

## Cash deposits

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£m** | | **£m** |
| 109.1 | Sterling | 43.5 |
| 52.9 | Foreign currency | 23.6 |
| **162.0** | | **67.1** |

## 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 2019

| | Fair value through profit or loss | Loans and receivables at amortised cost | Financial liabilities at amortised cost |
|---|---|---|---|
| | £m | £m | £m |
| **Financial assets** | | | |
| Fixed interest securities | 110.7 | | |
| Index linked securities | 283.6 | | |
| Pooled investment vehicles | 7,043.2 | | |
| Pooled property investments | 124.0 | | |
| Cash deposits | | 67.1 | |
| Investment accruals | 3.9 | | |
| Debtors | | 22.0 | |
| **Total financial assets** | **7,565.4** | **89.1** | |
| **Financial liabilities** | | | |
| Creditors | | | 6.3 |
| **Total financial liabilities** | | | **6.3** |

### 31 March 2018

| | Fair value through profit or loss | Loans and receivables at amortised cost | Financial liabilities at amortised cost |
|---|---|---|---|
| | £m | £m | £m |
| **Financial assets** | | | |
| Fixed interest securities | 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** |

## Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £781.5m (2017/18: £221.9m) 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 2019

| | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Financial assets at fair value through profit and loss | 4,155.9 | - | 3,409.5 | 7,565.4 |
| Loans and receivables | 67.1 | - | - | 67.1 |
| Non-financial assets at fair value through profit and loss (property holdings) | - | 761.9 | - | 761.9 |
| **Net investment assets** | **4,223.0** | **761.9** | **3,409.5** | **8,394.4** |

### 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 |
| Loans and receivables | 162.0 | - | - | 162.0 |
| Non-financial assets at fair value through profit and loss (property holdings) | - | 715.5 | - | 715.5 |
| **Net investment assets** | **3,561.4** | **832.4** | **3,216.4** | **7,610.2** |

## Basis of valuation

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Pooled global equities | Level 1 | Unadjusted quoted bid market prices. | Not required. | Not required. |
| Fixed income funds | Level 1 | Unadjusted market values based on current yields. | Not required. | Not required. |
| Corporate and overseas government bonds | Level 2 | Market approach – active 'over the counter' markets | Corroborative indicative quotes, interest rates, inflation. | Not required. |
| Direct property holdings | Level 2 | Valuation performed by independent professional valuers Avison Young in accordance with Royal Institute of Chartered Surveyor's (RICS) Valuation Standards (9th edition). | Comparable recent market transactions on arm's length terms; general changes in property market prices; rental growth; vacant properties ;existing lease terms; nature of tenancies, | Not required. |
| Pooled property investments | 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 |

## Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

| Description of asset | Assessed valuation range[1] | Value at 31 March 2019 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | (+/-) | £m | £m | £m |
| Fixed income funds | - | 198.2 | 198.2 | 198.2 |
| Private equity funds | 7.7% | 650.3 | 700.4 | 600.2 |
| Infrastructure funds | 7.7% | 1,146.1 | 1,234.3 | 1,057.9 |
| Long term credit excluding index linked | 7.7% | 1,007.3 | 1,084.9 | 929.7 |
| Index linked long term credit | - | 283.6 | 283.6 | 283.6 |
| Pooled property investments | 4.0% | 124.0 | 129.0 | 119.0 |
| **Level 3 investments** | | **3,409.5** | **3,630.4** | **3,188.6** |

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

## Reconciliation of fair value measurements within level 3

| | Fixed income funds | Private equity | Infrastructure funds | Long term credit investments | Property funds | Total level 3 investments |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Market value 1 April 2018** | **244.8** | **547.7** | **991.2** | **1,319.4** | **113.3** | **3,216.4** |
| Purchases during the year and derivative payments | - | 125.4 | 191.4 | 122.7 | 8.3 | 447.8 |
| Sales during the year and derivative receipts | (62.8) | (124.9) | (90.7) | (221.0) | - | (499.4) |
| Unrealised gains / losses | 3.1 | 40.9 | 4.0 | 41.3 | 2.4 | 91.7 |
| Realised gains / losses | 13.1 | 61.2 | 50.2 | 28.5 | - | 153.0 |
| **Market value 31 March 2019** | **198.2** | **650.3** | **1,146.1** | **1,290.9** | **124.0** | **3,409.5** |

## 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 2018/19 reporting period.

| Asset type | Potential market movements (+/-) |
|---|---|
| Total bonds (including index linked) | 6.7% |
| Total equities | 9.8% |
| Alternatives | 7.7% |
| Total property | 4.0% |

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

| Asset type | 31 March 2019 | Potential market movements (+/-) | Potential value on increase | Potential value on decrease |
|---|---|---|---|---|
| | £m | % | £m | £m |
| Investment portfolio assets: | | | | |
| Total equities | 4,380.0 | 9.8% | 4,807.4 | 3,952.5 |
| Alternatives | 2,946.8 | 7.7% | 3,173.7 | 2,720.0 |
| Total property | 886.0 | 4.0% | 921.5 | 850.6 |
| Total bonds (including index linked) | 110.6 | 6.7% | 118.0 | 103.2 |
| **Total assets available to pay benefits** | **8,323.4** | | **9,020.6** | **7,626.3** |

| Asset type | 31 March 2018 | Potential market movements (+/-) | Potential value on increase | Potential 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** |

## 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 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| 31 March 2018 | Asset type | 31 March 2019 |
|---|---|---|
| £m | | £m |
| 162.0 | Cash and cash equivalents | 67.1 |
| **162.0** | **Total** | **67.1** |

## Interest rate risk - sensitivity analysis

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

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

| | | Impact of | |
|---|---|---|---|
| | 31 March 2019 | 1% increase | 1% decrease |
| Asset type | £m | £m | £m |
| Cash and cash equivalents | 67.1 | 0.7 | (0.7) |
| **Total change in assets available** | | **0.7** | **(0.7)** |

| Asset type | 31 March 2018 £m | Impact of 1% increase £m | Impact of 1% decrease £m |
|---|---|---|---|
| Cash and cash equivalents | 162.0 | 1.6 | (1.6) |
| **Total change in assets available** | | **1.6** | **(1.6)** |

## 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 2019 and as at the previous year end.

| 31 March 2018 £m | Currency exposure – asset type | 31 March 2019 £m |
|---|---|---|
| 3,653.8 | Overseas equities | 4,243.0 |
| 505.2 | Overseas alternatives | 395.7 |
| 46.0 | Overseas property | 55.4 |
| 84.3 | Overseas bonds (including index linked) | 46.9 |
| **4,289.3** | **Total overseas assets** | **4,741.0** |

## 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 8.0%.

An 8.0% 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 (2017/18: 8.5%).

An 8.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| **Currency exposure - asset type** | **Asset value at 31 March 2019** | **Potential market movement +/- 8.0%** | **Value on increase** | **Value on decrease** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Overseas equities | 4,243.0 | 341.1 | 4,584.1 | 3,901.9 |
| Overseas alternatives | 395.7 | 31.8 | 427.5 | 363.9 |
| Overseas property | 55.4 | 4.5 | 59.9 | 50.9 |
| Overseas bonds (including index linked) | 46.9 | 3.8 | 50.7 | 43.1 |
| **Total assets available to pay benefits** | **4,741.0** | **381.2** | **5,122.2** | **4,359.8** |

| **Currency exposure - asset type** | **Asset value at 31 March 2018** | **Potential market movement +/- 8.5%** | **Value on increase** | **Value on decrease** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Overseas bonds (including index linked) | 84.3 | 7.2 | 91.5 | 77.1 |
| Overseas equities | 3,653.8 | 310.6 | 3,964.4 | 3,343.2 |
| Overseas alternatives | 505.2 | 42.9 | 548.1 | 462.3 |
| Overseas property | 46.0 | 3.9 | 49.9 | 42.1 |
| **Total assets available to pay benefits** | **4,289.3** | **364.6** | **4,653.9** | **3,924.7** |

## Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £67.1m (31 March 2018: £162.0m) and was held with the following institutions:

| 31 March 2018 | Summary | Rating | 31 March 2019 |
|---|---|---|---|
| £m | | | £m |
| | **Bank deposit accounts** | | |
| 154.5 | Northern Trust | A+ | 58.3 |
| 7.5 | Svenska Handelsbanken | A+ | 7.6 |
| | **Cash float with property manager** | | |
| - | Barclays Bank Plc | A- | 1.2 |
| **162.0** | **Total** | | **67.1** |

## Liquidity risk

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

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

The Fund has financial liabilities of £6.3m at 31 March 2019, all of which is due within one year.

## Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by 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 2018 to 31 March 2019 for Prudential and 1 September 2017 to 31 August 2018 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** | **27.3** | **28.0** |
| Income (incl. contributions, bonuses, interest and transfers in) | 0.0 | 5.9 | 5.9 |
| Expenditure (incl. benefits, transfers out and change in market value) | (0.1) | (4.2) | (4.3) |
| **Value at the end of the year** | **0.6** | **29.0** | **29.6** |

## Note 19 - Current assets

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£m** | | **£m** |
| 7.7 | Contributions due – employers | 8.0 |
| 6.3 | Contributions due – members | 4.9 |
| 9.4 | Sundry debtors | 9.1 |
| **23.4** | | **22.0** |

## Note 20 – Current liabilities

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£m** | | **£m** |
| 1.6 | Unpaid benefits | 0.8 |
| 10.8 | Accrued expenses | 5.5 |
| **12.4** | | **6.3** |

## Note 21 - Contractual commitments

As at 31 March 2019 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 £566.2m (2018: £546.6m). 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 £190.9m (2018: £462.4m). 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 £21.9m (2018: £47.3m). These amounts are expected to be drawn down over the next 6 months based on valuation certificates.

During the year, the Fund has invested in an indirect real estate fund with an outstanding commitment of £22.0m as at 31 March 2019(2018: £0m).

## Note 22 - Related party transactions

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

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

### Lancashire County Council

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

The Council incurred costs of £0.5m (2017/18: £0.6m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £32.6m to the Fund in 2018/19. A contribution prepayment of £118m was received in 2017/18 for the years ending 31 March 2018, 2019 and 2020. Total employer contributions from the Council in 2017/18 amounted to £152m. 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 2019 amount to £5.5m (2017/18: £6.8m).

## 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 2019 payroll, are included within the debtors figure in note 19.

## Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2018/19 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2019.

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

## Note 23 - Key management personnel

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

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

### 2018/19

| | Employment period | Salary[1] | Employer Pension contributions[1] | Total including pension contributions[1] |
|---|---|---|---|---|
| | | £ | £ | £ |
| Head of Fund | 01/04/18 – 31/03/19 | 56,667 | 8,557 | 65,224 |
| Director of Finance | 01/04/18 – 31/03/19 | 1,938 | 293 | 2,231 |
| Chief Executive and Director of Resources | 01/04/18 – 31/03/19 | 4,029 | - | 4,029 |

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

### 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/Finance | 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 | - | 874 |

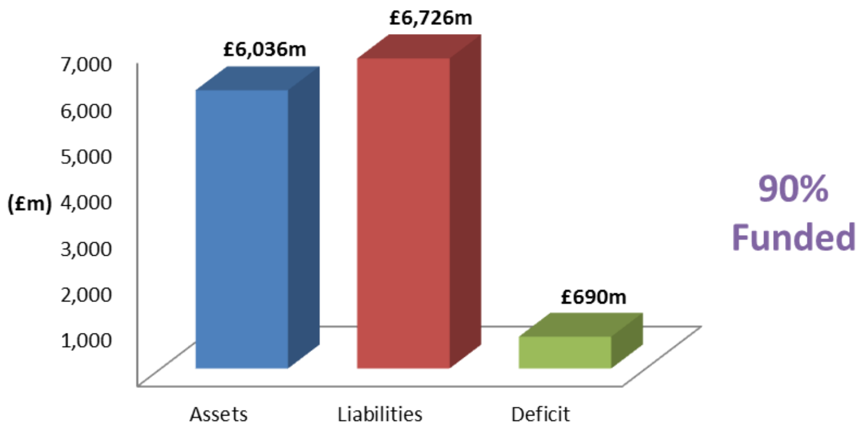
[1] The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.
[2] The Chief Executive and Director of Resources was a new post and was appointed on 3 January 2018.
[3] Following a restructure the role of Director of Financial Resources was replaced with Director of Finance during the year ended 31 March 2018.

## Note 24 - Funding arrangements

### Accounts for the year ended 31 March 2019 - 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 2019/20 is approximately £46 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.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

| | 31 March 2018 | 31 March 2019 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.6% per annum | 2.4% per annum |
| Rate of CPI inflation / CARE benefit revaluation | 2.1% per annum | 2.2% per annum |
| Rate of pay increases* | 3.6% per annum | 3.7% per annum |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation | 2.2% per annum | 2.3% 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 decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected rate of long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £10,022 million. Interest over the year increased the liabilities by c£261 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£72 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £64 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was then an increase in liabilities of £568 million due to "actuarial losses" (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 2019 is therefore £10,987 million.

## The McCloud case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangement will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £64 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

## GMP equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

Mark Wilson
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
July 2019

# Governance statements

Harris Museum and Art Gallery, Preston
Photo credit: Jeanette Moister

## Executive summary

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

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

On the 20 May 2019 the Audit, Risk and Governance Committee considered the content of the proposed governance statement to ensure that it properly reflects how the Council is run.

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

## Governance issues

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

| Key Delivery/Improvement Area | Lead Officer | To be delivered by |
|---|---|---|
| Reshaping the Council<br>Through our Peoples Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation<br>• Further embed a focus on service delivery<br>• Develop a sustainable financial strategy | Chief Executive<br>Director of Corporate Services<br><br>Director of Strategy and Performance<br>Director of Finance | 31 March 2020<br><br>Autumn 2019<br>Ongoing |
| Getting to Good (Children's Social Care) | Executive Director of Education and Children's Services | Ongoing |
| Response to Special Educational Needs and Disability (SEND) inspection | Executive Director of Education and Children's Services | Ongoing |
| Supporting disadvantaged families to fulfil their potential (Troubled Families Programme) | Executive Director of Education and Children's Services | 31 March 2020 |
| Managing major projects | Executive Director of Growth, Environment and Transport | Ongoing |
| Intermediate care for older people in a residential setting | Executive Director of Adult Services and Health & Wellbeing | 31 March 2020 |
| Core systems and data | Director of Strategy and Performance | 31 March 2020 |
| Future provision of ICT Services | Director of Finance | 31 March 2020 |
| Recruitment and Retention | Director of Corporate Services | 31 March 2020 |

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

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

--------------------------------------------- County Councillor Geoff Driver CBE
Leader of the Council

--------------------------------------------- Angie Ridgwell
Chief Executive and Director of Resources

*Signed on behalf of Lancashire County Council*

## Introduction

Local authorities are required by statute to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority of Chief Executives (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<br>• Cabinet develops and sets policy<br>• Full Council agrees the annual budget, sets council tax and the policy framework including the Corporate Strategy (the cornerstone of our policy framework) | • Meetings are held in public and many are webcast<br>• Decisions are recorded on the Council's website<br>• Scheme of delegation | • Risk registers identify both operational and strategic risks<br>• Key risks are considered by Corporate Management Team (CMT), Cabinet Committee for Performance Improvement (CCPI) and Audit, Risk and Governance Committee<br>• Processes are in place for managing and reporting performance to CMT and members (CCPI)<br>• Directors complete assurance statements |
| **Council's leadership team** | **Scrutiny and review** | **External and internal audit and review** |
| • Head of Paid Service is the Chief Executive who is responsible for all council staff and leading Corporate Management Team<br>• Chief Executive is the council's s.151 Officer and is responsible for ensuring the proper administration of the council's financial affairs<br>• The Monitoring Officer is the Council's Director of Corporate Services who is responsible for ensuring legality and promoting high standards of public conduct | • Scrutiny Committees review council policy, decisions and budget proposals<br>• Work to deliver local public sector accountability | • External audit provides an opinion on the Council's annual statement of accounts and whether the Council has secured economy, efficiency and effectiveness in the use of its resources<br>• Internal audit provides regular assurance on the governance, risk management and internal control framework<br>• External inspections that provide an accountability mechanism<br>• Peer challenge/reviews highlight good practice and areas for improvement |

## How do we comply with the CIPFA/SoLACE Framework?

The Council has approved and adopted:

- a Local Code of Corporate Governance
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016
- 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 Risk 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. Corporate Management Team have recently reviewed the content of the register. 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 County Council operates. The quarterly report to the Cabinet, 'Money Matters', includes in-year revenue and capital expenditure monitoring information along with updates on the multi-year capital programme. Financial Monitoring Boards have also been established for service challenge options that have been agreed as part of budget savings.

In February 2019, Full Council agreed a new corporate strategy 'Our Vision for Lancashire' that includes a new set of high-level metrics which will enable the overall success and progress of the strategy to be monitored and demonstrated. Scrutiny Committees will play a key role in year 1 in ensuring that the high-level metrics are the right ones and that the targets are appropriate.

In addition to the high-level metrics relating to the strategy, the CCPI will continue to regularly receive the more detailed, service specific performance metrics which enable members to monitor ongoing service delivery and performance. The reports highlight good performance and areas for improvement (further reports setting out improvement action plans are presented when necessary).

The CMT receives a suite of performance dashboards monthly; these include executive summaries, written by each executive director, which draw attention to concerns with performance, describe recovery plans, and escalate issues for discussion and action by the corporate management team. Any concerns with the quality of the data are highlighted immediately and the recovery plan will focus on improving the data. Once there is confidence in the data, performance concerns are the focus of discussion. This approach requires a deeper understanding of data presented and is driving up the quality of data and reporting across the council.

## Managing our resources (value for money)

The Council's external auditors, in their assessment of 2018/19, regarded the following as the significant value for money challenges that were faced by the Council during the year:

- Financial sustainability
- Internal Control

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

Financial projections are reported to both the 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 along with the use of reserves and capital receipts to ensure funding requirements are met.

The forecast will need to be reviewed in light of any central government funding proposals for local government.

### Financial sustainability

Financial sustainability remains the greatest risk facing the County Council. However, whilst the council's financial position has not been fully stabilised, over the course of the last year considerable work has been done to improve it.

As a result, it is anticipated that available reserves will be sufficient to support the council's expenditure until at least 2022/23. Full Council approved in February around £77m of savings, some of which were subject to further consultations. However, a forecast gap in funding of £47m by 2022/23 remains, with work continuing to identify further savings so that a financially sustainable position can be achieved.

For the 2019/20 budget, consultation on budget proposals were undertaken with a variety of stakeholders and partners including discussions with the

Trades Unions. A number of savings proposals included within the agreed 2019/20 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 professional estimates.

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 2018/19 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.

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

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

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

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

- Whistleblowing and Counter Fraud

- Overpayment of Salaries
- General Data Protection Regulations
- Delays and Overspends on Major Projects
- Neighbourhood Wellbeing Grants

In July 2018, the Chairman presented his first annual report. The report set out the work the committee had undertaken and provided a means by which it was able to review its own effectiveness. As part of the report the committee agreed a new skills and knowledge framework. Committee members subsequently carried out a skills and development review and as a result training and development opportunities have been put in place.

## The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent opinion on the Council's governance, risk management and control frameworks and therefore the extent to which the Council can rely on them. The Internal Audit Annual Report and opinion has been considered in the development of the Annual Governance Statement.

Audit work has progressed well against an ambitious plan and 80% of the work completed by the year end has yielded favourable assurance over the design and operation of the services, systems and processes audited.

As a result, the Head of Internal Audit's overall opinion as set out in the Annual Report is that moderate assurance can now be given regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control for 2018/19.

## External assurances

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

## Information governance

The Council has a comprehensive Information Governance Framework in place, overseen by the Corporate Information Governance Group. The group is attended by the Senior Information Risk Officer and Data Protection Officer.

The General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA 2018) came into force in the UK on 25 May 2018. The legislation makes provision for the processing of personal data. Preparations for GDPR and DPA 2018 began at the start of 2017 with the Information Governance team systematically assessing each part of the legislation and putting controls and processes in place to ensure the authority would be compliant when the legislation came into force on 25 May 2018.

In September 2018 the Internal Audit service carried out an audit of the council's compliance with GDPR and the Data Protection Act 2018. The audit gave the council 'Substantial Assurance' and zero actions to complete. However, the focus on implementing GDPR impacted on other areas of work. As a result, in January 2019, the Information Commissioner's Office (ICO) wrote to the Chief Executive raising concerns about the time the council was taking to process subject access requests. This had come about because of the demands placed upon the Information Governance team by the introduction of GDPR and staff turnover at that critical time. The Chief

Executive assured the ICO that information governance was an issue we take very seriously and agreed an action plan to resolve the issue.

## Scrutiny committees

The work of the five Scrutiny Committees is presented to Full Council on an on-going basis for comment and discussion.

There is also a cross party Budget Scrutiny Review Panel. The Panel:

- Provides further support to the overall budget monitoring process
- Considers and formulates recommendations on Cabinet budget proposals
- Monitors progress of agreed budget savings

The Review Panel in exercising this function contributes to a robust budget scrutiny process and supports effective monitoring of the County Council's budget. The Review Panel's role is not to lead on the management of the budget or to set a budget, but to provide support as a 'critical friend'. The Review Panel reports to the Internal Scrutiny Committee.

## Political governance

During the year, the Political Governance Working Group was re-established with the remit to make recommendations to Full Council on revisions to the Constitution, Standing Orders and other democratic processes and procedures. The working group operates on a cross party basis with representation from all political groups. The working group recommended changes to standing orders that were adopted by Full Council. The agreed changes focused on Full Council procedures, including Question Time and Notices of Motion. Two of the changes were approved based on a six-month trial period.

## Local government and social care ombudsman

During 2018/19 Full Council considered one public report from the Local Government & Social Care Ombudsman on the Blue Badge service. In this instance the Ombudsman found fault causing injustice. Full Council noted the actions already taken and endorsed further actions to remedy the complaint.

## Lancashire County Developments Limited

Lancashire County Developments Limited is an owned subsidiary of the county council. As a material entity it forms part of the council's group accounts. The county council has the power to change decision making rights, and to appoint and remove Directors of the company. Board Directors are County Councillors who regularly meet, and receive financial and performance reports. In the 2018 / 19 financial year there have been no governance issues reported. The company is annually subject to a separate external audit to the county council.

## Looking back on 2018/19

Several improvement actions were identified as part of the 2017/18 Annual Governance Statement. All of these 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:

A new Operational Plan was adopted. The Plan summarised the priorities, delivery focus approach and aspirations for 2018/19. Building on past achievements the council pursued several operational priorities over the

1. Establish a new leadership and management team

Vacancies to the Corporate Management Team (CMT) were filled. A permanent appointment to the post of Chief Executive and Director of Resources was made in October 2018, and a new Executive Director of Education and Children's Services took up post in January 2019. There were also in year changes to the senior management structure with two new director posts established in Education and Children's services and a realignment in Growth, Environment, Transport and Community Services following the resignation of two directors. Further to this a senior management restructure was completed in January 2019. The restructure grouped together complimentary services and provided the necessary capacity to lead the development of our partnership and organisational aspirations. It also provided corporate capacity to drive the system and the change required across the organisation.

To provide visible leadership and engage the organisation, the CMT worked closely together to complete several individual and collective actions that included:

- Leading on a new corporate strategy
- Agreeing a vision and values for the organisation
- Completing a staff survey
- Implementing new employee engagement processes including a new performance engagement system
- Introducing new leadership and management training modules

2. Embed a focus on service delivery

The focus in 2018 was to view our services through the eyes of users and develop them to be the best they can. A 'service challenge' was applied to each service area. This put users at the heart of the service and empowered delivery staff to design the optimum solution. In all cases the objective of the service challenge was to secure a better service at a lower cost.

To support this, services were benchmarked against other county councils and managers were actively encouraged to speak to other high performing authorities and organisations to understand the differences in their costs and outcomes, and how they could be improved.

In February 2019, Full Council agreed around £77m of savings proposals resulting from 43 service challenges. Work is continuing under the second phase of the service challenge process and further information about this process is set out later in the AGS.

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 address the budget gap a number of work streams have been established that include:

- Service challenges
- Commercialisation
- Taxation and grants
- Productivity
- Commissioning and third sector

As a result of the work mentioned above, phase one of the process has produced significant savings.

In addition, Internal Scrutiny Committee received an update on commercialisation work and an approach on how the County Council is seeking to improve and strengthen its working relationships with the Voluntary Community Faith Sector in Lancashire has also been agreed.

## Continue to improve children's services following Ofsted inspection

The Ofsted re-inspection of Children's Services in June 2018 noted significant improvements, with an overall effectiveness judgement of requires improvement to be good and good for our adoption service.

However, there is still more to do to ensure that all children receive a consistently good service. The Lancashire 'Getting to Good Plan' was approved by the Cabinet in December 2018, sets out the actions required to address the 11 recommendations in the Ofsted report, further improving the quality of practice and outcomes for children.

The Getting to Good Plan focuses on six key areas:

- **Prevention**

  We are committed to working with partners to utilise our collective resource to secure a county-wide approach within which all partners coordinate, prioritise and maximise their efforts to achieve successful outcomes for children and families
- **Effective partnership working**

  A Children's Partnership Board has been established to ensure partners are working collaboratively in addressing shared strategic priorities. The Neglect Strategy has been updated and was officially launched by the Lancashire Safeguarding Children Board in April 2019.
- **Purposeful practice**

  A Statement of Social Work has been developed which sets out our values and principles, with clear links to the Knowledge and Skills Statement (national standards for social workers). There is a strong focus on practice, casework consistency and developing more strength-based approaches to working with children and families.
- **Permanence and corporate parenting**

  Effective long-term planning for a child's upbringing is essential and an Improvement Partner is working with the service to help develop our practice in relation to permanence. Processes are being streamlined and policies and procedures updated to simplify them. Workshops are taking place to develop practitioners understanding of permanence and a permanence tracker is now in use to track cases which will reduce drift and delay in achieving permanence for children.
- **Effective use of performance data**

  Whilst significant progress has been made in improving the accuracy of performance data, we need to improve the use of data so that it is an effective tool to help manager's measure progress and examine trends. We are working with North Yorkshire Children's Services, as part of the DfE Partners in Practice Innovation Programme to review our systems and use of data.

- **Workforce development**

In order to improve the quality of practice in line with the recommendations made by Ofsted, we need to ensure we have a workforce with the right skills, support and tools to do the job and provide strong leadership. We are successfully recruiting to social work posts through our centralised recruitment panel. The retention of our newly qualified social workers - ASYE (assessed and supported year in employment) improves year on year. An evaluation of our Social Work Academy has confirmed its key role in supporting a good induction of these social workers to Lancashire and a career with us.

There are new Governance arrangements within the Getting to Good Plan that include the Lancashire Health and Wellbeing Board, Corporate Parenting Board, Children's Services and Education Scrutiny Committees. Each of these Boards/Committees will review and challenge the areas relevant to themselves.

## Managing major projects

The County Council is currently involved in several major capital projects and significant risks can be associated with such projects. During 2018/19 the Council implemented steps to ensure robust risk management practices are in place.
Initial review work was undertaken of a sample of major capital schemes including Lancashire Central to improve the estimating and testing of current and future scheme costs. These include:

- Reporting of cost ranges for new schemes
- Routine updating of cost estimates
- Inclusion of contingency at industry standards and benchmarks

Governance of the capital programme was strengthened under the auspices of the Capital Board where responsibility for oversight and challenge of cost estimates and capital budgets rests. A comprehensive review of the projects for 2018/19 including prior year slippage has been undertaken by project and programme managers, supported by finance and commissioning managers. The primary purpose of the review was to propose a delivery programme for 2018/19 which was approved by Cabinet and which now forms the agreed baseline for monitoring purposes. The review was focused on:

- Updating the delivery programme for 2018/19 informed by the delivery performance in 2017/18 and previous years
- Reviewing the level of funding available for unallocated budgets and the requirement for these to continue to be carried forward
- Removal of budgets previously included in 2018/19 which have been carried forward from previous years where there is no expectation or plan of delivery in 2018/19
- Of the new approved projects, a realistic assessment of 2018/19 delivery was made with timeframes and budgets being moved to future years where appropriate.

All this gave a proposed delivery programme for 2018/19 which had been risk-assessed as being deliverable and to which project and programme managers would be held accountable using the following actions:

- Detailed monitoring of the delivery programme through 2018/19 to ensure any slippage is reported in a timely manner and a robust level of challenge is provided to programme and project managers to ensure delivery remains on track.
- Detailed report of performance through reports developed to enable the Capital Board to undertake this monitoring and challenge.

During 2018/19 the Audit, Risk and Governance Committee received two separate reports setting out the progress made on this issue.

## Neighbourhood wellbeing grants

At its meeting on 14 December 2017, Full Council resolved to appoint an independent auditor to carry out an investigation into the way Neighbourhood Wellbeing Grants were recommended, approved and paid.

The findings of the investigation were presented to the Audit, Risk and Governance Committee on 29 October 2018. The independent auditor concluded that the approval of the projects was undertaken in accordance with the County Council's decision making processes and was therefore lawful. However, the Cabinet Member (at that time in 2017) should have limited their involvement to setting the overall scheme objectives and principles. Officers should have been asked to administer all other aspects of the scheme, including determining which projects were recommended for funding, using pre-determined criteria.

As a result of these findings, the Committee asked to receive a further report setting out the responsibilities of County Council officers in relation to council expenditure. In addition, a protocol was to be set out when grants are awarded to community groups and other voluntary bodies. On 28th January 2019, the Committee agreed a protocol to ensure robust governance. It was also agreed that further efforts would be made to contact the recipients of the Neighbourhood Wellbeing Grants to request details of the outcomes achieved.

## Response to special educational needs and disability (SEND) inspection

Lancashire local area SEND services were inspected by Ofsted and the Care Quality Commission (CQC) in November 2017 to judge how effectively the special educational needs and disability (SEND) reforms had been implemented, as set out in the Children and Families Act 2014. The inspection identified two fundamental failings and twelve areas of significant concern.

The partners in Lancashire were required to produce a Written Statement of Action (submitted April 2018) setting out the immediate priorities for action. This action plan has been supported by five thematic delivery plans which are monitored monthly against the action plan deadlines by the SEND Partnership team. Progress is reported bi-monthly to the SEND Partnership Board and the Department for Education (DfE) and NHS England (NHSE).

External monitoring by the DfE and NHSE has been taking place quarterly, with the last meeting in December 2018. The overall assessment, on the progress the Lancashire SEND Partnership is making, is now considered to be Green/Amber (concurring with our own view).

The DfE/NHSE appointed advisors also concluded in December 2018 that sufficient progress has been made in implementing the Written Statement of Action to cease the quarterly monitoring meetings. The robust governance arrangements and the draft Improvement Plan 2019-2021 provided the necessary assurance that improvement is and will continue to be a priority for Lancashire. The Improvement Plan has therefore replaced the Written Statement of Action. Further monitoring will be undertaken in July 2019 prior to a possible re-inspection in the autumn.

## Improving health and wellbeing

The Health and Wellbeing Board continued to receive regular progress reports and updates on the delivery and development of the Better Care Fund plan. Improved performance on the discharge of patients from hospital was also reported.

The NHS Long Term plans confirm the continuation of the Better Care Fund into 2019/2020 but with a national review of it underway. Alongside this review and the anticipated new framework, planning of a Lancashire wide review is underway that would reset the Better Care Fund in a context of an integrated care system. In developing further the Better Care Fund there are plans to hold a workshop on integration with a focus on transformation.
During 2018, Cabinet agreed *The Care, Support and Wellbeing of Adults in Lancashire Vision* and *The Housing with Care Strategy*.

The Care, Support and Wellbeing of Adults in the Lancashire Vision sets out how the County Council, together with its partners, will help people to live as independently and healthily as possible. The Vision recognises the need to keep pace with people's changing needs and expectations, whilst addressing the increasing demands upon public services at a time of significant financial pressure.

The Lancashire Vision also signals how services will be designed and delivered in the future, acknowledging that partners, the NHS in particular, have a key role to play in preventing and reducing long term physical and mental health conditions, and addressing the significant variations in health outcomes within the Lancashire population.

The Housing with Care Strategy outlines the County Council's intentions in relation to the development of housing with care and support for older adults and younger adults with disabilities. It will be used to engage with a wider audience as part of a collaborative approach to developing a range of high-quality housing with care and support schemes across Lancashire by 2025 for both older adults and younger adults with disabilities.

## Our vision for Lancashire

The County Councils Corporate Strategy 'Our Vision for Lancashire' was approved by Full Council in February 2019. The strategy sets out the five key objectives and ambitions for Lancashire and is the cornerstone of our policy framework providing a 'golden thread' linking our key strategies and plans.

The strategy enables staff to understand how their roles and responsibilities contribute to our key objectives and ambitions, and it will enable teams to develop service plans and work programmes with a clear focus on delivering key priorities. The strategy also enables our key partners, stakeholders and businesses to be clear about our longer-term ambitions, which will enable them to understand how it aligns to their own plans and facilitate collaborative work to deliver high quality, best value services to meet the needs of Lancashire residents.

Along with the strategy document, Full Council agreed a set of high-level key metrics. These will be monitored on a regular basis by the Cabinet Committee on Performance Improvement. Scrutiny Committees will play a key role in year one in ensuring that the high-level metrics are the right ones, or if more need to be added, and that the targets set are appropriate.

In addition to the high-level key metrics relating to the vision, the Cabinet Committee on Performance Improvement will continue to regularly receive the more detailed, service specific key performance metrics which enable members to monitor ongoing service delivery and performance.

Both the strategy document and the accompanying high-level key performance metrics will be kept under regular review and will be updated to ensure they remain current and relevant in a fast-moving world. It is anticipated that the vision will have a lifespan of at least 5 years, with an annual review and refresh.

## Core systems and data

As part of the senior management restructure completed in January 2019, Core Systems and Business Intelligence were brought together under the direction of the Director of Strategy and Performance. This allows them to be considered in their entirety to ensure synergies are optimised so that consistent and triangulated management information is delivered alongside measurably improved service performance.

Such a move is consistent with the highest performing councils and ensures the delivery of organisational performance sits with the directorate ultimately responsible for the setting of the organisation's strategic direction.

The quality of data in the Council's Core Systems has continued to improve during 2018/19. Children's Services continue to hold a Data Quality and Performance meeting on a monthly basis. Led by a Head of Service, this group has made significant progress in data quality over the last year.

In Adults Social Care improvements in the quality of data within the systems continue. The development of performance trackers have enabled the team to focus on using these as exception reports. This in turn has helped managers and staff Improve data accuracy.

An improvement plan for our Highways and Asset Management System has been implemented and a Highways Improvement Board continues to operate. A comprehensive training and support plan for the service was also delivered. A follow up audit review has also been completed.

Core Systems working with Business intelligence and BTLS (our ICT providers) also completed a review of reporting across the authority. This will help shape our Business Intelligence and Reporting Strategy.

The development of an architectural vision for the digital strategy is underway, working closely with BTLS. This includes a landscape review of existing technologies.

The Internal Audit Service have given Substantial assurance over the effectiveness of controls operating over the Systems Support function within Core Systems.

## Intermediate care for older people in a residential setting

A review of the Lancashire intermediate care system was commissioned using money from the Better Care Fund and included consideration of the best practice model for each service area including the community beds. Consultants were appointed and undertook initial investigatory work before carrying out a wider review.

## Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

Payment by results (PBR) claims continue to be made where significant and sustained progress is evidenced. The current positive position is anticipated to further improve as all available data and information systems are fully utilised to maximise PBR claim opportunities. It was recently agreed that we look to maximise our claims by accelerating progress with partners and getting them to share this responsibility. This is an identified action in the Children Services 'Getting to Good' plan. It is anticipated that the target of 8,620 PBR claims will be achieved by the time the 5-year programme ends in 2019/20.

# Governance challenges for 2019/20 and actions to be taken

## Reshaping the council

A lot of excellent work has taken place over the past 12 months. However, there is a risk that the council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change needed over the next 12 months and beyond.

Without the required workforce plans, capacity and skills in place, or the necessary drive to support and deliver a financially sustainable organisation, there is a risk that change opportunities will be missed that may result in us not meeting the needs of service users or delivering a balanced budget.

Therefore, building on the achievements of the Operational Plan, the County Council will pursue three priorities over the coming year:

1. **Through our People Strategy ensuring adequate workforce plans, capacity and skills are in place across the organisation**

   This will focus on:
   - Supporting the development of managers through continued leadership and management modules
   - Workforce sustainability including succession planning and recruitment and retention
   - Continuing use of the apprenticeship levy to increase the number of apprentices and support critical development needs
   - Continuing to respond to the issues raised in the staff survey
   - Managing absence effectively

2. **Further embed a focus on service delivery**

   Building on the success of the service challenge work carried out during 2018, a phase 2 service challenge process is being implemented to help reduce the £47m financial gap that is still anticipated by 2022/23. To take this forward a new board has been established to oversee the process. Three cross cutting strands have been identified to develop new savings proposals. These are:

- Organisational
- Finance and commercial
- Health and care

In addition to the cross-cutting themes, some services from phase 1 will be subject to further challenge based on updated benchmarking data.

**3. Develop a sustainable financial strategy**

The council has faced an unprecedented period of financial challenge since 2010. Whilst good progress has been made to date in addressing the forecast financial shortfall over the Medium Term Financial Strategy period, further work is required to ensure the council can achieve a financially sustainable position.

In reports throughout the financial year to Cabinet, it is clear that the council is committed to the delivery of a significant savings programme with £77m of new savings agreed by Full Council during 2018/19.

There are inherent risks with savings plans of this scale and scope and any significant under-delivery of agreed savings will further increase the funding gap. This has been identified as one of the highest level risks in the council's risk and opportunity register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Should any of these savings proposals ultimately not be achieved they will need to be replaced with alternative savings to avoid increasing the size of the funding gap. £7.5m of the savings proposals are subject to the outcome of specific consultations.

The Medium Term Financial Strategy (MTFS) includes government funding as announced in the settlement on 29 January 2019, with no change to the additional funding announced as part of the provisional settlement in December 2018.

As part of the local government finance settlement the Chancellor of the Exchequer announced several new 75% business rates pilot schemes, with Lancashire being successful in its bid. This means that in order to secure the additional growth from business rates authorities agree to forgo their revenue support grant. The bid contained the County Council, along with 11 district councils, Lancashire Fire and Rescue Authority and the two unitary authorities of Blackburn with Darwen and Blackpool which could see potentially a one-off extra c£10m retained across Lancashire based on current growth estimates.

It is currently anticipated that a new system of local government finance, the "fair funding formula", will be in place in 2020/21 which involves local government retaining 75% of the business rates and a review of the funding formula. However, details of the scheme and the impact on Lancashire are not known at this time.

## Getting to Good – children's social care

Our services for children's social care have improved significantly. The service knows itself well and appropriate action has taken place to improve services and multi-agency strategic partnerships are stronger leading to a more shared approach. However, there is still more to do to ensure that all children receive a consistently good service and, as previously mentioned, Cabinet have agreed a 'Getting to Good' plan.

The plan provides a framework for the next phase of our improvement journey, in line with our ambition that we deliver consistently good services to children and families in Lancashire.

The plan sets out the actions that will be undertaken, the expected outcomes and improvement measures. It also provides details of lead officers, targets and due dates. More detailed action plans, led by specific Delivery Boards, will drive specific service improvement. Sitting alongside this document is our Purposeful Practice Framework and our Corporate Parenting Strategy. It is also part of several strategies and plans that fit together to deliver improvement for children. The plan will be overseen by the Lancashire Getting to Good Board which will meet six weekly to review progress, maintaining focus and pace.

However, this plan is set in the context of increasing demand for services and an increasingly challenging financial backdrop. Therefore, we need to improve the way we manage demand for services and ensure that our improvement is sustainable. The plan therefore also includes actions to support us in delivering the best and most efficient services.

Work continues at pace in preparation for inspection, with a Peer Challenge on the services approach to Permanence the long-term plan for a child's upbringing (LGA) scheduled for June 2019.

## Response to special educational needs and disability (SEND) inspection

Work will continue to implement the Special Educational Needs and Disabilities Improvement Plan. This plan was considered by the Special Educational Needs and Disabilities Partnership Board at their meeting in January 2019. Following a period of consultation, the revised plan was approved by the same Board at their meeting on 1 April 2019.

To ensure continued momentum, initial work has included:

- Implementing an Audit Programme, to improve the quality of Education Health and Care plans, including training auditors and completing a pilot to test the approach
- Undertaking Special Educational Needs and Disabilities reviews in schools
- Increasing the involvement and profile of the Parent Carer Forum
- Implementing Local Area Partnerships, to improve communication and access for parents
- Holding area based informal sessions for parents to meet professionals
- Implementing an electronic case management system
- Publishing the draft Joint Strategic Needs Assessment
- Agreeing a Speech and Language Service specification and rolling this out across Lancashire

The SEND Improvement plan was also shared with the Health and Wellbeing Board at their meeting in May 2019. Ahead of the Ofsted re-inspection of SEND in 2019, a review meeting in preparation will take place with DfE/NHSE advisors in July 2019.

## Supporting disadvantaged families to fulfil their potential (Troubled Families Programme)

The County Council currently receives funding towards working with troubled families. However, post 2019/20 there is no information available as to whether this funding will continue. It is assumed that funding will remain at 2019/20 levels. However, if the funding does cease this will result in a pressure on the County Council's budget.

## Managing major projects

As stated earlier, there are now control measures in place for projects that reflect the Major Projects Review. Key projects for the coming year will be included in the following programmes:

- Preston, South Ribble and Lancashire City Deal (e.g. Cuerden site)
- Growth Deal (e.g. Advanced Manufacturing Research Centre/ Preston West Distributor)
- Enterprise Zones (e.g. Samlesbury)

Each project will be developed in line with the processes established in the Major Projects Review and the Capital Board will continue to monitor progress.

## Intermediate care for older people in a residential setting

The review of the Lancashire intermediate care system was completed in April 2019. The recommendations from the review will be taken forward and monitored through a Quality Assurance Panel (chaired by the Director of Adult Services) and the Health and Wellbeing Board.

## Future provision of ICT services

An independent review was commissioned from The Society of IT Management to look at the options available for consideration regarding the current BTLS contract, which ends on 31 March 2021.

In January 2019, Cabinet considered a report from this work that provided an evaluation of the principal options available to the County Council which need to be considered in advance of the contract end date to allow sufficient time for effective implementation. A further progress report will be presented to Cabinet in due course.

## Core systems and data

Whilst significant progress has been made in improving the accuracy of performance data, we need to improve the use of data so that it is an effective tool to help manager's measure progress and examine trends.

For Adults' Services, the new posts of Practice Improvement Officers will be in place during quarter 1 of 2019/20. They will work very closely with the quality and continuous improvement managers within Adult Social Care. A programme of work is being developed, specifically in relation to the delivery of service challenge, which must be underpinned by accurate data. Adult Services will be using their established performance management groups to monitor performance and data quality within each service area.

For Children's Services there is a clear work programme of continuous improvement managed through the data quality and performance group. The 'Getting to Good' Board has a comprehensive performance dashboard with very clear ownership across the service. Individual managers understand their roles and responsibilities regarding performance and data quality and liaise closely with business intelligence. Going forward there will be a move towards proactive trend analysis with a focus on insight and impact.

The Corporate Strategy was agreed at Full Council in February 2019 and a workshop is being held in June 2019 with Chairs and Deputy Chairs of Scrutiny Committees to establish a suite of metrics to be reported quarterly to the Cabinet Committee on Performance Improvement. Once established these metrics will be subject to audit and the data quality reviewed accordingly.

A project to replace the 'Passport to Independence' trackers will identify potential suppliers of data analytics and will establish the resources and costs of implementation. If approved, the implementation of the solution will pave the way to better analytic capability for the council. Data quality issues are likely to be identified for the data sources and a programme of work will be needed to improve data quality. This will be managed through the Accuracy Steering Group.

A Digital Strategy is being drafted that includes a work stream relating to data and developing information architecture across the core systems.

### Recruitment and retention

As an organisation we are experiencing skills shortages in key professional and technical areas such as social care and design and construction. This is a risk in our corporate risk and opportunity register. As outlined in our draft People Strategy we have already taken some steps to address this issue. We have set up a recruitment website – 'Make a difference in Lancashire' and we have held specific recruitment events. We will also continue to use the apprenticeship levy to increase the number of apprentices in the workforce and use it to support critical development needs in the County Council.

## Monitoring implementation

The key governance challenges facing the Council in 2019/20 will be monitored by the Corporate Management Team and are identified risks in the Council's Corporate Risk and Opportunity Register. This document is the 'action plan' for each issue identified.

The governance arrangements relating to the Register involve its review by the Corporate Management Team which is then reported in turn to the Cabinet Committee on Performance Improvement and then the Audit, Risk and Governance Committee.

The Register identifies risks, the current controls that apply and the mitigating actions to be taken, producing a "risk score" and a residual score after mitigating actions have been applied.

## Conclusion

Overall, the County Council has the appropriate systems and processes in place to ensure good governance is maintained. Whist these work generally well, the council has identified a number of areas where further improvements can be made to strengthen its governance framework. The governance of the County Council will continue to be monitored by the Audit, Risk and Governance Committee, Cabinet and Corporate Management Team.

# Lancashire County Pension Fund - annual governance statement

## 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 2019 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 176,476 members across 300 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

https://www.yourpensionservice.org.uk/media/1204/governance-policy-statement-updated-january-2018.pdf

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 2019.

## 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 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 proposes any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

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 four dimensions of the running of a pension fund. Many of these functions are now performed under contract by Local Pension Partnership (LPP). These functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance against Investment Strategy are taken to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk.

The administration service is undertaken by 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 through pooling with LPP.

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 or reduced.

### Fulfilling the core functions of an Audit Committee.

The functions of an audit committee for the Fund are performed by Lancashire County Council's Audit, Risk and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

### Ensuring compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful.

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

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 Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

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

## Assurance provided by internal audit

Assurance over the council's governance and oversight of the Fund and the operational activity for which the council is responsible is provided by the county council's internal audit service. Assurance over the Fund's administration and investment activities is provided by Local Pensions Partnership Ltd's own internal audit service.

A short programme of work has been completed in respect of the county council's responsibilities, resulting in substantial assurance that the controls are adequately designed and effectively operated. The longer programme of work addressing LPP's activities has included seven audit engagements, the outcomes of which have been mixed. In particular the internal auditor has provided assurance that controls over benefits administration, cyber security, and investments' legal & regulatory compliance, are ineffective.

## Whistle blowing and receiving and investigating complaints from the public

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 Audit, Risk and Governance Committee.

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.
- 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 Head of Internal Audit's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2018/19 were:

- 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.

## Actions Planned for 2019/20

The following specific actions are proposed for during 2019/20.

- The triennial valuation of the Fund
- To monitor the administration service as changes continue to be made within LPP.
- To review the cost of LPP and estimated savings made.
- To revise the Funding Strategy Statement as necessary

## Conclusion

Overall, the Pension Fund Committee has the appropriate systems and processes in place to ensure good governance is maintained over the fund. The Committee have noted the issues raised by the Head of Internal Audit in relation to the Local Pension Partnerships internal audit and will continue to ensure that they are held to account for any areas of concern and that the Head of Internal Audit performs extra work in these areas to provide further assurance.

Signed

| ___________________________ | ___________________________ |
|---|---|
| County Councillor Eddie Pope | Abigail Leech |
| Chair of the Pension Fund Committee | Head of Fund |
| | Lancashire County Pension Fund |

Date: ____________________________

# 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.

# Independent auditor's report

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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 transactions and other events are reflected in the financial statements.

### Accruals

Income and expenditure are included in the accounts as they are earned or incurred, not when money is received or paid.

### Actuarial gains and losses

These arise due to the differences between the previous actuarial assumptions and what has actually occurred or because the actuarial assumptions have been changed.

### Associate

An associate is an entity over which an investor has significant influence.

## C

### Capital expenditure

Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, roads and computer equipment.

### Capital grants unapplied account

A reserve holding capital grants and contributions which either had no conditions attached that could require their return to the grantor, or whose conditions have now been satisfied. Amounts held in this account have already been recognised in the comprehensive income and expenditure statement and transferred into capital grants unapplied via the movement in reserves statement.

### Capital receipts

Income received from the sale of land, buildings or equipment.

### Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is the leading professional accountancy body for public services.

### CIPFA Code of Practice on Local Authority Accounting (The Code)

The Code incorporates guidance in line with International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). It sets out the proper accounting practice to be adopted for the statement of accounts to ensure they give a ‘true and fair’ view of the financial position, financial performance and cash flows of the council.

### Contingent asset

A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the council’s control.

### Contingent liabilities

A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the council; or
- A present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

### Creditors

Amounts owed by the council for goods and services received but not paid for as at 31 March.

## D

### Debtors

Amounts owed to the council for goods and services provided but where the income had not been received by 31 March.

### Depreciation

Depreciation is the charge made to the comprehensive income and expenditure statement to reflect the council's use of its assets. The justification being, that in using an asset to provide services, its value is diminished.

## E

### Earmarked reserves

The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

## F

### Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## I

### Impairment

A reduction in the value of a non-current asset below its carrying amount in the balance sheet due to obsolescence, damage or an adverse change in the statutory environment.

### Infrastructure assets

A class of assets whose life is of indefinite length and which are not usually capable of being sold, such as highways or footpaths.

### Intangible assets

Assets which do not have a physical substance for example computer software licences.

### International financial reporting standards (IFRS)

Defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

### Investment property

Property held solely to earn rentals or for capital appreciation, not as part of service delivery.

## J

### Joint venture

A joint venture is an arrangement under which two or more parties have contractually agreed to share control and have rights to the net assets of the arrangement.

## M

### Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

### Minimum revenue provision

The minimum amount that the council must charge to the accounts to provide for the repayment of borrowing associated with capital expenditure.

## N

### Net book value

The amount at which non-current assets are included in the balance sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

### Net realisable value

The open market value of the asset in its existing use, less the costs incurred in selling the asset.

## O

### Operating lease

This is a type of lease, usually vehicles or equipment where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the council.

### Operational assets

Assets used by the council in the delivery of services for which it has responsibility.

## P

### Prior period adjustments

A material adjustment applicable to prior years arising from changes in accounting policies or from the correction of errors.

### Private finance initiative (PFI)

A partnership between the private and public sectors that uses private sector financing to provide public sector assets.

### Provisions

An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.

### Public Works Loan Board (PWLB)

A government agency which is the major provider of loans to finance long term funding requirements for local authorities.

## R

### Related party

Related parties are bodies or individuals that have the potential to control or influence the council or be controlled or influenced by the council. They include Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Members, and senior officers and their close family members.

### Reserves

An amount set aside for a particular purpose. Reserves can be either usable or unusable.

### Revenue expenditure funded from capital under statute (REFCUS)

Legislation allows some expenditure to be classified as capital when it does not result in the creation of an asset or add to the value of an item of property, plant or equipment belonging to the council. Examples include works on property owned by other parties and capital grants to other organisations.

## S

### Subsidiary

A subsidiary is a company that is controlled by a holding or parent company.

# Contact details

I would like to thank you for showing an interest in the council's finances and hope you find this information useful.  We feel it is important that residents and businesses in the county understand all of the services that we provide and how council tax and business rates are spent during the year.  If you have any suggestions as to how we can improve things in the future or would like to receive further information about these accounts then please do not hesitate to get in touch with us at the following address:

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PO Box 78
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Preston
Lancashire
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