Lancashire County Council

Audit, Risk and Governance Committee

Monday, 25th January, 2021 at 2.00 pm

Virtual Meeting - Teams

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.	
3.	**Minutes of the Meeting held on 19 October 2020** To be confirmed, and signed by the Chair.	(Pages 1 - 8)
4.	**Code of Conduct - Summary of Complaints**	(Pages 9 - 14)
5.	**Code of Conduct - Review**	(Pages 15 - 36)
6.	**External Audit - Lancashire County Council Audit Findings Report 2019/20 (Updated)**	(Pages 37 - 74)
7.	**External Audit - Lancashire County Pension Fund Audit Findings Report 2019/20 (Updated)**	(Pages 75 - 96)
8.	**External Audit - Audit Progress Report and Sector Update 2020/21**	(Pages 97 - 120)
9.	**Update on the Council's Statement of Accounts 2019/20 and Approval of the Accounting Policies for 2020/21**	(Pages 121 - 138)
10.	**Treasury Management Strategy 2021/22**	(Pages 139 - 164)

Lancashire County Council

11. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any member's intention to raise a matter under this heading.

12. Date of Next Meeting

The next meeting of the committee will be held on Monday, 26th April, 2021 at 2pm. The venue for the meeting is to be confirmed.

L Sales
Director of Corporate Services

County Hall
Preston

Lancashire County Council

Audit, Risk and Governance Committee

Minutes of the Meeting held on Monday, 19th October, 2020 at 2.00 pm - Skype Virtual Meeting

Present:

County Councillor Alan Schofield (Chair)

County Councillors

J Berry	J Rear
H Khan	J Shedwick
T Martin	A Vincent
E Nash	

CC H Khan replaced CC S Malik for this meeting only.

1. Apologies

None.

2. Constitution, Membership and Terms of Reference 2020/21

Paul Bond, Head of Legal and Democratic Services, presented a report setting out the constitution, membership, Chairmanship, Deputy Chairmanship and terms of reference of the Audit, Risk and Governance Committee for the remainder of the municipal year 2020/21.

Resolved: That

(i) The appointment of County Councillors A Schofield and E Nash as Chairman and Deputy Chairman respectively of the Audit, Risk and Governance Committee for the 2020/21 municipal year; be noted.

(ii) The membership of the committee following the county council's annual meeting on 16 July 2020, as presented, be noted.

(iii) The terms of reference of the committee, as presented, be noted.

3. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

4. Minutes of the Meeting held on 27 July, 2020

Resolved: That the minutes of the Audit, Risk and Governance Committee held on 27 July 2020 be confirmed and would be signed by the Chairman.

5. External Audit - Lancashire County Council Audit Findings Report 2019/20

Stuart Basnet, Audit Manager, Grant Thornton presented the Lancashire County Council Audit Findings Report 2019/20, for the year ending 31 March 2020.

The following points were highlighted from the report:

- Due to the pandemic the audit had been undertaken remotely, resulting in some tasks taking longer than usual. However excellent communication between council officers and Grant Thornton, meant that the majority of work was now complete and an unqualified audit opinion was anticipated.

- The audit approach was unchanged from that reported at the July committee meeting and there was no change to the figures applied for materiality and triviality.

- The significant risk areas were listed in the report, along with the work completed by the auditors to gain assurance against each. No issues were reported against each risks, apart from the valuation of land, buildings and investment, where a material uncertainty paragraph (emphasis of matter) would be included due to the movement of property prices and valuations as a result of Covid-19. It was noted that this was a general issue, not specific to Lancashire County Council. This additional note would provide context to readers of the accounts when reviewing the valuation.

- The review of the budget for next year, medium term financial strategy and cash-flow forecasts had confirmed that the county held a strong reserve base, meaning there was no material uncertainty regarding the going concern status of the council.

- Some deficiencies in the strength of internal controls were highlighted in relation to access of the council's management information system – Oracle, and the process for notifying payroll when staff left. Recommendations had been made to address this and management had provided a response.

- The Value for Money conclusion was that the council had secured economy, efficiency and effectiveness in the use of resources. The significant level of reserves meant that the council was in a strong position to face the current challenges faced by local government.

- The report also included a follow up of prior year recommendations, audit adjustments, fees levied for the audit and the draft audit opinion.

In response to questions the following information was clarified:

- In relation to overpayment of salaries, Neil Kissock, Director of Finance, confirmed that measures had been taken to reduce this and there had not been a significant increase in the number of occurrences or financial impact.

However managers would continue to be reminded of the importance of processing staff changes quickly, to prevent overpayment.

- The savings made and reserve balance had mitigated the financial challenge of the council's response to the pandemic. A £50 million budget gap next year had been reported to Cabinet, however the reserve balance alongside the receipt of central government funding would offset the financial impact of the Covid-19 pandemic. A monthly report on additional expenditure and loss of income was reported to the Budget Scrutiny Review Panel and confirmed that the additional funding was offsetting Covid-19 costs.

Resolved: That the findings of the 2019/20 Lancashire County Council Audit report, amendment made to the financial statements and the issues raised by the auditor, as presented, be noted.

6. External Audit - Lancashire County Pension Fund Audit Findings Report 2019/20

Andy Ayre, Audit Manager, Grant Thornton presented the Lancashire County Pension Fund Audit Findings Report for 2019/20, for the year ending 31 March 2020.

The following points were highlighted from the report:

- Although some work was still ongoing, an unqualified audit opinion was anticipated with an 'emphasis of matter' in relation to the valuation property and investments held by the Pension Fund. It was noted that this was not a modification to the accounts, but was a necessary disclosure (as with the Lancashire County Council Audit Findings Report).

- There had been a slight change to materiality from the audit plan due to a change in the year end figure from the forecast, as a result of the impact of the Covid-19 pandemic, however this was not a change to the risk.

- There were still some items outstanding and the auditors were awaiting responses from Local Pensions Partnership. It was confirmed that this had been escalated to the Head of Fund.

- The significant risk areas were listed in the report, along with the work completed by the auditors to gain assurance against each. No issues were reported against the risks, apart from the valuation of level three pooled and level two directly held investment properties. The material uncertainty regarding the valuation of these would be highlighted via an 'emphasis of matter' in the audit opinion.

- A recommendation reported in the 2018/19 audit regarding authorisation procedures for manual journals in the financial ledger, remained outstanding.

The management response as to the systems in place that prevented this from being a risk, was included in Appendix A. This would be left open as the auditors still identified it as a reportable issue.

- The report also included audit adjustments, of which some disclosure improvements had been recommended, but there were no major misstatements to report; audit fees and the draft audit opinion.

Resolved: That the findings of the 2019/20 Lancashire County Pension Fund Audit report, including the adjustments made to the financial statements and other issues raised by the auditor, as presented, be noted.

7. Approval of the Council's Statement of Accounts 2019/20

Khadija Saeed, Head of Service, Corporate Finance, presented the council's Statement of Accounts for 2019/20.

It was explained that the report set out additional disclosure changes, suggested by the auditors for the benefit of readers, subsequent to the draft being signed and published on the council's website. There had been no changes to the core financial statements.

It was also highlighted that the management representation letters were additional assurances requested by the auditors from management, regarding areas where they can't reasonably expect to find audit evidence.

Members thanked the team for their professional work in producing the statement of accounts and supporting the auditors to complete their work within the deadlines set.

Resolved: That

(i) The 2019/20 statement of accounts, at Appendix A, for Lancashire County Council and Lancashire County Pension Fund, as presented, be approved.

(ii) The management representation letters at Appendices B and C be signed by the Chief Financial Officer and the Chair of the Audit, Risk and Governance Committee prior to them being made available to the external auditor.

8. Treasury Management Activity

Mike Jensen, Director of Investment, Financial Services presented a report detailing a review of treasury management activity for 2019/20 and an update of 2020/21 activity up to August 2020, including a financial outlook.

The following points were highlighted from the report:

Review of 2019/20 activity

- Treasury management activity had taken advantage of high levels of volatility in the financial markets, leading to an underspend against budget of £22.9 million by the end of 2019/20. This had been achieved whilst retaining a low risk profile.

- The structured re-financing of the authorities debt portfolio had been undertaken and in March 2020 the council issued a £350 million five year bond, launched via the UK Municipal Bond Agency to secure short term funding. The bond received multiple bids from a wide range of investors and was significantly oversubscribed and resulted in a substantial saving compared to the Public Works Loan Board alternative rates. This refinancing would enable shorter term debt to be reduced by March 2022.

Review of 2020/21 activity

- Market volatility continued in response to the Covid-19 pandemic and the negotiations for withdrawal from the European Union. This gave an opportunity to improve returns, however also meant a potential for an increase in risk levels.

- There was a £19.9 million underspend against budget reported to Cabinet in September due to transactions in the gilt market and short term investments market.

- More information would be known following the upcoming Bank of England's Monetary Policy Committee meeting regarding a potential further increase in quantative easing and any formalisation of negative interest rates.

- In August 2020 a £250 million 40 year bond was launched, which allowed substantial savings compared to offers by the Public Works Loan Board. The bond was again significantly oversubscribed by market investors. The third bond could be launched in 2021 and a favourable reception by market traders was anticipated.

- The council had borrowed in advance of paying the short term debt portfolio, which had meant a large increase in the borrowing position. However this would continue to decrease significantly as debts were paid off and the council's portfolio would return to a more balanced position early in the 2021/22 financial year.

Thanks were expressed to the Chief Executive for presenting Lancashire as a well-managed and sustainable authority to the investors.

In response to questions the following information was clarified:

- As the bond issue was so significantly oversubscribed, restricting which sectors could invest would not have impacted interest. Pension funds and insurance companies were given preference over sovereign wealth funds.

- The market had not fully factored in a no deal exit from the European Union. If an exit deal wasn't agreed, the UK's credit rating could be cut further and there was the potential for the liquidity of markets to be affected in early 2020.

Resolved: That the review of treasury management activities for 2019/20 and 2020/21, as presented, be noted.

9. Update Regarding the Internal Audit Plan for 2020/21

Ruth Lowry, Head of Internal Audit, presented a report explaining how a request for support from the Internal Audit team to support the council's response to the Covid-19 pandemic, had necessitated a reduced internal audit plan for 2020/21. The report provided a summary of the curtailed internal audit plan. It was emphasised that although the plan would be considerably reduced in its scope, there would be sufficient information to provide an overall audit opinion, supported by work undertaken in preceding years.

Members commented that the key to a successful reduced audit would be the cooperation and support of the relevant directors.

In response to a query from members regarding the importance of retaining the vital role of councillors as scrutineers, it was confirmed that how this was managed would be included in the internal audit work carried out regarding the transparency of decision making throughout the pandemic. Josh Mynott, Democratic and Members Services Manager, highlighted that the Scrutiny Committee meetings had not reduced and it was emphasised that engagement and challenge from members at county and district level was essential for ongoing successful scrutiny.

Resolved: That the reduced internal audit plan for 2020/21, as presented be approved.

10. Code of Conduct

Josh Mynott, Democratic and Members Services Manager, presented a report which provided an overview of the best practice recommendations of the Committee for Standards in Public Life in relation to local government standards. It was noted that the report had been brought for consideration as all local authorities had been asked to provide a progress update regarding their response to the recommendations. Some changes had been made to the Code of Conduct by officers relating to procedural matters, however more substantial amendments would require elected member input.

Members made the following comments:

- The Local Government Association had published a draft code of conduct to reflect the Committee's recommendations.

- An opportunity to engage a wider number of elected members from all political groups would be welcome in any discussions regarding the Code of Conduct, particularly in relation to the regulation of behaviour, respectful communication and conduct in council meetings.

- If it was agreed to review the Code of Conduct, it would useful to seek the contribution of the council's appointed Independent Persons.

- A task and finish group made up of appropriate officers and elected members to provide input to the Political Governance Working Group on a review of the Code may be an appropriate mechanism to ensure an inclusive review.

Resolved: That

(i) Officers look at best practice recommendations 13 and 15, as presented in Appendix A of the report, and put in place a process to address these.

(ii) Officers engage with elected members regarding best practice recommendations 1, 2, and 6, as presented in Appendix A of the report, and report back to the next meeting of the committee with proposals to implement them.

11. Urgent Business

There was no urgent business to be considered.

12. Date of Next Meeting

It was noted that the next meeting of the committee would take place at 2.00pm on Monday 25 January 2021.

L Sales
Director of Corporate Services

County Hall
Preston

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 January 2021

Electoral Division affected:
None;

Code of Conduct - Summary of Complaints
Appendix A refers

Contact for further information:
Josh Mynott, Tel: (01772) 534580, Democratic and Member Services Manager,
josh.mynott@lancashire.gov.uk

Executive Summary

This report presents a summary of all complaints received in 2020 against county councillors under the Code of Conduct.

Recommendation

The Audit, Risk and Governance Committee is asked to note the summary and comment as appropriate.

Background and Advice

Under the Localism Act 2011, the county council is required to have a Code of Conduct for Councillors ("the Code"). The Code has three elements:

- Behavioural expectations (principally aligned with the Nolan principles)
- Requirements around registering and declaring interests
- Requirements around Gifts and Hospitality

Complaints that a councillor has breached the rules around the registration and declaration of pecuniary (i.e. financial) interests are a criminal matter and complaints would be dealt with by the police. The county council is not aware of any allegations made to the police against Lancashire County Councillors in this regard.

All other complaints that a councillor has breached the Code are dealt with according to local arrangements, agreed by Full Council in 2012. There is a three stage process:

1. An initial assessment by the Monitoring Officer. The Monitoring Officer determines whether the complaint is within the remit of the Code and not vexatious. If the Monitoring Officer identifies that a complaint is legitimate, informal resolution will be explored, such as an apology or explanation that will satisfy the complainant without unnecessary use of resources. At this stage, a written response is sent to the complainant to advise them whether a

Lancashire County Council

complaint is dismissed as it is outside the Code, or not a breach of it, or if it is upheld and will be resolved informally,. There is no right of appeal against the Monitoring Officer's decision at this stage.

2. Investigation. Where the Monitoring Officer is unable to resolve a complaint informally, a full investigation will be undertaken, including interviews and examination of evidence. The Monitoring Officer will either determine that there has been no breach of the Code, in which case the matter is at an end, or that there has been a breach, in which case it will be referred to the Conduct Committee for consideration.

3. Conduct Committee consideration. The committee will receive the report of the Monitoring Officer and determine what action to take. The councillor who is subject to the complaint will have the right to attend and make representations. The committee must take the views of the appointed "Independent Person" into account before reaching a decision.

The emphasis, in line with the government's initial intention in revising the Standards arrangements in the Localism Act 2011, is to reduce bureaucracy and seek informal resolutions where possible. This avoids lengthy and potentially resource intensive investigations into minor or vexatious complaints.

Independent Persons

Local authorities must also appoint an "independent person" whose views must be sought by the local authority before a decision is taken in relation to an allegation of misconduct. Members who have had allegations made against them may, if they wish, also seek the views of the independent person. Lancashire has appointed three independent persons, to ensure that there can be appropriate separation between the roles of supporting the subject member and advising the committee, should it be necessary to do so.

Complaints 2020

In general, Lancashire continues to receive relatively few complaints about county councillors. A full summary of complaints received in 2020 is attached at Appendix A.

Key messages:

- Around 6 complaints were received on the same issue. This is still awaiting a final resolution. In all other cases, the Monitoring officer found no breach or that the complaint was not within the remit of the code.

- As in previous years, it remains the case that a large proportion of complaints come from people actively engaged in local politics. This is something to be expected, as these will be the people who are actively interested and engage with our county councillors. All complaints are considered on their merits, and the source of a complaint is not a factor.
- It is difficult to assess the impact of the pandemic on the level of complaints. A number of the complaints received relate to issues that have arisen from the

pandemic, but it does not appear to have had a generally significant impact on the number of type of complaints. What is clear is that the pandemic has impacted on the speed of response to complaints. Officers involved in the handling of complaints have also been heavily involved in the pandemic response. Dealing with Code of Conduct complaints is a matter which is taken seriously. However, given other, often urgent, Covid-related pressures on resources, it is considered that handling such complaints is not particularly time sensitive. Complainants have been kept informed.

The Audit, Risk and Governance Committee are invited to note the report and make any comments or observations about the complaints received or processes around managing complaints.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The county council is required to have a Code of Conduct for councillors under the Localism Act 2011.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Date	Complainant	Summary of allegation	Outcome
Feb 2020	Officer	Breach of information governance rules.	No breach. The officer's name was left on an email that was posted on social media. The message contained no criticism of the officer, and was left on by mistake. Training offered to all councillors on information governance.
April 2020	Member of the public (former Councillor)	Failure to show respect in comments made in media & subsequent defence of comments on social media	No breach, comments made by councillor were considered to be a reasonable expression of opinion.
May 2020 – 6 complaints about the same councillor on the same issue	Various	Failure to treat enquiries with respect	Still under investigation
Sept 2020	Member of the public	Misleading advice regarding Covid restrictions & refusal to apologise or clarify in a social media exchange	No breach. Advice provided by councillor was open to interpretation, but not incorrect, and councillor had spelt out explanation as part of same social media exchange.
Oct 2020	District Councillor	County Councillor seeking to improperly influence another councillor during a district council meeting	Not within remit of Code – councillor in question was dual hatted and was present at the meeting as a district councillor. Passed to relevant district council.

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 January 2021

Electoral Division affected:
None;

Code of Conduct - review
Appendices A-C refer

Contact for further information:
Josh Mynott, Tel: (01772) 534580, Democratic and Member Services Manager,
josh.mynott@lancashire.gov.uk

Executive Summary

This report presents an update to the committee on the response to the Committee for Standards in Public Life's recommendations in relation to best practice in local authority code of conducts.

Recommendation

The Audit Risk and Governance Committee is asked to consider and agree for recommendation to Full Council any amendments to the Code of Conduct for Members

Background and Advice

At the meeting on 19 October 2020, the Audit Risk and Governance Committee considered the best practice recommendations of the Committee for Standards in Public Life in relation to Local Authority Codes of conduct for elected members.

The committee resolved that officers consider further five of the recommendations and present proposals back to the Audit Risk and Governance Committee:

- Recommendation 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

- Recommendation 2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.

- Recommendation 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

- Recommendation 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

- Recommendation 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

A detailed response to the above is attached at Appendix A. A draft "public interest test" is attached at Appendix B.

Local Government Association Model Code of Conduct

Since the last meeting of the Audit Risk and Governance Committee, the Local Government Association has produced a new model Code of Conduct, attached as Appendix C. Local Authorities are not required to adopt this model code. However, it has been created by an umbrella organisation for local authorities, and in consultation with them. The Audit Risk and Governance Committee is invited to consider the Local Government Associations model code and comment as appropriate.

The model code has been shared with the political groups represented on the council and also with the Independent Persons, and any comments will be shared with the committee at the meeting.

Consultations

Political Groups represented on the council have been consulted on the proposals.

Implications:

This item has the following implications, as indicated:

Risk management

There are no significant financial implication.

The council is required to have a Code of Conduct in accordance with the provisions of the Localism Act 2011. The council's current code meets those requirements.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

	Committee for Standard in Public Life Proposal	Comment / Response
1	Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.	It is suggested that Lancashire adopt the following from the Local Government Association model code: • "The Advisory, Conciliation and Arbitration Service (ACAS) characterises bullying as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Bullying might be a regular pattern of behaviour or a one-off incident, happen face-to-face, on social media, in emails or phone calls, happen in the workplace or at work social events and may not always be obvious or noticed by others. The Protection from Harassment Act 1997 defines harassment as conduct that causes alarm or distress or puts people in fear of violence and must involve such conduct on at least two occasions. It can include repeated attempts to impose unwanted communications and contact upon a person in a manner that could be expected to cause distress or fear in any reasonable person. Unlawful discrimination is where someone is treated unfairly because of a protected characteristic. Protected characteristics are specific aspects of a person's identity defined by the Equality Act 2010. They are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation."
2	Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.	The Local Government Association model code includes the following: • "8. Complying with the Code of Conduct 8.1 I undertake Code of Conduct training provided by my local authority.

Appendix A

		8.2 I cooperate with any Code of Conduct investigation and/or determination. 8.3 I do not intimidate or attempt to intimidate any person who is likely to be involved with the administration of any investigation or proceedings. 8.4 I comply with any sanction imposed on me following a finding that I have breached the Code of Conduct. " It is suggested that these provisions be included in the Lancashire code, albeit that the Local Government Association code is written in the first person ("I"). The current Lancashire code uses the second person ("you") and so this would need to be reworded as appropriate.
6	Councils should publish a clear and straightforward public interest test against which allegations are filtered.	A number of Public interest tests published by other councils have been reviewed. See Appendix B for a suggested test for Lancashire.
13	A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.	Suggested wording for inclusion in our guide to handling complaints: • "Prior to undertaking a standards investigation, the Monitoring Officer will consider the case and determine whether there could be an actual or perceived conflict of interest if they were to carry out the review. If this is the case, then the Monitoring Officer will approach a Monitoring Officer from a different authority or other appropriate senior officer to complete the enquiry. "
15	Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.	Meetings now in place with Monitoring Officer and Political Groups, covering standards and other political management issues.

Code of Conduct – Public Interest Test

When applying the public interest test, the Monitoring Officer shall consider each of the following public interest factors set out below, and shall seek the views of an Independent Person as appropriate, in considering whether to investigate a complaint, and how that investigation should proceed.

These factors are not exhaustive, and not all may be relevant in every case.

The weight to be attached to each of these factors, and the factors identified, will also vary according to the facts and merits of each case.

- The seriousness of the breach.
- Whether the member is alleged to have deliberately sought personal gain for themselves or another person at the public expense.
- Whether the allegations is that a member has misused a position of trust or authority and caused harm to a person.
- Whether the alleged breach was motivated by any form of discrimination against the victim’s ethnic or national origin, gender, disability, age, religion or belief, sexual orientation or gender identity.
- Where there is evidence of previous similar behaviour on the part of the member.
- If the breach is such that it may damage public confidence in elected members.
- The resources that would be required to undertake an investigation compared to the seriousness of the breach and the likely sanction even if the member was found to have breached the code.
- Any admission of guilt, apology or other action already taken by the member to resolve or mitigate the issue caused.
- Whether the complaint appears to be malicious, vexatious, politically motivated or trivial retaliation.

Local Government Association

Model Councillor Code of Conduct 2020

Joint statement

The role of councillor across all tiers of local government is a vital part of our country's system of democracy. It is important that as councillors we can be held accountable and all adopt the behaviours and responsibilities associated with the role. Our conduct as an individual councillor affects the reputation of all councillors. We want the role of councillor to be one that people aspire to. We also want individuals from a range of backgrounds and circumstances to be putting themselves forward to become councillors.

As councillors, we represent local residents, work to develop better services and deliver local change. The public have high expectations of us and entrust us to represent our local area; taking decisions fairly, openly, and transparently. We have both an individual and collective responsibility to meet these expectations by maintaining high standards and demonstrating good conduct, and by challenging behaviour which falls below expectations.

Importantly, we should be able to undertake our role as a councillor without being intimidated, abused, bullied or threatened by anyone, including the general public.

This Code has been designed to protect our democratic role, encourage good conduct and safeguard the public's trust in local government.

Introduction

The Local Government Association (LGA) has developed this Model Councillor Code of Conduct, in association with key partners and after extensive consultation with the sector, as part of its work on supporting all tiers of local government to continue to aspire to high standards of leadership and performance. It is a template for councils to adopt in whole and/or with local amendments.

All councils are required to have a local Councillor Code of Conduct.

The LGA will undertake an annual review of this Code to ensure it continues to be fit-for-purpose, incorporating advances in technology, social media and changes in legislation. The LGA can also offer support, training and mediation to councils and councillors on the application of the Code and the National Association of Local Councils (NALC) and the county associations of local councils can offer advice and support to town and parish councils.

Definitions

For the purposes of this Code of Conduct, a "councillor" means a member or co-opted member of a local authority or a directly elected mayor. A "co-opted member" is defined in the Localism Act 2011 Section 27(4) as "a person who is not a member of the authority but who

a) is a member of any committee or sub-committee of the authority, or;
b) is a member of, and represents the authority on, any joint committee or joint sub-committee of the authority;

and who is entitled to vote on any question that falls to be decided at any meeting of that committee or sub-committee".

For the purposes of this Code of Conduct, "local authority" includes county councils, district councils, London borough councils, parish councils, town councils, fire and rescue authorities, police authorities, joint authorities, economic prosperity boards, combined authorities and National Park authorities.

Purpose of the Code of Conduct

The purpose of this Code of Conduct is to assist you, as a councillor, in modelling the behaviour that is expected of you, to provide a personal check and balance, and to set out the type of conduct that could lead to action being taken against you. It is also to protect you, the public, fellow councillors, local authority officers and the reputation of local government. It sets out general principles of conduct expected of all councillors and your specific obligations in relation to standards of conduct. The LGA encourages the use of support, training and mediation prior to action being taken using the Code. The fundamental aim of the Code is to create and maintain public confidence in the role of councillor and local government.

General principles of councillor conduct

Everyone in public office at all levels; all who serve the public or deliver public services, including ministers, civil servants, councillors and local authority officers; should uphold the Seven Principles of Public Life, also known as the Nolan Principles.

Building on these principles, the following general principles have been developed specifically for the role of councillor.

In accordance with the public trust placed in me, on all occasions:

- I act with integrity and honesty
- I act lawfully
- I treat all persons fairly and with respect; and
- I lead by example and act in a way that secures public confidence in the role of councillor.

In undertaking my role:

- I impartially exercise my responsibilities in the interests of the local community
- I do not improperly seek to confer an advantage, or disadvantage, on any person
- I avoid conflicts of interest
- I exercise reasonable care and diligence; and
- I ensure that public resources are used prudently in accordance with my local authority's requirements and in the public interest.

Application of the Code of Conduct

This Code of Conduct applies to you as soon as you sign your declaration of acceptance of the office of councillor or attend your first meeting as a co-opted member and continues to apply to you until you cease to be a councillor.

This Code of Conduct applies to you when:

- you are acting in your capacity as a councillor and/or as a representative of your council

- you are claiming to act as a councillor and/or as a representative of your council

- you are giving the impression that you are acting as a councillor and/or as a representative of your council

- you refer publicly to your role as a councillor or use knowledge you could only obtain in your role as a councillor.

The Code applies to all forms of communication and interaction, including:

- at face-to-face meetings
- at online or telephone meetings
- in written communication
- in verbal communication
- in non-verbal communication
- in electronic and social media communication, posts, statements and comments.

You are also expected to uphold high standards of conduct and show leadership at all times.

Your Monitoring Officer has statutory responsibility for the implementation of the Code of Conduct, and you are encouraged to seek advice from your Monitoring Officer on any matters that may relate to the Code of Conduct. Town and parish councillors are encouraged to seek advice from their Clerk, who may refer matters to the Monitoring Officer.

Standards of councillor conduct

This section sets out your obligations, which are the minimum standards of conduct required of you as a councillor. Should your conduct fall short of these standards, a complaint may be made against you, which may result in action being taken.

Guidance is included to help explain the reasons for the obligations and how they should be followed.

General Conduct

1. Respect

As a councillor:

1.1 I treat other councillors and members of the public with respect.

1.2 I treat local authority employees, employees and representatives of partner organisations and those volunteering for the local authority with respect and respect the role they play.

Respect means politeness and courtesy in behaviour, speech, and in the written word. Debate and having different views are all part of a healthy democracy. As a councillor, you can express, challenge, criticise and disagree with views, ideas, opinions and policies in a robust but civil manner. You should not, however, subject individuals, groups of people or organisations to personal attack.

In your contact with the public, you should treat them politely and courteously. Rude and offensive behaviour lowers the public's expectations and confidence in councillors.

In return, you have a right to expect respectful behaviour from the public. If members of the public are being abusive, intimidatory or threatening you are entitled to stop any conversation or interaction in person or online and report them to the local authority, the relevant social media provider or the police. This also applies to fellow councillors, where action could then be taken under the Councillor Code of Conduct, and local authority employees, where concerns should be raised in line with the local authority's councillor-officer protocol.

2. *Bullying, harassment and discrimination*

As a councillor:

2.1 I do not bully any person.

2.2 I do not harass any person.

2.3 I promote equalities and do not discriminate unlawfully against any person.

The Advisory, Conciliation and Arbitration Service (ACAS) characterises bullying as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Bullying might be a regular pattern of behaviour or a one-off incident, happen face-to-face, on social media, in emails or phone calls, happen in the workplace or at work social events and may not always be obvious or noticed by others.

The Protection from Harassment Act 1997 defines harassment as conduct that causes alarm or distress or puts people in fear of violence and must involve such conduct on at least two occasions. It can include repeated attempts to impose unwanted communications and contact upon a person in a manner that could be expected to cause distress or fear in any reasonable person.

Unlawful discrimination is where someone is treated unfairly because of a protected characteristic. Protected characteristics are specific aspects of a person's identity defined by the Equality Act 2010. They are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The Equality Act 2010 places specific duties on local authorities. Councillors have a central role to play in ensuring that equality issues are integral to the local authority's performance and strategic aims, and that there is a strong vision and public commitment to equality across public services.

3. *Impartiality of officers of the council*

As a councillor:

3.1 I do not compromise, or attempt to compromise, the impartiality of anyone who works for, or on behalf of, the local authority.

Officers work for the local authority as a whole and must be politically neutral (unless they are political assistants). They should not be coerced or persuaded to act in a way that would undermine their neutrality. You can question officers in order to understand, for example, their reasons for proposing to act in a particular way, or the content of a report that they have written. However, you must not try and force them to act differently, change their advice, or alter the content of that report, if doing so would prejudice their professional integrity.

4. Confidentiality and access to information

As a councillor:

4.1 I do not disclose information:

- **a. given to me in confidence by anyone**
- **b. acquired by me which I believe, or ought reasonably to be aware, is of a confidential nature, unless**
  - **i. I have received the consent of a person authorised to give it;**
  - **ii. I am required by law to do so;**
  - **iii. the disclosure is made to a third party for the purpose of obtaining professional legal advice provided that the third party agrees not to disclose the information to any other person; or**
  - **iv. the disclosure is:**
    1. **reasonable and in the public interest; and**
    2. **made in good faith and in compliance with the reasonable requirements of the local authority; and**
    3. **I have consulted the Monitoring Officer prior to its release.**

4.2 I do not improperly use knowledge gained solely as a result of my role as a councillor for the advancement of myself, my friends, my family members, my employer or my business interests.

4.3 I do not prevent anyone from getting information that they are entitled to by law.

Local authorities must work openly and transparently, and their proceedings and printed materials are open to the public, except in certain legally defined circumstances. You should work on this basis, but there will be times when it is required by law that discussions, documents and other information relating to or held by the local authority must be treated in a confidential manner. Examples include personal data relating to individuals or information relating to ongoing negotiations.

5. Disrepute

As a councillor:

5.1 I do not bring my role or local authority into disrepute.

As a councillor, you are trusted to make decisions on behalf of your community and your actions and behaviour are subject to greater scrutiny than that of ordinary members of the public. You should be aware that your actions might have an adverse impact on you, other councillors and/or your local authority and may lower the public's confidence in your or your local authority's ability to discharge your/it's functions. For example, behaviour that is considered dishonest and/or deceitful can bring your local authority into disrepute.

You are able to hold the local authority and fellow councillors to account and are able to constructively challenge and express concern about decisions and processes undertaken by the council whilst continuing to adhere to other aspects of this Code of Conduct.

6. Use of position

As a councillor:

6.1 I do not use, or attempt to use, my position improperly to the advantage or disadvantage of myself or anyone else.

Your position as a member of the local authority provides you with certain opportunities, responsibilities and privileges, and you make choices all the time that will impact others. However, you should not take advantage of these opportunities to further your own or others' private interests or to disadvantage anyone unfairly.

7. Use of local authority resources and facilities

As a councillor:

7.1 I do not misuse council resources.

7.2 I will, when using the resources of the local or authorising their use by others:

a. act in accordance with the local authority's requirements; and

b. ensure that such resources are not used for political purposes unless that use could reasonably be regarded as likely to facilitate, or be conducive to, the discharge of the functions of the local authority or of the office to which I have been elected or appointed.

You may be provided with resources and facilities by the local authority to assist you in carrying out your duties as a councillor.

Examples include:

- office support
- stationery
- equipment such as phones, and computers
- transport
- access and use of local authority buildings and rooms.

These are given to you to help you carry out your role as a councillor more effectively and are not to be used for business or personal gain. They should be used in accordance with the purpose for which they have been provided and the local authority's own policies regarding their use.

8. Complying with the Code of Conduct

As a councillor:

8.1 I undertake Code of Conduct training provided by my local authority.

8.2 I cooperate with any Code of Conduct investigation and/or determination.

8.3 I do not intimidate or attempt to intimidate any person who is likely to be involved with the administration of any investigation or proceedings.

8.4 I comply with any sanction imposed on me following a finding that I have breached the Code of Conduct.

It is extremely important for you as a councillor to demonstrate high standards, for you to have your actions open to scrutiny and for you not to undermine public trust in the local authority or its governance. If you do not understand or are concerned about the local authority's processes in handling a complaint you should raise this with your Monitoring Officer.

Protecting your reputation and the reputation of the local authority

9. Interests

As a councillor:

9.1 I register and declare my interests.

You need to register your interests so that the public, local authority employees and fellow councillors know which of your interests might give rise to a conflict of interest. The register is a public document that can be consulted when (or before) an issue arises. The register also protects you by allowing you to demonstrate openness and a willingness to be held accountable. You are personally responsible for deciding whether or not you should declare an interest in a meeting, but it can be helpful for you to know early on if others think that a potential conflict might arise. It is also important that the public know about any interest that might have to be declared by you or other councillors when making or taking part in decisions, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

You should note that failure to register or declare a disclosable pecuniary (i.e. financial) interest is a criminal offence under the Localism Act 2011.

Appendix B sets out the detailed provisions on registering and declaring interests. If in doubt, you should always seek advice from your Monitoring Officer.

10. Gifts and hospitality

As a councillor:

10.1 I do not accept gifts or hospitality, irrespective of estimated value, which could give rise to real or substantive personal gain or a reasonable suspicion of influence on my part to show favour from persons seeking to acquire, develop or do business with the local authority or from persons who may apply to the local authority for any permission, licence or other significant advantage.

10.2 I register with the Monitoring Officer any gift or hospitality with an estimated value of at least £50 within 28 days of its receipt.

10.3 I register with the Monitoring Officer any significant gift or hospitality that I have been offered but have refused to accept.

In order to protect your position and the reputation of the local authority, you should exercise caution in accepting any gifts or hospitality which are (or which you reasonably believe to be) offered to you because you are a councillor. The presumption should always be not to accept significant gifts or hospitality. However, there may be times when such a refusal may be difficult if it is seen as rudeness in which case you could accept it but must ensure it is publicly registered. However, you do not need to register gifts and hospitality which are not related to your role as a councillor, such as Christmas gifts from your friends and family. It is also important to note that it is appropriate to accept normal expenses and hospitality associated with your duties as a councillor. If you are unsure, do contact your Monitoring Officer for guidance.

Appendices

Appendix A – The Seven Principles of Public Life

The principles are:

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Appendix B

Registering interests

1. Within 28 days of this Code of Conduct being adopted by the local authority or your election or appointment to office (where that is later) you must register with the Monitoring Officer the interests which fall within the categories set out in Table 1 (Disclosable Pecuniary Interests) and Table 2 (Other Registerable Interests). Disclosable Pecuniary Interests means issues relating to money and finances.

2. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.

3. A ‘sensitive interest’ is as an interest which, if disclosed, could lead to the councillor/member or co-opted member, or a person connected with the member or co-opted member, being subject to violence or intimidation.

4. Where you have a ‘sensitive interest’ you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Declaring interests

5. Where a matter arises at a meeting which directly relates one of your Disclosable Pecuniary Interests, you must declare the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a ‘sensitive interest’, you do not have to declare the nature of the interest, just that you have an interest.

6. Where a matter arises at a meeting which directly relates to one of your Other Registerable Interests, you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a ‘sensitive interest’, again you do not have to declare the nature of the interest.

7. Where a matter arises at a meeting which *directly relates* to your financial interest or well-being (and is not a Disclosable Pecuniary Interest) or a financial interest or well-being of a relative or close associate, you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room

unless you have been granted a dispensation. If it is a ‘sensitive interest’, you do not have to declare the nature of the interest.

8. Where a matter arises at a meeting which *affects* –
    a. your own financial interest or well-being;
    b. a financial interest or well-being of a friend, relative, close associate; or
    c. a body included in those you need to declare under Disclosable Pecuniary Interests

    you must disclose the interest.

9. Where the matter affects the financial interest or well-being:
    a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
    b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

    you must declare the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a ‘sensitive interest’, you do not have to declare the nature of the interest.

Table 1: Disclosable Pecuniary Interests

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012.

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the

	councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and Property	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer
Corporate tenancies	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— (i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were

	spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

* ‘director’ includes a member of the committee of management of an industrial and provident society.

* ‘securities’ means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registerable Interests

Any Body of which you are a member or in a position of general control or management and to which you are appointed or nominated by the council;	
Any Body -	(a) exercising functions of a public nature;
	(b) directed to charitable purposes; or
	(c) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)
of which you are a member or in a position of general control or management.	

Appendix C – the Committee on Standards in Public Life

The LGA has undertaken this review whilst the Government continues to consider the recommendations made by the Committee on Standards in Public Life in their report on Local Government Ethical Standards. If the Government chooses to implement any of the recommendations, this could require a change to this Code.

The recommendations cover:

- Recommendations for changes to the Localism Act 2011 to clarify in law when the Code of Conduct applies
- The introduction of sanctions
- An appeals process through the Local Government Ombudsman
- Changes to the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012
- Updates to the Local Government Transparency Code
- Changes to the role and responsibilities of the Independent Person
- That the criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished

The Local Government Ethical Standards report also includes Best Practice recommendations. These are:

Best practice 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Best practice 2: Councils should include provisions in their code of conduct requiring councillors to comply with any formal standards investigation and prohibiting trivial or malicious allegations by councillors.

Best practice 3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

Best practice 4: An authority's code should be readily accessible to both councillors and the public, in a prominent position on a council's website and available in council premises.

Best practice 5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Best practice 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Best practice 7: Local authorities should have access to at least two Independent Persons.

Best practice 8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

Best practice 9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Best practice 10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Best practice 11: Formal standards complaints about the conduct of a parish councillor towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.

Best practice 12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Best practice 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness and publish their board agendas and minutes and annual reports in an accessible place.

Best practice 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

The LGA has committed to reviewing the Code on an annual basis to ensure it is still fit for purpose.

Audit, Risk and Governance Committee
Meeting to be held on 25 January, 2021

Electoral Division affected:
(All Divisions);

External Audit - Lancashire County Council Audit Findings Report 2019/20 (Updated)
Appendix A refers

Contact for further information:
Paul Dossett, Tel: (0)20 7728 3180, Partner, Grant Thornton UK LLP,
Paul.Dossett@uk.gt.com

Executive Summary

The external auditor is required to report to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to the:

- audit of the annual accounts of Lancashire County Council and their proposed opinion on those accounts; and
- value for money conclusion.

This is an updated version of the report which was submitted to the October, 2020 committee, intended to inform the committee on progress made and the reason for the delay in issuing the audit opinion.

Recommendation

The Audit, Risk and Governance Committee is asked to note the findings in the report, the amendments made to the financial statements and issues raised by the auditor which are set out in the report.

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Council for the 2019/20 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Paul Dossett, Engagement Lead, and Stuart Basnett, Engagement Manager, will attend the meeting to present the report and answer any questions.

Lancashire County Council

Consultations

The report has been agreed with the County Council's management.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

The Audit Findings for Lancashire County Council

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8 January 2021

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Appendix A

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has dealt with the administration of grants to businesses, getting PPE to frontline carers, the closure of schools, staff re-deployment, evaluated and redesigned the provision of services during lockdown, and then the additional challenges of reopening services under new government guidelines whilst also managing the ongoing impact of local lockdowns across the county. The Council has also moved from being an organisation which is primarily location-based to one that is primarily remotely based. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit within our audit plan which was presented at the 27 July Audit, Risk and Governance Committee. In the plan we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness accuracy of information produced by the entity through screensharing. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council's IT infrastructure and having access to the relevant financial systems.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy)/ Local Authority (Scotland) Accounts Advisory Committee (LASAAC) code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was largely completed on remotely during August-November. Our findings are summarised on pages 4 to 23. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Except for our work in regard of the classification and valuation of Lender-Option Buyer Option (LOBO) investments (see page 15) which has been delayed due to the need to engage with internal and external experts , the remaining audit work is complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements. To finalise our work we require: • the resolution of our work on the classification and valuation of LOBO investments (page 15) • receipt of signed management representation letter, when the audit has been concluded; and • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of PPE and the estimated share of the Pension Fund property assets – refer to page 8 for further detail.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Lancashire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18-22.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Lancashire County Developments Limited (LCDL) balances was required, which were completed by the component audit team (Beever and Struthers LLP); and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Aside from the outstanding work regarding the classification and valuation of LOBO investments (see page 15), we have completed our audit of your financial statements and, subject to the appropriate resolution of the outstanding matter, we anticipate issuing an unqualified audit as detailed in Appendix E.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£27.124m	£27.120m	1.25% of prior year gross expenditure
Performance materiality	£20.340m	£20.340m	75% of materiality
Trivial matters	£1.356m	£1.356m	5% of materiality
Materiality for senior officer remuneration	£0.015m	£0.015m	Lower level of precision for detecting errors in these specific accounts

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	In response to this risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • engaged the use of an auditor experts for asset valuations **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention.
Valuation and accounting for the £350 million UK MBA bond loan The Council in March 2020 was the first Council in the UK to secure loan financing through the UK Municipal Bonds Agency (UKMBA). This was an alternative to the current methods of borrowing, for example from the Public Works Loan Board (PWLB) and other local authorities. The Council has provided a sole Council guarantee for the £350 million issue of bonds over the 5 year term. UKMBA are the issuer of the Bond and it is listed on the London Stock Exchange. Management need to consider the terms of the agreement of these loans and make judgements as to the appropriate accounting and disclosure treatment.	In response to this risk we: • assessed management's processes and assumptions for identifying critical judgements • discussed with management the basis on which the valuation and accounting was carried out, including advice received from treasury management advisers and legal advisors • considered the governance framework in relation to the Bond financing • reviewed the accounting and narrative disclosures within the financial statements in relation to the loan including the Narrative Report. **Findings** There are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.	In response to this risk we: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing; • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention.
Valuation of pension fund net liability The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,153m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to this risk we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Considered the impact of Covid-19 in the net assets statement; and • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular reviewing the assessed impact of the MHCLG (Ministry of Housing, Communities & Local Government) McCloud consultation and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. **Findings** There are no issues to bring to your attention.
Revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement. **Findings** There are no issues to bring to your attention.

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Significant audit risks

Risks identified in our Audit Plan	Auditor commentary

Valuation of land buildings and investment property
The Council revalues its land and buildings on a rolling three year cycle. Investment properties are revalued annually.
These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.
Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.
	In response to this risk we:
	• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• Evaluated the competence, capabilities and objectivity of the valuation expert;
	• Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out;
	• Engaged our own valuer expert, Wilks Head Eve, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA, International Financial Reporting Standards (IFRS) and Royal Institution of Chartered Surveyors (RICS) ; and
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
	• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• Created an expectation of valuation movements based upon Gerald Eve market index data and compared to the actual valuation movements recorded;
	• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
	• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
	
	Findings
	The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer and disclosed by the Council within note 3 to the financial statements, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.
	The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the Council's valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lancashire County Developments Limited	Beever and Struthers LLP	• We have reviewed the consolidation undertaken by the Council and reviewed the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group.	• The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts. • We have received confirmation from the company auditor that there are no further issues that should be reflected in the group accounts. • We have received the final signed financial statements and audit opinion of the company. As a result of the above, there are no matters we need to consider impacting on our opinion on the group accounts.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – £2,022m	Land and buildings comprises £1,669m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£353m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged it's internal valuation team to complete the valuation of the majority of properties as at 1 April 2019 on a three yearly cyclical basis. A specialist external valuer, Rushton, was also engaged to revalue the Council's Waste assets. To determine that the carrying value of those assets valued at 1 April 2019 (and also assets not valued in 19/20) is not materially different to their current value, management perform an indexation analysis to project the asset values and assess whether there is a material difference. The assessment is supported by market commentary and indices provided by the internal valuation team. Circa 48% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net nil movement in value. Management has considered the year end value of non-valued properties (circa 52%), and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. The total year end valuation of other land and buildings was £2,022m (2018/19 £2,022m) In line with Royal Institution of Chartered Surveyors (RICS) guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts.	• We have assessed the Council's valuers, both the internal valuation team and have found them to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings. • We have challenged the assumptions applied by the valuer in the valuation calculations. • The valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, by creating an expectation of valuation movements based upon Gerald Eve market index data and comparing to the actual valuation movements recorded. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts.	GREEN

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Auditor commentary
Land and Buildings - £2,022m	We have used Wilks Head Eve as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Wilks Head Eve comment	Audit team follow up	Assessment
Review of whether the valuation reports have been prepared in line with relevant legislation	The Valuers report outlines that the valuations have been provided in line with the RICS Valuation – Global Standards (which incorporate the International Valuation Standards ('IVS') and the RICS UK National Supplement. The reports also include all the expected elements required.	N/A	● GREEN
Disclosure of assumptions and special assumptions used in the valuation	The Red Book requires that, at the outset of the instruction "All assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified and recorded.	All assumptions and special assumptions are set out in the valuer's final valuation report.	● GREEN
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	These approaches appear reasonable and are in line with that adopted by other Valuers completing valuations for these purposes.	N/A	● GREEN
Confirmation of Modern Equivalent Asset (MEA) assumptions/ principles adopted and that conclusion can be supported.	On the basis that the modern equivalent adjustments are reflective of market expectations we would be of the view that this process is appropriate in this instance.	Our work includes review and challenge of the MEA adjustments such as deductions for physical deterioration and all relevant forms of obsolescence. Our work in this area is still ongoing but there have been no issues identified to date.	● GREEN
Ensuring assets valuations as at 1/4/19 do not differ materially from their current value as at 31/3/20.	The valuation reports do not reference whether any relevant valuation changes have been considered between the opening book valuation date of 1st April 2019 and the closing book (except for the material change assets which have been valued at the closing book date). It may be prudent to ascertain whether these have been reviewed to ensure that the carrying amount does not differ materially from the value at the balance sheet date – perhaps via a separate 'market review' document.	We have obtained the valuer's market commentary report along with management's indexation exercise which details the approach taken and assurance that there is not material difference in value as at 31/3/20.	● GREEN

Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £1,152.9m

The Council's net pension liability at 31 March 2020 is £1,152.9m (18/19 £1,221.6m) comprising the Lancashire County Pension Fund which is part of the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £68m net actuarial loss during 2019/20.

- We have assessed the Council's actuary, Mercers, to be competent, capable and objective.
- We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise.
- As part of the procedures we undertook to review the actuarial assumptions we performed additional procedures, in particular reviewing the assessed impact of the MHCLG McCloud consultation and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. Our work on this area is still ongoing.
- We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.3%	
Pension increase rate	2.1%	2.1%	
Salary growth	3.6%	3.35% - 3.6%	
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.3 years Non-pensioners: 23.8 years Used CMI 2018 Model with long term improvement rate of 1.75%	Scheme specific but would expect actuary to calculate using the Continuous Mortality Investigation (CMI) 2018 Model with long term improvement rate of 1.25% pa	
Life expectancy – Females currently aged 45 / 65	Pensioners: 25 years Non-pensioners: 26.8 years Used CMI 2018 Model with long term improvement rate of 1.75%		

GREEN

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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,152.9m		• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2019/20 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of Local Government Pension Scheme (LGPS) pension assets. • Management have updated the disclosures within the pension liability note for the actual employer contributions made in year (rather than the estimate used by the actuary). This has resulted in a £8m increase to the fair value of scheme assets. The estimated employee contributions was not updated for the actual contributions received. If it had been it would have decreased the fair value of scheme assets by £1.65m which is below our performance materiality level, but above our reporting threshold. • In line with RICS guidance, the valuer for Lancashire Pension Fund disclosed a material uncertainty in the valuation of the Pension Fund's Property assets as at 31 March 2020 as a result of Covid-19. The Council has considered the impact of this on it's share of the property assets and included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts. Our work confirms that the decrease in the estimated IAS 19 net pension liability is reasonable.	GREEN

Significant findings – going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process The Council's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	We have subjected the 2020/21 budget, Medium Term Financial Strategy (MTFS) to 2024/24 and cash flow forecast to November 2021 to detailed scrutiny and reviewed the planned savings proposals for 2020/21 and 2021/22 in our consideration of the appropriateness of management's use of the going concern assumption. In 2020/21 the Council expects to achieve a balanced budget, noting the additional costs/loss of income due to Covid-19. Additional funding from central government for income loss will reduce this overspend but, at this point in time, it is unclear how much of Covid-19 related costs will be met by central government. If central government does not meet all Covid-19 related costs the Council will need to meet the costs by utilising its earmarked reserves. However, the Council's reserves position is strong. Refer to detailed findings on pages 22 to 25 of this report. The Covid-19 pandemic has resulted in several overspends in 2020/21 service area budgets due to a reduction in service user income and an increase in demand and staffing pressures. There are also several service area budgets with underspends as a result of less than anticipated demand, as well as a significant underspend within the Chief Executive Services directorate due to strong treasury management performance. The year end cash position held by the Council was very positive and the cash & cash equivalents balance held at 31/3/20 was £634m which is a significant amount to draw upon to support liquidity. The Council also recognises that forecasting in this current climate is challenging especially due to the volatility in demand for services, particularly within adult and children's social care services, and the uncertainty this can cause on financial forecasts. **Conclusion** The Council's reserves position is strong. At 31 March 2020 the Council's total usable reserves, excluding capital reserves, stood at £268m. The main reserve used to fund budget shortfalls is the Transitional reserve which at 31/3/20 amounted to £151m. The Council's MTFS, after updates for Covid-19, forecasts this reserve to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24. The Council has included Events after the Reporting Period disclosure in the Statement of Accounts in relation to the impact of Covid-19. We have not identified any material uncertainty about the Council's ability to continue as a going concern.

Significant findings – Financial Instruments

Classification & Valuation of LOBO investments in the Accounts

In 2018/19 the Council bought LOBO loans from banks relating to three other Council's (value £55.1m). The motivation for this was due to the Council having just bought out their own LOBOs and saw an investment opportunity, as well as being able to help their local government authorities. In the 2018-19 accounts these assets were classified as being held at amortised cost under IFRS 9.

In 2019/20 the Council entered the same agreements with three further Council's (value £46.7m). The Council approved the Non-Treasury Management strategy for implementation on 1/4/19 and under this strategy the Council considered that these bonds with local authorities should be classified as being held at Fair Value through Profit and Loss (FVTPL) under IFRS 9 as they were held for trading and the Council has the intention to sell them in the short term. In the 2019-20 accounts all six of the bond were classified as FVTPL with the three items from 18-19 having been reclassified.

There are very few circumstances permitted for reclassification under IFRS 9 and, following our challenge to the Council over the classification, the Council agreed that the criteria for reclassification was not met. However, the Council reviewed the classification of amortised cost in 2018/19 and determining that this was the incorrect classification. These assets have always been intended to be held for trading and the intention has been to sell from soon after they were acquired. Management have provided us with correspondence which demonstrates this position as well as justification for these assets meeting the required business model for classification as FVTPL under IFRS 9.

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We have consulted with our technical team and accept that classification as FVTPL is appropriate and are satisfied with management's rationale that the prior year classification was incorrect.

As part of our challenge, due to the potential need for a prior period adjustment and the impact this could have on the general fund, we have sought further assurance over the valuation of these investments at both 31/3/19 and 31/3/20. Management have provided us with valuation workings from their treasury management advisor. At the time of writing we are in consultation with our own internal valuation experts to gain assurance over the reasonableness of the valuation approach adopted by the Council and the valuation recorded in the financial statements. We have also taken external advice on these matters. We expect to resolve this issue this month.

On the assumption that there are no material differences identified by our internal valuation team, the Council proposes to not amend the accounts for the classification differences detailed above. This is because the impact of the correction to the prior year classification does not have a material effect on the accounts.

The impact of the error would be to increase the value of the investments as 31/3/19 (from £55.1m to £71.0m), which would generate a gain of £15.9m in the 2018/19 Comprehensive Income and Expenditure Statement (CIES). The corresponding effect for 2019/20 would be reduction of £15.9m in the current gain shown in the CIES. Since the assets were already shown at FVTPL in the 2019/20 draft accounts, there is no impact on the valuation of assets for 2019/20. Since the values involved are below Performance Materiality, under IAS 8 the error should be corrected in the 2019/20 accounts instead of restating the prior year. Although the gain is effectively understated in 2018/19 and overstated in 2019/20, due to IAS 8 permitting correction in year for an immaterial error in the current year, there is no amendment required to the CIES. The only unadjusted misstatement is therefore the prior year valuation of the investments. See the unadjusted misstatements schedule in appendix C.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. We were unable to obtain confirmations from banks for school bank accounts, however we have performed appropriate alternative procedures in order to gain sufficient appropriate assurance over these balances.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/Society of Local Authority Chief Executives (SOLACE) guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the National Audit Office) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work in this area will be complete in line with the national deadline.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Lancashire County Council in the audit report, as detailed in Appendix E, until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Internal controls

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan at Appendix A.

	Assessment	Issue and risks	Recommendations
1	MEDIUM	**Oracle security and access controls** Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were: • IT users self-assigning Oracle responsibilities without approval or subsequent timely removal • Limited evidence of appropriate restriction of Oracle database administration The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2019/20 financial statements.	IT audit findings to be reviewed by the Council's IT team and any inappropriate access/responsibilities to be resolved/removed.
2	MEDIUM	**Payroll Leavers Controls** As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BT Lancashire Services (BTLS) who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis	We recommend that the Council review the current process with regards to notification of leavers to BTLS for processing and ensure that leavers are removed within a timely basis.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Value for Money

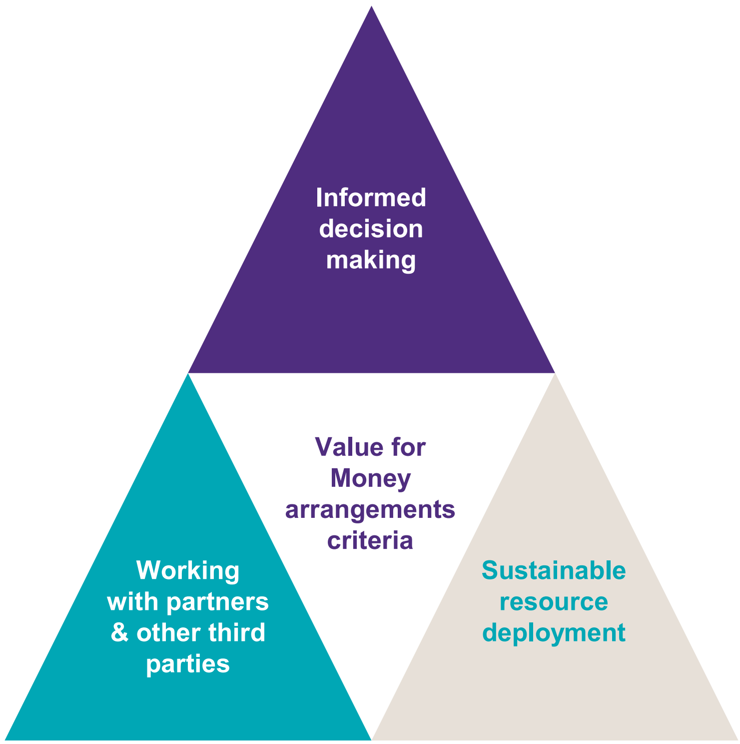
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated July 2020. We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the robustness of the Medium Term financial Strategy (MTFS) and the reasonableness of the underlying assumptions, as updated for Covid-19;
- the in year budget monitoring arrangements;
- the challenge of the on-going savings programme facing the Council during the period of the MTFS.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our proposed report can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk: Financial sustainability

The risk as identified in our 2019/20 Audit Plan

The Council's Medium-Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, shows a cumulative funding gap between 2021/22 and 2023/24 of £33 million. The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS.

Significant savings plans have been in place at the Council, and the reliance upon reserves to balance the budget has decreased since 2018/19. The Council's 2019/20 budget required £10 million from reserves. The 2020/21 budget assumes a nil call on reserves. The 19/20 financial year ended with an underspend of £1.7m.

The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council.

The implications of the Covid-19 pandemic on the Council in terms of the financial impact and the savings are currently being reviewed. We will particularly focus on the impact of Covid-19 on the 2020/21 budget and beyond.. To date the Council has received £56m in emergency support from Government . A further funding package was announced in July 2020 to support income losses, but the precise details of how it impacts on the Council will need to be worked through.

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. This will include the consideration of Brexit in the Council's planning processes. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings. This work is part of the sustainable resource deployment sub-criteria.

Findings

2019/20 Financial outturn

In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but there will be a larger impact on 2020/21.

The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The final position at the end of the year is net expenditure of £800.5m, which represents an in-year underspend of £1.7m (0.22% of the revenue budget). The revenue position includes a level of support from reserves that had previously been agreed (£10.2m) which covered the funding gap, and if this support had not been available then expenditure would have exceeded income by £8.5m.

The most significant areas of over and underspend in 2019/20 were Adult Social Care which had a £24.930m overspend (7.2%), primarily as a result of under delivery of savings and financial support being provided to two of the local Clinical Commissioning Groups (CCGs). This was largely offset by the £22.888m underspend within Treasury management due to the gains arising from the sale of gilts and bonds resulting from the significant volatility of the market.

Value for Money

Significant risk: Financial sustainability - continued

2020/21 Budget and beyond

The Council's Medium-Term Financial Strategy, set in 2019/20, covering the period 2020/21 to 2023/24, was based on a number of assumptions due to the ongoing and unprecedented uncertainty in relation to future local government funding – after review of the key assumptions the "most likely" scenario was adopted within the MTFS. The overall position over the 4-year period indicates a structural deficit of £33.312m by 2023/24, which varies in size over each of the 4 years of the forecast. Alongside this, the agreed 2020/21 budget did not include any use of reserves, and so following commitments of £2.9m, this would leave a forecast of circa £150m available within the Transitional Reserve to support the financial gap in 2021/22 and beyond.

Our initial review of the key assumptions adopted for the MTFS and the process adopted by the Council found that the approach adopted by the Council was reasonable and that prudence was applied in the adoption of the assumptions. However, as a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21 and beyond. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council provided a financial impact assessment of Covid-19 to the August Cabinet meeting and has since updated the assumptions within the MTFS to account for the impact of Covid-19 based on the best available information to date. This provided an update to the previous MTFS (from Feb 2020) which showed a deficit of £38.4m in 2023/24. The forecast now indicates a financial deficit of £79.3m by 2023/24 as a result of adjusting the forecast for the impact of Covid-19 and updated assumptions.

The main reasons for the changes to the position are as follows:

- The current forecast collection fund deficit of £30m for 2020/21 which, after the Local Government Secretary announcement on the 2nd July of a proposal for a phased repayment of council tax and business rates deficits over 3 years, leads to an in-year pressure of £10m for each of years..
- Removal of the historic collection fund surplus forecast of £3.75m per annum.
- An assumed zero tax base increase for 2021/22 as a result of Covid related disruption to housing development with consequent decrease in funding available of £9m. With pre-Covid growth of 1.7% per annum assumed thereafter.
- The reflection of the latest Office for Budget Responsibility forecast for the increase in National Living Wage which has an impact on the cost of provision of commissioned adult social care.
- Following a review of current activity, updated demand and volume assumptions in line with Office for National Statistics (ONS) population statistics.
- The pay award for 2020/21 likely to be agreed at higher than the 2% budgeted level.

The overall position over the 3-year period indicates a structural deficit of £52.2m in 2021/22 rising to an aggregated deficit of £79.3m by 2023/24, assuming no additional government financial support in those years.

The ongoing financial pressures suggest that without significant high-level intervention as a result of the recently announced Comprehensive Spending Review, action will need to be taken to reduce net expenditure to meet the potential funding gap for 2021/22 and beyond. To address the forecast pressure officers, working with partners, are developing an evidence base and narrative to influence the forthcoming Comprehensive Spending Review. The Council will also be looking to maximise efficiencies across services and commence work to identify potential savings given that the Spending Review is being conducted amid the extreme financial uncertainties driven by the continue impact of the Covid 19 pandemic.

Value for Money

Significant risk: Financial sustainability - continued

2020/21 Budget and beyond – continued

The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £467m total useable reserves, £134m relates to reserves built up to help to finance the Council's capital expenditure plans. Further, the County Fund is maintained at 3% of the net budget and is set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. The main reserve held by the Council for the purpose of supporting forecast funding shortfalls in future year budgets is the Transitional reserve which was £151m as at 31 March 2020 and is forecast to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding and use of reserves on a large-scale risks creating structural overspends if the Council's finances do not recover quickly and income is reduced long term.

From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council's financial sustainability.

CONCLUSION

Auditor view

Overall, due to the significant level of reserves held by the Council, it is likely one of the better placed authorities to survive the challenges faced in respect of local government finances and the financial impact of Covid-19. We believe the significant risk of financial sustainability is mitigated.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP (GT) teams providing services to the Council. The following non-audit services were identified:

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £111,856 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

	Fees £	Threats identified	Safeguards
Non-audit related			
Chief Finance Officer (CFO) Insights Subscription	£9,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £111,856 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion. The subscription ended on 31 March 2020.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Councils S151 Officer. None of the services provided are subject to contingent fees.

Appendix A

Action plan

We have identified two recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Oracle security and access controls** Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were: • IT users self-assigning Oracle responsibilities without approval or subsequent timely removal • Limited evidence of appropriate restriction of Oracle database administration The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2019/20 financial statements.	IT audit findings to be reviewed by the Council's IT team and any inappropriate access/responsibilities to be resolved/removed. **Management Response** IT user access to the system administration account is subject to management approval. A limited number of IT staff have the ability to self-assign additional responsibilities and this is currently recorded on 'ServiceNow' when access to additional responsibilities is required to support incident resolution or change activity. IT will introduce additional controls for this by setting up a new access request procedure with access subject to approval and granted with the appropriate end date. Database administration account credentials are stored in a secure system, access to those details is limited to a small number of users. The user group is monitored for changes and administrative access to the database is audited.
● Medium	**Payroll Leavers Controls** As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BTLS who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis	We recommend that the Council review the current process with regards to notification of leavers to BTLS for processing and ensure that leavers are removed within a timely basis. **Management Response** Work is ongoing to improve performance in this area, and this has been the subject of a number of previous reports to the Audit, Risk and Governance committee.

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Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Lancashire County Council's 2018/19 financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	• Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. We recommended management review the authorisation procedures in place over journal input.	**Management response** There are personnel controls in place whereby only finance staff are able to post journals, with little incentive for manipulation. Along with this being part of a centralised finance function having established financial monitoring processes that allows the review of all transactions means the risk for manipulation or uncorrected errors is considered very low.

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no adjusted misstatements which impact upon the key statements or the reported net expenditure for the year ending 31 March 2020.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Financial Instruments – Note 26 and Technical Annex	• The financial instruments disclosures did not include the Short Positions on Investments (new for 19/20) as a financial liability. The fair value hierarchy, within the technical annex, also incorrectly omitted the financial asset held at Fair Value through Profit and Loss (FVTPL) in the draft accounts. • Further disclosures also required to understand the inputs used in the fair value calculations.	• Additional disclosures be added to include the Short Positions on Investments as a financial liability, the financial assets at FVTPL, and further disclosures added to detail the inputs used in the fair value calculation of financial liabilities in line with code requirements **Management response** Agreed to amend.	✓
Note 3 - Assumptions made about the future and other major sources of estimation uncertainty	• This note included disclosures where the uncertainty was not estimated to be have a material impact on the accounts. • The note also required reference to the impact of the material uncertainty declared on the valuation of the Council's estimated share of the pension fund's property assets as per the Pension Fund's Net Asset Statement. This is due to the pension fund liability on the council's balance sheet being indirectly related to the assets held by the pension fund.	• Disclosures where the estimated uncertainty is immaterial should be removed. • Disclosure should be added to assess the impact of the material uncertainty declared on the valuation of the Council's estimated share of the pension fund's property assets. **Management response** Agreed to amend.	✓
Note 40 – Events after the reporting period	• Further disclosure should be added to make reference to the impact which Covid-19 has had on the Council since the balance sheet date.	• None-adjusting post balance sheet event should be added to outline the effects Covid-19 has had on the finances of the Council. **Management response** Agreed to amend.	✓
Minor formatting issues	A number of minor formatting issues to improve the presentation of the Council's financial statements.	Some minor formatting issues on the notes to the accounts were agreed with management. **Management response** Agreed to amend.	✓

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit, Risk and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of a sample of six assets disposed of by the Council in 2019/20 identified two errors: (1) Related to a unique site made up of multiple small plots which have been sold off over the years. Estates believed that all sites had been disposed of and so marked this as a full disposal for finance to process (2 plots of land valued at £46,000 and £30,0000). Only the plot worth £46,000 had been sold in November 2017 and so there should have been one plot worth £30,000 remaining. There has been no actual disposal in 19/20 and therefore error value is £30,000. (2) Related to a former care home sold at auction in March 2019 (value £1,013,672.45). This is a 18/19 disposal but is incorrectly included within the 19/20 disposal population. We have extrapolated the errors across the remainder of the population and determined an extrapolated error of £3,465,891 which is above trivial but below performance materiality – giving us assurance that the disposals balance is not materially misstated. For both items the gain/loss on disposal was correctly recorded in the prior year.	£0	(£1,044)	£0	• Actual errors recorded are trivial in value.
Our testing of a sample of 35 land/building assets which were revalued during 2019/20 identified two instances where the value of the asset per the asset register did not agree to the valuation report provided by the valuer. The total impact of these errors is an overstatement of assets by £374k. We have extrapolated the errors across the remainder of the population and determined an extrapolated error of £1,987k which is above trivial but below performance materiality – giving us assurance that the balance is not materially misstated.	£0	(£1,987)	£0	• Actual errors recorded are trivial in value.

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Audit adjustments

Impact of unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Accounting for LOBO investments In 2018/19 the Council bought LOBO loans from banks relating to three other Council's (value £55.1m). The motivation for this was due to the Council having just bought out their own LOBOs and saw an investment opportunity, as well as being able to help their local government authorities. In the 2018-19 accounts these assets were classified as being held at amortised cost under IFRS 9. In 2019/20 the Council entered the same agreements with three further Council's (value £46.7m). The Council approved the Non-Treasury Management strategy for implementation on 1/4/19 and under this strategy the Council considered that these bonds with local authorities should be classified as being held at Fair Value through Profit and Loss (FVTPL) under IFRS 9 as they were held for trading and the Council has the intention to sell them in the short term. In the 2019-20 accounts all six of the bond were classified as FVTPL with the three items from 18-19 having been reclassified. There are very few circumstances permitted for reclassification under IFRS 9 and, following our challenge to the Council over the classification, the Council agreed that the criteria for reclassification was not met. However, the Council reviewed the classification of amortised cost in 2018/19 and determined that this was the incorrect classification. These assets have always been intended to be held for trading and the intention has always been to sell them from soon after they were acquired. Management have provided us with correspondence which demonstrates this position as well as justification for these assets meeting the required business model for classification as FVTPL under IFRS 9. We have consulted with our technical team and accept that classification as FVTPL is appropriate and are satisfied with management's rationale that the prior year classification was incorrect. The impact of the error would be to increase the value of the investments as 31/3/19 (from £55.1m to £71.0m), which would generate a gain of £15.9m in the 2018/19 CIES. The corresponding effect for 2019/20 would be reduction of £15.9m in the current gain shown in the CIES. Since the assets were already shown at FVTPL in the 2019/20 draft accounts, there is no impact on the valuation of assets for 2019/20. Since the values involved are below Performance Materiality, under IAS 8 the error should be corrected in the 2019/20 accounts instead of restating the prior year. Although the gain is effectively understated in 2018/19 and overstated in 2019/20, due to IAS 8 permitting correction in year for an immaterial error in the current year, there is no amendment required to the CIES. The only unadjusted misstatement is therefore the prior year valuation of the investments		£15,841 (2018/19 SoFP)		• Amount is not material, under IAS 8 the error should be corrected in year rather than restating the prior year. Thus there would be no impact on the CIES and the only unadjusted error is the 2018/19 valuation of the Investments.

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Audit adjustments

Impact of unadjusted misstatements continued

Detail	Comprehensive Income and Expenditure Statement (CIES) £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of a sample of 35 land/building assets which were revalued during 2019/20 identified two instances where the incorrect build cost index was used in the valuation calculation. The index from the previous year was used in error. The result of this error is that the valuation of the two assets is overstated by £0.383m. We have extrapolated the errors across the remainder of the population and determined an extrapolated error of £2.034m which is above trivial but below performance materiality – giving us assurance that the balance is not materially misstated.	£0	(£2,034)	£0	• Amount is below performance materiality
As part of our procedures over the valuation of land and buildings, and testing of a sample of 35 assets by agreeing their accounting treatment it was identified that there had been errors made when the Council had been updating the fixed asset register with the new values and amending the depreciation which should have been charged to the assets. Manual corrections were completed for assets revaluations in 19-20 for an issue raised by the auditors in 18-19 regarding understating depreciation. When calculating these manual accounting entries, the Council have made an error in the postings to the CIES for the depreciation charge and the CIES for revaluation. The net amount posted to the balance sheet for depreciation is correct.	(£3,760)	£0	(£3,760)	• Amount is below performance materiality
Overall impact	**(£19,601)**	**(£5,065)**	**(£19,601)**	**Total impact is below performance materiality**

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Appendix D

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£111,856	£128,356
Total audit fees (excluding VAT)	**£111,856**	**£128,356***

The audit fees note within the financial statements will not include the £24,850 additional fee as it was not agreed with the Council until June 2020 This figure is included within the £111,856 above. The audit fees note also includes £4,000 in respect of the 18/19 Teachers' Pension Return which was carried out and billed in 2019/20.

***Additional fees proposed over and above those communicated at planning (£16,500)**

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming**.**

We have been discussing this issue with Public Sector Audit Appointments over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The Financial Reporting Council has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

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The audit fees and considerations for the Lancashire County Pension Fund are documented in the Lancashire County Pension Fund Audit Findings Report.

Non-audit fees for other services	Proposed fee	Final fee
Audit related services: • Agreed upon procedures report – Teachers' Pension return	£6,000	£6,000
Non-audit services • CFO Insights	£9,000	£9,000
Total non- audit fees (excluding VAT)	**£15,000**	**£15,000**

Draft Audit opinion

We anticipate we will provide the Group with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and all notes to the financial statements, including the technical annex and the significant accounting policies . The notes to the financial statements include the explanatory notes to the Financial Statements, the Technical Annex and explanatory notes to the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:
• give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.
Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the Chief Executive and Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.
However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and Investment Property

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 3 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the Authority and group financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Draft Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:
• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
• we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
• we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
• we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
• we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive and Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit, Risk and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London
[Date]

Audit, Risk and Governance Committee
Meeting to be held on 25 January, 2021

Electoral Division affected:
(All Divisions);

External Audit - Lancashire County Pension Fund Audit Findings Report 2019/20 (Updated)
Appendix A refers

Contact for further information:
Paul Dossett, Tel: (0)20 7728 3180, Partner, Grant Thornton UK LLP,
paul.dossett@uk.gt.com

Executive Summary

The external auditor is required to report to the Audit, Risk and Governance Committee, their audit findings prior to concluding their work. The report at Appendix A covers the overall findings of the external auditor in relation to the audit of the annual accounts of Lancashire County Pension Fund and their proposed opinion on those accounts and Annual Report. Please note it is an updated version of the report taken to the Audit, Risk and Governance Committee in October 2020.

Recommendation

The Audit, Risk and Governance Committee is asked to note the adjustments to the financial statements and issues raised by the auditor which are set out in the report.

Background and Advice

Attached at Appendix A is the external auditor's annual audit findings report for Lancashire County Pension Fund for the 2019/20 audit. The report has been produced in accordance with the National Audit Office statutory Code of Audit Practice for Local Government bodies.

Paul Dossett, Engagement Lead, and Andy Ayre, Audit Manager, will attend the meeting to present the report and answer any questions.

Consultations

The report has been agreed with the Pension Fund and County Council's management.

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel

None

Reason for inclusion in Part II, if appropriate

N/A

Grant Thornton

The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2020

29 November 2020

Appendix A

Contents

Your key Grant Thornton team members are:

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic had the potential to have a significant impact on the normal operations of the Pension Fund. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	Our audit risk assessment considered the impact of the pandemic on our audit. We reported a financial statement risk in respect of Covid -19. Further detail is set out on page 5. Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced by the entity. The draft statement of accounts were published on the Council’s website on 27 July 2020.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed remotely from July to September. Our findings are summarised on pages 4 to 11. We have identified one disclosure amendment in the financial statements. This has not resulted in any adjustment to the Pension Fund’s reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year’s audit are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the outstanding matters listed on the page 4. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 25 January 2021 and in advance of the national deadline, as detailed in Appendix D. These outstanding items include:

- updated review of post balance sheet events;
- final quality assurance procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain based on the same benchmark and the same percentages as reported in our audit plan but these were based on the estimated net assets at year end based on month 10's forecast. However, due to the Covid-19 pandemic's impact on investment valuations, we have reduced our materiality levels based on the actual net assets levels as per the draft financial statements.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements	84,000,000	This equates to around 1% of your forecast gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	63,000,000	Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	4,000,000	This equates to 5% of materiality.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate, management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the Fund's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • considered the Fund's latest risk register to identify risks arising from Covid-19 • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property, and • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. Our audit work has not identified any issues in respect of the Covid-19 risk. We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Fund's directly held property by means of an emphasis of matter in our audit opinion. This is as detailed in relation to our response to the significant risk of the valuation of level 3 pooled and level 2 directly held investment properties.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Revenue recognition – the risk of revenue including fraudulent transactions Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.	We rebutted this risk as part of our risk assessment process. This assessment remains appropriate. In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following: • The staff preparing and approving the accounts are consistent with those in previous years. • There have been no changes in accounting processes and controls in the year. • There have been no significant unexplained movements in funding position. • There have been no changes in the methodology for calculation of estimates. • There have been no instances of adjustments being posted by a senior finance officer without independent authorisation.
Management over-ride of controls Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor. We therefore identified management over-ride of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence, • gained an understanding of the control environment in the pool Local Pensions Partnership (LPP) from the internal audit reporting during the year, and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The valuation of Level 3 investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period • where available reviewed investment manager service auditor report on design effectiveness of internal controls • reviewed any transfers to the Pool for any level 3 investments during the year Our audit work has not identified any issues in respect of the risks relating to the valuation of Level 3 investments as at 31 March 2020.

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process The Pension Fund has considered the Fund’s overall funding position, any communications with the relevant Department and Secretary of State and cash flow forecast and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists.	• The Pension Fund’s use of the going the concern basis of accounting is appropriate. • The last triennial valuation, as at 31 March 2019 reported a funding level of 100%. • The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions. • There is no plan by the Ministry of Housing, Communities and Local Government to wind up Lancashire County Council Pension Scheme. • The Pension Fund continues to operate as usual in 2020/21. Contributions and investment income continue to be received as expected.
Work performed Reviewed management's assessment of going concern and the assumptions and supporting information.	• We have reviewed managements assessment that the financial statements are prepared on a going concern basis. • No material uncertainty is identified. • There are sufficient assets to meet the liabilities as they fall due for the foreseeable future. • The last triennial valuation, as at 31 March 2019 reported a funding level of 100%. • The Pension Fund continues to operate as usual with contributions and investment income being received and benefits being paid.
Concluding comments The Pension Fund’s use of going concern basis of accounting is appropriate.	Our opinion is unmodified in respect of the going concern conclusion.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Restitution for McCloud		
In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.	The Pension fund had an initial discussion with Mercer, the Fund actuary, on the potential impact and their advice is that they expect the impact to be on an increase in the administration burden on the pension fund rather than a material impact on liabilities at whole fund level. In addition, the production of the IAS26 statement Mercer made an allowance for McCloud as a past service cost (as well as the 2019 valuation). Mercer's calculations of the additional liabilities and service costs have generally been done in line with the proposed underpin in the consultation.	• The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from the Government Actuary Department (GAD) indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated. • The auditor has concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is enacted, and as the outcome is unclear the firm does not regard publication of the consultation to be an adjusting event. • For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. We do not expect the impact to the liability to be material.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in pooled property investments, private equity long term credit and infrastructure investments that in total are valued on the balance sheet as at 31 March 2020 at £3.471 billion. Management have disclosed a material estimation uncertainty due to the Covid-19 pandemic in relation to indirectly held property holdings. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on valuations provided by the funds which the Fund invests in. The value of the investment has increased by £61.6m in 2019/20, due to a combination of purchases and sales, some transitioning to fair value level 2 and both realised and unrealised gains and losses during the year.	Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations. We have also tested a sample of level 3 investments to audited accounts to determine if the values are estimated that they are reasonable. We have found an immaterial estimation uncertainty of around £50.5m in the valuation of Level 3 investments. Around 80% of this was due to LPPI investments being valued in the accounts based on their 31 December 2019 valuation due to the unavailability of audited accounts as at 31 March 2020 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts.	
Level 2 investment	The Pension Fund have investments in corporate and overseas government bonds and direct property holdings that in total are valued on the balance sheet as at 31 March 2020 at £1.136 billion. Management have disclosed a material estimation uncertainty due to the Covid-19 pandemic in relation to directly held property holdings. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers and engage the services of a property valuer for direct property. The value of the investment has increased by £374m in 2019/20.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year end valuations. We have also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where they are not quoted, to unit values provided by the investment manager's own independent custodian. We have found an immaterial estimation uncertainty of around £5.5m in the valuation of Level 2 investments. This was due to LPPI investments being valued in the accounts based on their 31 December 2019 valuation due to the unavailability of audited accounts as at 31 March 2020 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts. For a similar reason, there we identified an immaterial estimation uncertainty of around £6.1m in the valuation of Level 1 investments.	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund which is included in the Audit, Risk and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to Fund Managers, the Custodians and your bank for cash balances (outside the cash held by your fund managers). This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements. Details of adjustments and disclosure changes can be found at Appendix B.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The financial statements were received on 27 July 2020, and published in advance of the statutory deadline. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report alongside the opinion of the Pension Fund Accounts.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified

	Fees £	Threats identified	Safeguards
Audit related IAS19 assurance procedures for other bodies admitted to the Pension Fund	15,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,750 in comparison to the total fee for the audit of £31,310 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Audit related Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit.	284,000	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. There are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk and Governance Committee. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Lancashire County Pension Fund's 2018/19 financial statements, which resulted in 1 recommendation being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note it is still to be completed.

Assessment	Issue, risk and recommendation previously communicated	Update on actions taken to address the issue
X	**Issue and Risk** • Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. **Recommendation** Review the authorisation procedures in place over journal input.	**Management response in 2018/19 IAS 260 report** Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals. **Updated management response in 2019/20** The same personnel-based controls remain in place as in 2018/19, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept there are no preventative controls in place, there are informal detective controls in place, such as monthly reconciliations to the custodian report and quarterly reviews, that would identify errors caused by journals. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted. A review of users with access to the pension fund general ledger (and therefore an ability to post journals) is carried out at least annually.

Assessment

✓ Action completed

X Not yet addressed

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Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There are no adjusted misstatements identified as part of the 2019/20 audit.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 22 – Related Parties	The draft accounts stated that the Local Pensions Partnership had repaid £12.5m loan finance to Lancashire County Council. The repayment was in fact £17.5m	Update the disclosure in the final version of the accounts	✓
Note 10 – Management expenses	The audit fee disclosure required updating to reflect the increased IAS 19 assurance work fee as reported in Appendix C and to remove reference to £1,500 fee for 2018/19 work on McCloud.	Update the disclosure in the final version of the accounts	✓
Annual Report	Some additional disclosures were required for the Annual Report to comply with the 'Preparing the Annual Report' guidance from CIPFA.	Include contact details for key Fund advisors and add some commentary on the movement of non-investment assets and liabilities.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2019/20 audit.

Impact of prior year unadjusted misstatements

There are no prior year adjusted misstatements identified as part of the 2019/20 audit.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Pension Fund	31,310	36,000
Total audit fees (excluding VAT)	**£31,310**	**£36,000**

The Public Sector Audit appointments scale fee is £26,310. The pension fund has disclosed £31,310 within the financial statements which is in line with our Audit Plan.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met we have been required to increase our fees on all our Local Government Pension Scheme clients.

The final fee is due to be settled by Public Sector Audit Appointments. We understand that PSAA has approved in principle the planned fee of £31,310, but this is subject to their final review.

In addition, Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
- Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). We, as other auditors, are experiencing considerable delays as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and Fund premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the Institute of Chartered Accountants in England and Wales that this is similar to other firms. We have proposed an additional 15% fee in relation to the impact of Covid-19.

Pleased be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Pension Fund's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Finance before reporting to the Audit, Risk and Governance Committee at its next meeting.

Fees

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Provision of IAS 19 Assurances to Scheme Employer auditors at £875 per letter*	£9,000	£15,750
Total non- audit fees (excluding VAT)	**£9,000**	**£15,750**

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by management and reported to the Audit, Risk and Governance Committee. None of the services provided are subject to contingent fees.

* This is higher than the expected fee of £500 per letter as this had not factored in the additional work on the triennial revaluation

For completeness we are reporting to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes.

Audit related Service	Proposed fee	Final fee
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	£284,000	£354,770

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Executive and Director of Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. Valuations of pooled and directly held property valuations have been reported on the basis of material valuation uncertainty. This was therefore disclosed in the audited accounts for the pooled property investments and the valuation reports of the pension fund's directly held property investments. Our opinion is not modified in respect of this matter.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Audit opinion

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Executive and Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit, Risk and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

Grant Thornton

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Audit, Risk and Governance Committee
Meeting to be held on 25 January, 2021

Electoral Division affected:
(All Divisions)

External Audit - Audit Progress Report and Sector Update 2020/21
Appendix A refers

Contact for further information:
Paul Dossett, Tel: (0)20 7728 3180, Partner, Grant Thornton UK LLP,
Paul.Dossett@uk.gt.com

Executive Summary

The External Audit - Audit Progress Report and Sector Update 2020/21 as of January 2021 is set out at Appendix A for the committee's consideration.

Recommendation

The committee is asked to consider and note the External Audit - Audit Progress Report and Sector Update 2020/21 as of January 2021.

Background and Advice

This report provides an update including our proposed timescales for the audit of the 2020/21 statement of accounts and the Value for Money (VfM) conclusion.

The report also provides additional information, on sector developments, to members of the committee as those charged with governance for the county council.

Paul Dossett, engagement lead, will attend the meeting to present the report at Appendix A and respond to questions.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Lancashire County Council

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

Audit Progress Report and Sector Update

Lancashire County Council

Year ending 31 March 2021

8 January 2021

Appendix A

Contents

Introduction

Paul Dossett, Partner

T 020 7728 3180
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Stuart Basnett, Manager

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This paper provides the Audit, Risk & Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit, Risk & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Paul or Stuart.

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Financial Statements Audit 2019/20 Update

Financial Statements Audit

We were unable to issue our signed audit opinion on the Council's 2019-20 financial statements in advance of the national deadline of 30 November 2020.

This is due to us requiring assurance over the classification and valuation of Lender-Option Buyer-Option (LOBO) related investments held by the Council as at 31/3/20. These investments had changed classification in 19-20 to being held at Fair Value through profit and loss (FVTPL). The classification in 18-19 was amortised cost. Whilst we were able to gain our required assurance over the classification of the investments before the 30/11/20 deadline our assurance over the valuation is still outstanding.

At the time of writing this report, we are currently awaiting the results from our internal valuations team to assist us with gaining our assurance over the valuation of the LOBO investments as this will inform the need of whether a prior period adjustment is required. The key element we require assistance over is with regards to the valuation of the options embedded within the investments and that the approach adopted by the Council is reasonable. We have already consulted with an external valuation expert but have decided to also seek the view of our own in house valuations team. We expect to have results back from our valuations team during January.

With regards to the classification of the investments, there are very few circumstances permitted for reclassification under IFRS 9 and, following our challenge to the Council over the classification, the Council agreed that the criteria for reclassification was not met. However, the Council reviewed the classification of amortised cost in 2018/19 and determined that this was the incorrect classification. These assets have always been intended to be held for trading and the intention has been to sell them from soon after they were acquired. Management have provided us with correspondence which demonstrates this position as well as justification for these assets meeting the required business model for classification as FVTPL under IFRS 9.

We anticipate that we will be in a position to issue our opinion by the end of January. Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of PPE and the estimated share of the Pension Fund property assets.

Our updated Audit Findings Report attached in the committee papers has further information.

Value for Money opinion

We anticipate we will issue an unqualified value for money opinion for the year ended 31 March 2020. This opinion will be issued along with the financial statements opinion once the work is finalised.

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020. The NAO will now analyse all consultation responses received and consider what changes are required to the draft guidance. Please see page 8 for more details.

Lancashire County Pension Fund Financial statements and Annual Report

We anticipate that we will issue an unqualified opinion on the Lancashire County Pension Fund financial statements but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of Property investment assets and that we will also issue positive assurance that the Pension Fund's Annual Report is consistent with the financial statement.

We are unable to issue these opinions until we are ready to issue our opinion on the Council's financial statements.

Certification of the Audit

We are unable to certify the closure of the 2019/20 audit of Lancashire County Council until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Other areas

Certification of claims and returns

Teachers Pension's End of Year Contributions (EOYC) Return 2019-20 – We have completed our certification of the Council's Teachers Pension's EOYC return. We issued our independent accountant's report to the Council and to Teachers' Pensions on 18 November 2020, ahead of the 30 November 2020 deadline.

Meetings

We meet with Finance Officers on a regular basis, including the Director of Finance and Deputy Director of Finance, who we last met in December 2020. In October we also met with the Council's Chief Executive.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers have/will be invited to attend our Financial Reporting Workshop in February, which aims to help ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

Our Audit Fee for the 2019-20 audit was confirmed by the Audit, Risk & Governance Committee on 27 July 2020.

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.

- Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.

- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with Public Sector Audit Appointments (PSAA) over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The Financial Reporting Council (FRC) has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

This amounts to £16,500 of additional audit fee for Lancashire County Council as a result of Covid-19. Additional fees to cover the impact of Covid 19 have been levied on all of our audits. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report will be reported to the October Audit, Risk & Governance Committee.	**October 2020**	**October 2020** **Final January 2021**
Auditors Report This is the opinion on your Financial Statement, Annual Governance Statement and Value for Money conclusion.	**November 2020**	**Not yet issued**
Annual Audit Letter This letter communicates the key issues arising from our work.	**January 2021**	**Not yet issued**
2020/21 Deliverables		
Fee Letter	**April 2021**	**Not yet due**
Audit Plan	**April 2021**	**Not yet due**
Interim Findings	**April 2021**	**Not yet due**
Audit Opinion	**September 2021 (TBC)**	**Not yet due**
Audit Annual Report	**September 2021 (TBC)**	**Not yet due**

Sector update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

https://www.grantthornton.co.uk/en/industries/public-sector

New NAO Code of Audit Practice for 2020-21

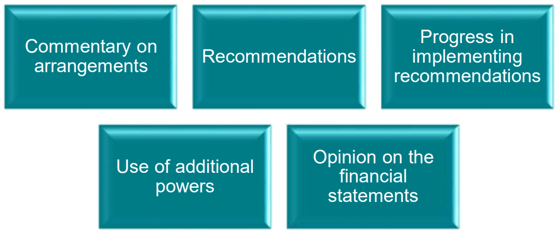
The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VFM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The '**Commentary on arrangements**' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the Audit Findings Report, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Director of Finance shortly.

To review the new Code and AGN03 see - https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/

Local government reorganisation in two-tier shire counties – County Councils' Network

The County Councils' Network (CCN) has published new independent evidence on the implications of local government reorganisation in two-tier shire counties ahead of the publication of the government's 'devolution and local recovery' white paper.

The report identifies considerations relating to:

- the costs associated with disaggregation;
- what this might mean in terms of risk and resilience of service provision;
- how service performance might be impacted;
- what it could mean for the place agenda; and
- issues arising from the response to Covid-19.

The report also sets out the financial implications of four unitary scenarios:

- Establishing one unitary authority in every two-tier area in England.
- Establishing two new unitary authorities in every two-tier area in England.
- Establishing three new unitary authorities in every two-tier area in England.
- Establishing two new unitary authorities and a children's trust in every two-tier area in England.

CCN note "With councils in shire counties facing billions in rising costs for care services, alongside financial deficits caused by the Coronavirus pandemic, the study from PricewaterhouseCoopers (PwC) shows merging district and county councils in each area into a single unitary council could save £2.94bn over five years nationally."

CCN go on to comment "The report concludes a single unitary in each area would reduce complexity and give communities a single unified voice to government. It would provide a clear point of contact for residents, businesses and a platform to 'maximise' the benefits of strategic economic growth and housing policy; integral to the 'levelling-up' agenda and securing devolution.

However, the report shows replacing county and districts with two unitary authorities in each area would reduce the financial benefit by two-thirds to £1bn over five years, with three unitary authorities delivering a net loss of £340m over the same period. A fourth scenario of a two-unitary and children's trust model in each county would deliver a net five year saving of £269m.

Alongside a minimum £1.9bn in additional costs from splitting county council services, the report outlines the establishment of multiple unitary authorities in each area creates the risk of disruption to the safeguarding of vulnerable children, while 'instability' in care markets could impact on the quality and availability of support packages and care home placements."

The full report can be obtained from the County Councils' Network website:

https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-that-single-unitary-councils-could-deliver-3bn-saving-over-five-years-and-maximise-the-benefits-of-economic-growth-and-housing-policy/

CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

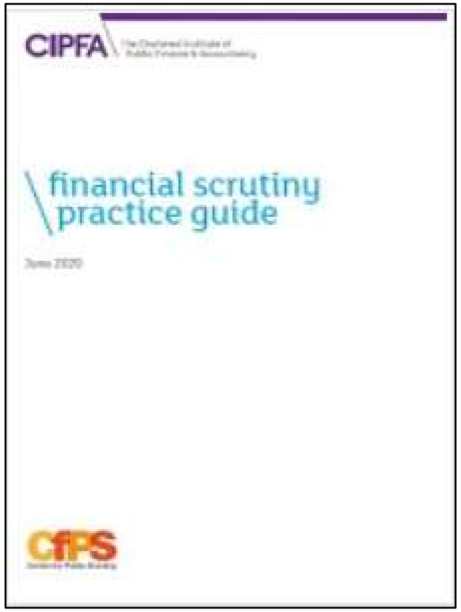
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding of tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

Value for Money update for Audit, Risk & Governance Committee on new arrangements for 2020-21

How have the NAO changed value for money work ?

National Audit Office

Code of Audit Practice

APRIL 2020

National Audit Office

AGN 03
Auditors' Work on VFM Arrangements

Issued on xxxx

Auditor Guidance Note 3 (AGN 03)

Auditors' Work on Value for Money (VFM) Arrangements

Version issued on: xxxx

About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

AGNs are numbered sequentially and published on the NAO's website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

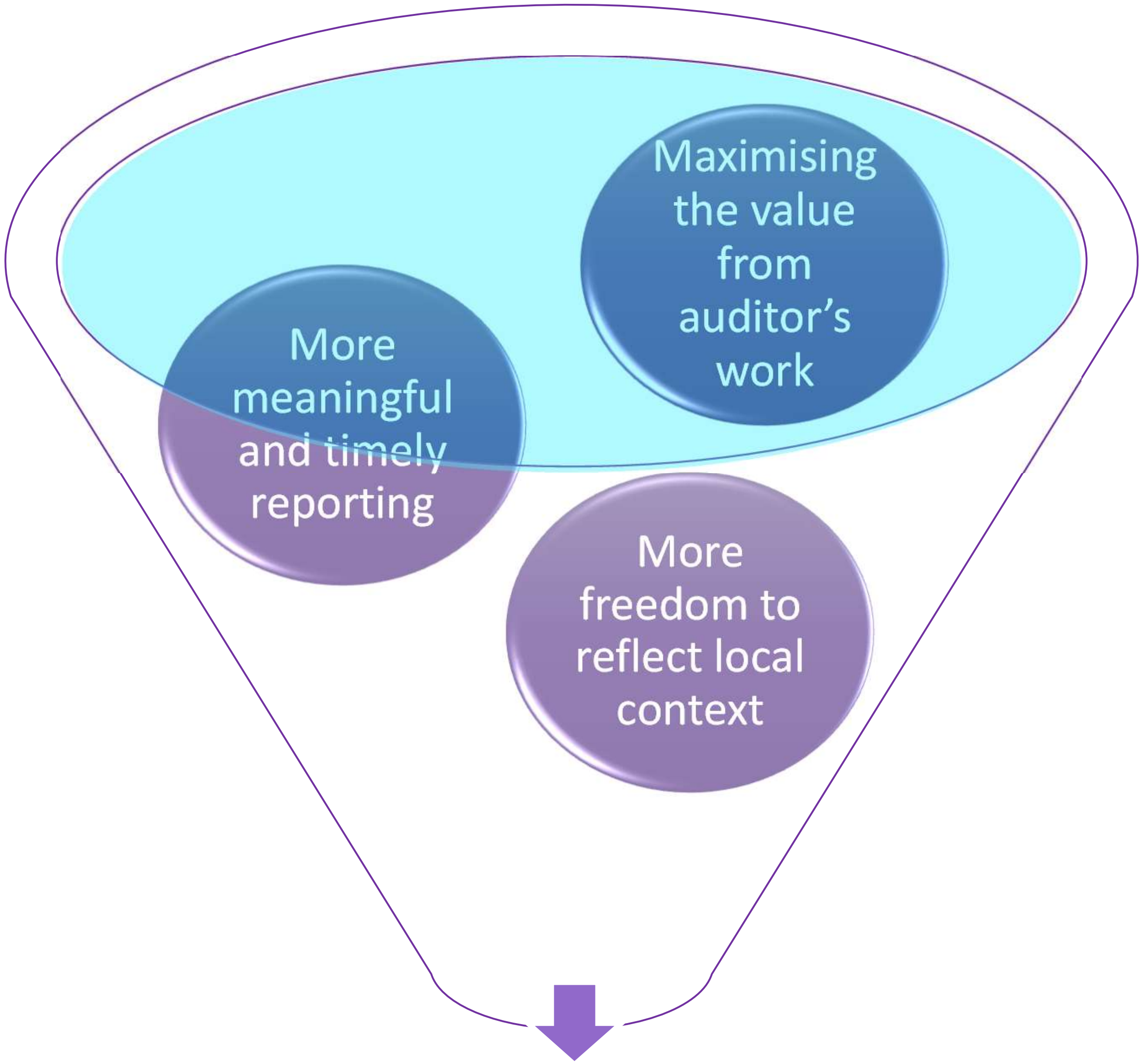
> The NAO prepares Auditor Guidance Notes (AGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practicemade under the Local Audit and Accountability Act 2014. The contents of AGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.
>
> The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.
>
> Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.

1 | Page

OFFICIAL

Page 110

How is value for money work changing ?



VFM arrangements commentary and recommendations

Page 111

The three criteria have changed…

~~Informed decision making~~	Governance
~~Sustainable resource deployment~~	Financial sustainability
~~Working with partners and other third parties~~	Improving economy, efficiency and effectiveness

Page 112

A key change in reporting…

~~Annual Audit Letter~~

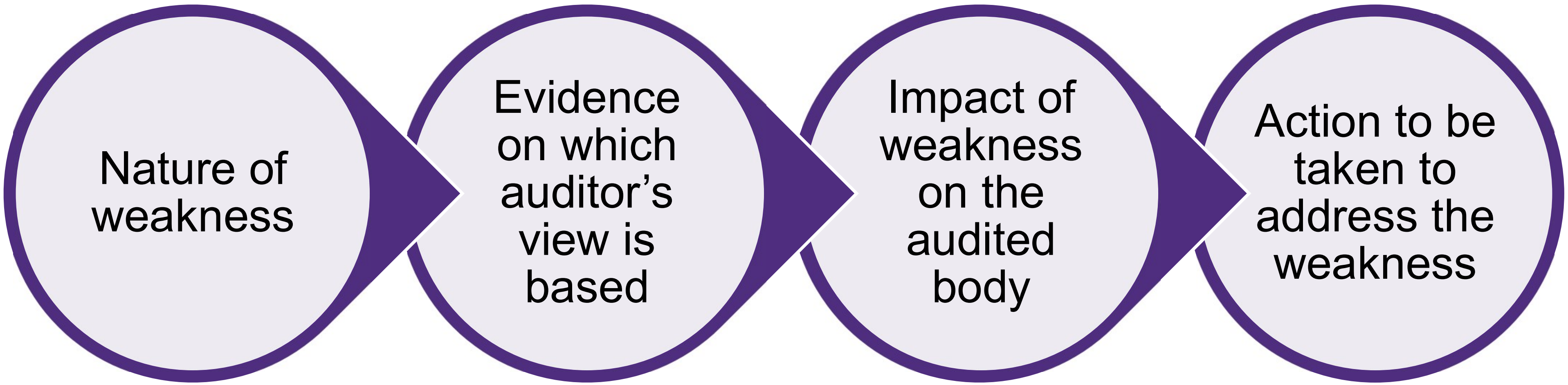
Auditor’s Annual Report

Page 113

So what is in an Auditor's Annual Report ?

- Commentary on arrangements
- Recommendations
- Progress in implementing recommendations
- Use of additional powers
- Opinion on the financial statements

Recommendations



Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing

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Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings,
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that::

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

- Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:
- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Grant Thornton

An instinct for growth™

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 January 2021

Electoral Division affected: (All Divisions);

Update on the External Audit of the Council's Statement of Accounts for 2019/20 and Accounting Policies for 2020/21
Appendix A refers

Contact for further information:
Khadija Saeed, Tel: 01772 533073, Head of Corporate Finance,
khadija.saeed@lancashire.gov.uk

Executive Summary

External audit of the council's statement of accounts 2019/20.

At its meeting of 19 October 2020, the Audit, Risk and Governance Committee approved the council's statement of accounts for 2019/20. At that time, the council's external auditor, Grant Thornton, provided a provisional audit opinion to the committee.

The audit of the accounts has not yet been concluded due to capacity issues at Grant Thornton.

Accounting policies to be used in the preparation of the statement of accounts 2020/21

The accounting policies to be used in preparing the council's 2020/21 statement of accounts are set out in Appendix A.

There are no changes to the accounting policies for 2020/21.

Recommendation

The Audit, Risk and Governance Committee is asked to:

(i) Note the position in relation to the external audit of the council's statement of accounts for 2019/20.

(ii) Approve the accounting policies for 2020/21, as set out in Appendix A.

Lancashire County Council

Background and Advice

External audit of the council's statement of accounts 2019/20.

At its meeting of 19 October 2020, the Audit, Risk and Governance Committee approved the council's statement of accounts for 2019/20. At that time, the council's external auditor, Grant Thornton, provided a provisional audit opinion to the committee.

The statutory deadline for publishing the audited accounts was 30 November 2020. On 27 November 2020 Grant Thornton advised the council that the audit would not be concluded by the deadline due to capacity issues within Grant Thornton. In line with the requirements of the Accounts and Audit Regulations 2015, the council published a notice on its website to this effect stating that the audited accounts would be published as soon as reasonably practicable after the receipt of the report from the auditor which contains the auditor's finalised findings from their audit.

The audit of the 2019/20 accounts has not yet been concluded.

Accounting policies to be used in the preparation of the statement of accounts 2020/21

The Chief Finance Officer is responsible for the preparation of the council's statement of accounts in accordance with proper accounting practices, for each financial year ending 31 March. These regulations primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

In preparing the statement of accounts, the Chief Finance Officer is responsible for selecting suitable accounting policies and ensuring that they are applied consistently. Accounting policies are the specific principles, conventions, rules and practices applied in preparing and presenting the financial statements and set out how transactions are recognised, presented and measured in the accounts.

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases until the 2022/23 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2022 for the implementation of IFRS 16.

CIPFA/LASAAC has taken this decision in response to pressures on council finance teams as a result of the COVID-19 pandemic.

The accounting policies to be used in preparing the council's 2020/21 statement of accounts are set out in Appendix A. There are no changes to the accounting policies for 2020/21 compared to the previous year.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management
Failure to complete the statement of accounts in line with the Chartered Institute of Public Finance and Accountancy Code of Practice may result in an adverse opinion from the council's external auditors.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
None		

Reason for inclusion in Part II, if appropriate

N/A

General principles

Basis of preparation

The Accounts and Audit Regulations 2015 require the county council to prepare an annual statement of accounts in accordance with proper accounting practices, mainly the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom, supported by International Financial Reporting Standards (IFRS).

The accounts are prepared on a going concern basis, under the assumption that the county council will continue in existence for the foreseeable future. The accounting convention adopted is principally historical cost modified for the valuation of certain categories of non-current assets and financial instruments.

Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue.

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

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

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

Group accounts

The county council has a material interest in a subsidiary company, which has been consolidated into the county council's group accounts on a line-by-line basis, after eliminating intra-group transactions.

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

Pooled budgets

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

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

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

Prior period adjustments are made where there are material adjustments applicable to prior years arising from a change in accounting policies or to correct a material error.

Where a change to accounting policies is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

Accounting policies for income

Recognition of income

Income is accounted for in the financial year in which the activity it relates to takes place, which may not be the same year in which cash payments are received. This means that revenue from the sale of goods or the provision of services is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.

Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the balance sheet

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

Council tax and non-domestic rates income

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

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. However, the amount to be reflected in the general fund is determined by regulation, therefore, there is an adjustment for the difference between the accrued income and the amount required by regulation to be credited to the general fund made through the movement in reserves statement and the collection fund adjustment account.

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

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

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

Government grants and other contributions

Government grants, third party contributions and donations are recognised when there is reasonable assurance that the county council will comply with the conditions attached to the payments, and the grants or contributions will be received.

Revenue grants are recognised in the comprehensive income and expenditure statement when the conditions attached to the grant or contribution have been satisfied.

At the end of the year if any grant monies are unspent, this is transferred to an earmarked reserve. When the grant is applied, an amount equal to the expenditure is transferred back from the earmarked reserve to the general fund.

Where conditions attached to the grants or contributions have not been met, monies received to date are carried in the balance sheet as receipts in advance and credited to the comprehensive income and expenditure statement when the conditions are satisfied.

Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. This income is then reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

Where grant conditions have not been satisfied then the monies received are carried in the balance sheet as receipts in advance.

Accounting policies for costs

Recognition of expenditure

Expenditure is accounted for in the financial year in which the activity it relates to takes place, not simply when cash payments are made.

Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest payable on borrowings is accounted for as expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the balance sheet.

Charges to revenue for non-current assets

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

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the revaluation reserve against which the losses can be written off.

Employee benefits

Employee benefits payable during employment

Short term employee benefits such as wages and salaries, paid annual leave and paid sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line of the comprehensive income and expenditure statement.

An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement to the accumulated absences adjustment account.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the county council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the respective service in the comprehensive income and expenditure statement, at the earlier of when the county council can no longer withdraw the offer of those benefits or when the county council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, regulations require the general fund to be charged with the amount payable to the pension fund rather than the amount calculated under accounting standards. Adjustments are made in the movement in reserves statement to transfer the accounting standards based entries to the pension reserve and replace these with the amount payable to the pension fund.

Post-employment benefits

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

- Teachers' pension scheme, administered by Capita Teachers' pensions on behalf of the Department for Education (DfE);
- Local government pension scheme administered by Lancashire County Council and the Local Pensions Partnership;
- NHS pension scheme administered by NHS Business Services Authority on behalf of the Secretary of State for Health.

Each scheme provides defined benefits to members e.g. retirement lump sums and pensions, earned whilst employees are working for the county council.

The county council recognises the cost of post-employment benefits in the cost of services when they are earned by employees, although these benefits will not actually be payable until employees retire.

Statutory provisions require the general fund to be charged with the amount payable by the county council to the pension fund or directly to pensioners in the year, not the amount calculated according to accounting standards. The real cost of post-employment benefits is reversed out of the general fund via the movement in reserves statement and replaced with the cash paid to the pension fund and pensioners.

The balance on the pensions reserve measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The arrangements for the teachers’ scheme and NHS scheme mean that liabilities for these benefits cannot be identified to the county council. The schemes are accounted for as if they were a defined contributions scheme and no liability for future payments of benefits is recognised in the balance sheet. The education and public health service revenue accounts are charged with the employer’s contributions payable to teachers’ and NHS pensions respectively.

Local government pension scheme

The liabilities of the Lancashire County Pension Fund attributable to the county council are included in the balance sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.)

Liabilities are discounted to their value at current prices using a discount rate.

The assets of the local government pension fund attributable to the county council are included in the balance sheet at their fair value:

- Quoted securities – current bid market price;
- Unquoted securities – professional estimate of market value;
- Unitised securities – current bid price;
- Property – market value.

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

Service costs:
Current service cost is the increase in liabilities as a result of years of service earned this year and is allocated in the comprehensive income and expenditure statement to the services for which the employees worked.

Past service cost is the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years this is charged to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.

Net interest on the net defined benefit liability:
The expected increase in the present value of liabilities during the year as they move one year closer to being paid, offset by the interest on assets; which is the interest on assets held at the start of the year and cash flows occurring during the period. The result is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

Re-measurements:
These comprise the return on plan assets (excluding amounts included in net interest) and actuarial gains and losses. Actuarial gains and losses are the changes in the net pension liability, which arise because actuaries have updated their assumptions.

Re-measurements are charged to the pensions reserve as other comprehensive income and expenditure.

Contributions paid to the Lancashire County Pension Fund:
Cash paid as employer's contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

Discretionary benefits

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

Long term contracts

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

Overheads and support services

The costs of overheads and support services are charged to services in accordance with the county council's arrangements for accountability and financial performance

Private finance initiative (PFI)

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

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

Non-current assets related to these contracts and recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the county council.

The county council makes agreed payments each year to the operators, increased in line with inflation where stated in the contract and similarly reduced if performance falls below minimum standards in any year.

The charge made up of the cost of services received during the year, which is charged to the relevant service line in the comprehensive income and expenditure statement and a charge for the property, which is split between:

- The interest charge on the outstanding liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- The contingent rent, debited to the financing and investment income line in the comprehensive income and expenditure statement;
- The payment towards the outstanding liability which is applied to write down the balance sheet liability;
- Lifecycle replacement costs (split between revenue and capital costs). Revenue lifecycle costs are debited to the relevant service in the comprehensive income and expenditure statement. Capital lifecycle costs are posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

Provisions, contingent assets and contingent liabilities

Provisions

Provisions are made where an event has taken place that gives the county council a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential and, a reliable estimate can be made of the amount of the obligation.

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

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

Contingent assets

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

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

Contingent liabilities

Contingent liabilities arise where either:

- a possible obligation has arisen from past events, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the county council.
- a present obligation may arise from past events but it is not recognised because either it is not probable that the outflow of resources will be required or, the amount of the obligation cannot be measured reliably.

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

Revenue expenditure funded from capital under statute

Capital expenditure incurred during the year that does not create an asset of the county council is charged to the relevant service in the comprehensive income and expenditure statement but funded from capital sources.

An adjustment is made in the movement in reserves statement from the general fund to the capital adjustment account to reverse out the amounts charged so that there is no impact on the level of council tax.

Value added tax (VAT)

The comprehensive income and expenditure account excludes amounts relating to VAT and will be included as an expense, only if it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Accounting policies for assets and liabilities

Cash and cash equivalents

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

Cash and cash equivalents are shown net of bank overdrafts and form an integral part of the council's cash management strategy.

Financial instruments

Financial instruments are recognised on the balance sheet when the county council becomes a party to the contractual provisions of a financial instrument.

Except for financial assets carried at fair value, all other financial liabilities and financial assets represented by investments, borrowing, cash, debtors and creditors are carried on the balance sheet at amortised cost.

Financial assets

Financial assets are classified based on the business model for holding the financial assets and their expected cash flow characteristics.

Financial assets are classified into one of three categories:

Financial assets measured at amortised cost

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

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

They are initially measured at fair value and are subsequently measured at their amortised cost.

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

There is no recognition of gains or losses on fair value until reclassification or de-recognition of the asset. Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

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

The county council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investment requirements while ensuring the county council is not subject to a high degree of credit risk. These assets are measured and carried at fair value. Interest is recognised in the comprehensive income and expenditure statement on the same basis as for amortised cost financial assets, as described above.

All gains or losses due to changes in the fair value of the assets (both realised and unrealised) are charged to the other comprehensive income and expenditure line in the comprehensive income and expenditure statement and balanced by an entry in the financial instruments revaluation reserve.

Any gains or losses that arise on the de-recognition of the asset are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the financial instruments revaluation reserve.

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

These assets are measured and carried at fair value.
All gains and losses due to changes in fair value are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement as they arise.

Expected credit loss model

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

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

Financial liabilities

Financial liabilities are initially recognised on the balance sheet at fair value and carried at amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable, are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, in the year of repurchase or settlement. Where premiums and discounts are charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years.

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

Property, plant and equipment

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and, the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Property, plant and equipment is recognised where the initial cost or value exceeds £10,000.

Measurement

Assets are initially recognised at cost, comprising:

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement.

Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

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

Category	Measurement basis
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 are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end but as a minimum every three years.

Valuations are undertaken internally by Lancashire County Council's estates service with valuations for specialist operational properties undertaken by external professional valuers.

Valuations are provided as at 1 April and are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques.

Revaluation gains and losses

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains, unless the gain reverses a loss previously charged to a service.

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

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

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

Depreciation

Depreciation is an accounting estimate used to charge the cost of an asset to services over its useful economic life.

Depreciation is calculated on the following bases:

Category	Period over which assets are depreciated
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

Depreciation is not charged on land, community or heritage assets, as they do not have a determinable finite useful life. Assets under construction are not depreciated until they are available for use. Assets held for sale and investment properties are revalued every year and therefore depreciation is not charged on these assets.

Depreciation is calculated on a straight-line basis meaning that the asset's value reduces equally each year over its life.

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

Depreciation is generally charged on buildings as a single asset. However, where an asset has major components whose cost is significant in relation to the overall cost of the asset, and the lifetime of the component is significantly shorter than that of the asset, the major component is depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Impairment

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

Where impairment losses are identified, they are accounted for the same was as revaluation losses.

Minimum revenue provision

The county council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement, which is calculated on a prudent basis determined in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are replaced by the MRP in the earmarked reserves balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement, for the difference between the two.

Non-current assets held for sale

Where it is highly probable that property assets will be disposed of within the next 12 months the asset is reclassified as assets held for sale. Depreciation is not charged on assets held for sale.

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

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

Disposal of assets

When an asset is disposed of, the carrying amount of the asset in the balance sheet is written off to the other operating expenditure line in the comprehensive income and expenditure statement, as part of the gain or loss on disposal. Receipts from disposal are credited to the same line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

The net loss or gain on disposal is not a charge against council tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account (for any sale proceeds greater than £10,000) the capital receipts reserve.

Capital receipts can only be used to fund new capital investment or, be set aside to reduce the council's underlying need to borrow (the capital financing requirement). However, the flexible use of capital receipts allows revenue expenditure to be funded from capital receipts where it generates ongoing revenue savings or transforms service delivery to reduce costs.

Heritage assets

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

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

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

The county council has a detailed acquisitions and disposal policy, further information on which can be obtained from the county council. Disposals will not be made with the principal aim of generating funds

Investment property

Investment properties are those assets that are used solely to earn rentals and/or for capital appreciation. They are not used for service delivery

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

Rental income is credited to the financing and investment income line in the comprehensive income and expenditure statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund. The gains and losses are therefore reversed out of the general fund in the movement in reserves statement and posted to the capital adjustment account.

Fair value measurement

The county council measures some of its assets such as surplus assets, investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either, in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The county council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value, the county council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date;

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Leases

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

Where the county council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal and replaced by a long term debtor in the balance sheet at an amount equal to the net investment in the lease. Finance income in respect of these debtors is recognised at a constant rate of return on the net investment outstanding in respect of that finance lease.

Reserves

The county council sets aside specific amounts as reserves for future policy purposes or, to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement.

When expenditure is incurred which is to be financed from an earmarked reserve, the expenditure is charged to the appropriate service revenue account in that year. An equal amount is transferred from the reserve to the general fund in the movement in reserves statement

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

Schools

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

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

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

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

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

Dedicated Schools Grant (DSG) is credited to the comprehensive income and expenditure statement based on amounts due from the Education and Skills Funding Agency. DSG is allocated to budgets delegated to individual schools and centrally retained council budgets. Expenditure from delegated schools and centrally retained budgets is charged to the comprehensive income and expenditure statement under education and children's services.

Agenda Item 10

Audit, Risk and Governance Committee
Meeting to be held on Monday, 25 January 2021

Electoral Division affected:
(All Divisions);

Treasury Management Strategy 2021/22
Appendices A-C refer

Contact for further information:
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Executive Summary

The council is required to produce a Treasury Management Strategy before the beginning of each financial year. The proposed Treasury Management Strategy for 2021/22 is attached as Appendix A, the Non-Treasury Strategy is attached at Appendix B, and the associated Minimum Revenue Provision Policy Statement is at Appendix C.

Recommendation

The Audit, Risk and Governance Committee is asked to recommend that Full Council approves the Treasury and Non-Treasury Management Strategies and the Minimum Revenue Provision Policy Statement for 2021/22, as set out in this report.

Background and Advice

Treasury management is the management of the council's investments and cash flows, its banking, money market and capital market transactions. It also includes the effective control and management of the risks associated with these activities, ensuring that the council gets the best performance within acceptable risk parameters.

The Treasury Management Strategy at Appendix A sets out the council's approach for both its borrowing and investment activity. The borrowing strategy is determined by the need for the council to borrow in accordance to the Prudential Code, the impact of the economic climate on the prevailing cost and availability of borrowing. The report identifies a likely need to borrow and notes that the council has fixed a higher proportion of debt for a long term to take advantage of current historically low interest rates. The balance between long and short term debt will continue to be kept under review.

The investments strategy whilst having regard to yield has the key drivers continuing to be security and liquidity.

Lancashire County Council

Although the impact of treasury management decisions are considered over the long term, there is a requirement through regulations for the strategies to be approved annually. The proposed Treasury Management Strategy is broadly similar to that adopted in 2020/21 whilst taking into account the council's previous bond issuance.

It should be noted that the figures in the strategy will be subject to minor changes as the capital programme is developed and approved.

The Ministry of Housing, Communities and Local Government statutory guidance on local government investments includes provisions relating to investments that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). These investments held for service purposes or for commercial profit are considered in the Non-Treasury Investment strategy at Appendix B.

The Minimum Revenue Provision Policy Statement for 2021/22 is also presented for approval at Appendix C. There are no changes to this policy from the previous year.

Consultations

Arlingclose, the county council's external treasury management advisers, have provided advice in the formulation of the proposals in this report.

Implications:

This item has the following implications, as indicated:

Risk management

The council, having adopted the "prudential code", is required to prudently manage its investments and borrowing. A failure to do so could expose the council to undue financial risks.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Chartered Institute of Public Finance and Accountancy Treasury Management Code of Practice	2018	Paul Dobson (01772) 534725
Ministry of Housing, Communities and Local Government statutory guidance on local authority investments	2018	Paul Dobson (01771) 534725

Reason for inclusion in Part II, if appropriate
N/A

Appendix A

Treasury Management Strategy 2021/22

Under the Local Government Act 2003, local authorities must have regard to statutory proper practices in their treasury management activities. In effect this means the council must adhere to the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code), and the Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance on local authority investments.

The Chartered Institute of Public Finance and Accountancy's Code requires the Treasury Management Strategy to be produced and approved annually. The updated Ministry of Housing, Communities and Local Government statutory guidance on local government investments, now covers a wider definition of investments. It includes those that support local public services by lending to or buying shares in other organisations (service investments), and those made to earn investment income (known as commercial investments where this is the main purpose). These investments held for service purposes or for commercial profit are considered in the Non-Treasury Investment Strategy.

Together with the detailed treasury management practices approved by the Director of Finance, the strategy provides the policy framework for the engagement of the council with financial markets in order to fund its capital investment programme, to maintain the security of its cash balances considering credit, liquidity, inflation and interest rate risk.

The strategy includes provisions for borrowing, treasury investments, financial derivatives and the indicators that will be used for monitoring purposes throughout the year. It is designed to achieve the following objectives:

- To ensure the security of the principal sums invested which represent the council's various reserves and balances.
- To ensure that the council has access to cash resources as and when required.
- To minimise the cost of the borrowing required to finance the council's capital investment programme, and manage interest and inflation rate risks appropriately.
- To maximise investment returns commensurate with the council's policy of minimising risks to the security of capital and its liquidity position.

In setting the treasury management strategy, the following factors are important:

- the economic position,
- the council's current investment and borrowing portfolio and
- estimates of future borrowing and investment requirements

Economic position

The impact on the UK economy from coronavirus, together with its exit from the European Union, is a major influence on the economy from the start of 2021. Although the trade deal agreed with the European Union means there will be no taxes on goods (tariffs) or limits on the amount that can be traded (quotas) between the UK and the European Union from 1 January 2021, there are new checks and custom declarations on goods. Also the agreement does not allow the UK automatic right of access to European Union markets for services such as banking and accounting.

The Bank of England maintained the Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in quarter 4 2020, before growing by 7.25% in 2021, lower than the previous forecast of 9%. The Bank of England also forecasts the economy will now take until quarter 1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

UK Consumer Price Inflation (CPI) for September 2020 registered 0.5%, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the Bank of England forecasting unemployment will peak at 7.75% in quarter 2 2021.

Gross Domestic Product (GDP) growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly Gross Domestic Product estimates have shown the economy is recovering, but remains well below its pre-pandemic peak. Looking ahead, the Bank of England’s November Monetary Policy Report forecasts economic growth will rise in 2021 with Gross Domestic Product reaching 11% in quarter 4 2021, 3.1% in quarter 4 2022 and 1.6% in quarter4 2023.

Gross Domestic Product growth has been impacted throughout the world by coronavirus. The euro zone rebounded by 12.7% in quarter3 2020 after contracting by -3.7% and -11.8% in the first and second quarters respectively, while the US economy contracted at an annualised rate of 31.7% in quarter2 2020 and then rebounded by 33.1% in quarter3.

Credit outlook

The credit ratings for many UK institutions were downgraded in 2020 on the back of downgrades to the sovereign rating. However, credit conditions more generally in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.
<u>Interest rate forecast:</u>

The authority's treasury management adviser, Arlingclose, is forecasting that the Bank of England Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the Bank of England and UK government continue to react to the coronavirus pandemic and the new trading arrangements with the European Union. The Bank of England extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the Bank of England expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year Gilt yields to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Current portfolio

The council's treasury portfolio as at 30 November 2020 was as follows.

	£m
Call accounts	19
Local authority deposits	89
Government, local government and supra-national bonds	451
Corporate bonds	245
Total Investments	804
Short term loans	305
Shared investment scheme	70
Long term loans - local authorities	20
Long Term Bonds	600
Long term loans - Public Works Loan Board	448
Total Borrowing	1,443
Net Borrowing	639

In addition the authority held some £225m of non-treasury investments, further details are contained in the Non-Treasury Strategy.

Estimates of future borrowing and investment requirements

In the medium term, the Chartered Institute of Public Finance and Accountancy's Prudential Code requires that the council's borrowing adjusted for transferred debt is for capital purposes only. The underlying need to borrow for capital purposes is measured by the capital financing requirement, while usable reserves and working capital are the underlying resources available for investment. The following table compares the estimated capital financing requirement to the borrowing at 30

November 2020. This gives an indication of the borrowing required and the resources available for investment.

The capital financing requirement forecast assumes a capital programme which includes borrowing of £50m a year in each of years 2020/21 to 2023/24 however, this will be subject to change as the capital programme develops.

	31/3/2021	31/3/2022	31/3/2023	31/3/2024
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Capital financing requirement	1,117	1,142	1,164	1,184
Other long term liabilities	-139	-133	-126	-119
Borrowing capital financing requirement	978	1,009	1,038	1,065
External borrowing	-1,313	-900	-885	-875
Borrowing requirement for capital	-335	109	153	190
Other borrowing requirements*	84	79	74	69
Reserves and working capital	-550	-550	-550	-550
Borrowing/ - Investment need	-801	-362	-323	-291

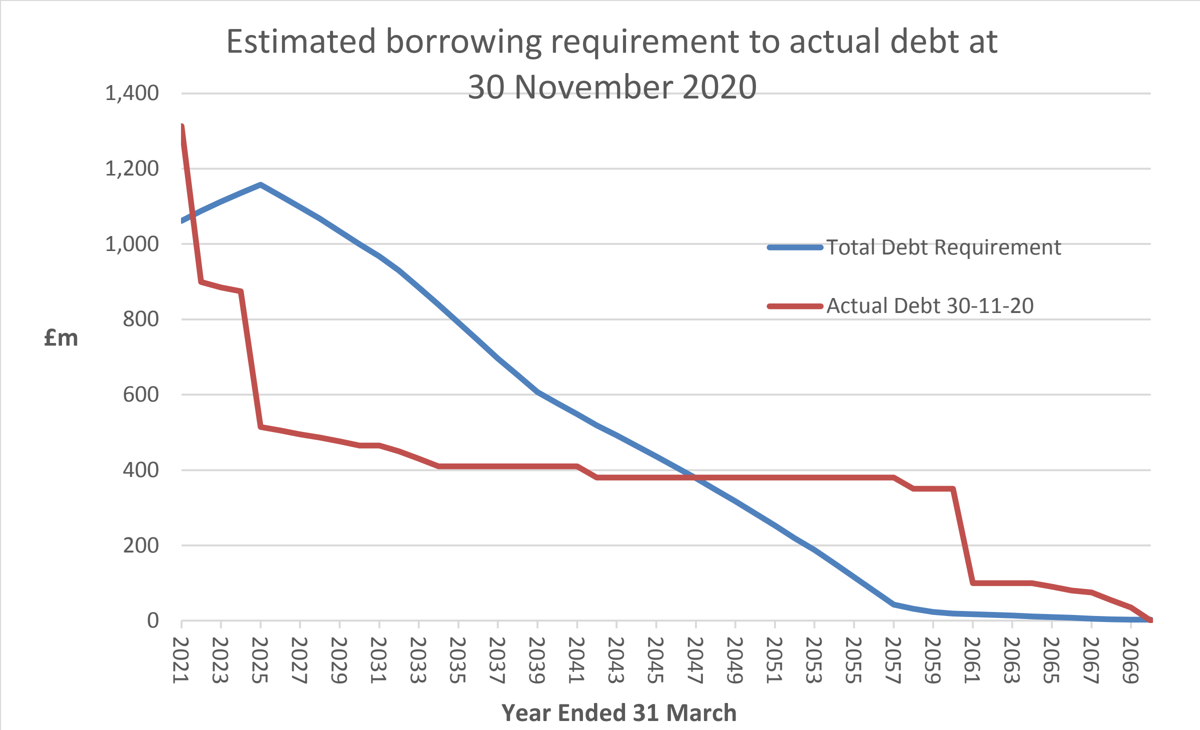
*shared investment scheme, debt held on behalf other local authorities and premiums

The table shows that there is an identified need for borrowing from 2021/22, although some of this could be satisfied by the use of internal reserves.

Borrowing Strategy

The borrowing strategy will be determined by the need for the council to borrow in accordance to the Prudential Code and the impact of the economic climate on the prevailing cost and availability of borrowing. The council will continue to ensure the borrowing needs are met whilst balancing the aim of keeping costs as low as possible and providing certainty of cost over the long term.

The council has a borrowing requirement over the next three years, this being the minimum period covered by the Code. However in assessing the need to borrow, consideration is given to the requirement to borrow for the longer term. The graph below compares the estimated total debt requirement and debt maturity for holdings at 30 November 2020 for the next 50 years given the current capital programme and minimum revenue provision policy.



The graph demonstrates that there is a need to borrow, however, the requirement reduces over time up to 25 years, when the borrowing becomes above current identified need. This has arisen as there has been a move towards fixing a higher proportion of debt long term, including the issuance of a 40 year bond, while interest rates have been at historically low levels. It is anticipated that there will be new borrowing needed beyond year 25 to fund capital programmes over that included in the above graph and therefore the apparent borrowing above need is not considered to be a concern.

There is a large requirement in the early years, due to the impact of new capital schemes in the programme and the need to replace maturing debt. With short-term interest rates currently lower than long-term rates, it is still cost effective to borrow short-term. Given the economic outlook, significant increases in interest rates are not forecast in the medium term and therefore it is anticipated that short term borrowing will still form a part of the debt portfolio. However, there is economic uncertainty and rates are at historically low levels and as such, the council has moved to secure greater certainty of costs and reduce the re-financing risk in its debt portfolio by taking some long term debt. This will continue to be reviewed in 2021/22 especially in relation to debt with 10-20 years to maturity where the council does already have an identified need to borrow.

There are a range of options available for borrowing in 2021/22:

- Variable rate borrowing is expected to be cheaper than fixed rate long term borrowing and this will be attractive during the financial year, particularly as variable rates are closely linked to Bank Rate.
- Under 10 years loan duration, rates are expected to be lower than long term rates, so this opens up a range of choices that may allow the council to spread maturities.

- The issuance of a 'commercial paper'/euro medium term note (an unsecured, short-term debt instrument). This is a flexible debt instrument that facilitates direct issuance into the public or private markets. The UK Municipal Bonds Agency euro medium term note documentation allows for "Non-Guaranteed" single council bond issuance under UK Municipal Bonds Agency documentation, provided the council has its own long term credit rating. This will represent a cheaper route to market than a stand-alone bond issue and it is this method that the council has used to issue two bonds previously. If a third bond was considered beneficial then it is the likely route to be chosen by the council.
- The UK Municipal Bonds Agency is proposing a product which does not include a joint and several guarantee. Instead, a council’s liability will be proportional to its share of the outstanding borrowing. Consideration as to whether or not this would be an appropriate form of borrowing will be given when the full details are available.
- The Public Works Loan Board continues to be available as a source of borrowing, and recent changes have meant this once again becomes a viable option.

Against this background, the Director of Finance will, in conjunction with the council's advisers, monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances. All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need, namely whether a borrowing requirement to fund the capital programme or previous capital investment exists.
b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance;
c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost.
d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.
e) To consider whether to use cash balances as a form of internal borrowing, however this will reduce the level of investments that can be made.

All long term decisions will be documented reflecting the assessment against these criteria.

Sources of borrowing

Traditionally the Public Works Loan Board has been the main source of long term borrowing for local authorities. The interest rate charged on Public Works Loan Board loans is linked to the gilt yield. Currently the council can obtain a Public Works Loan Board loan at 0.8% higher than the gilts yield (this rate is referred to as the margin). Recently the council has used the issuance of bonds to meet its requirements at rates lower than those available from the Public Works Loan Board.

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK Local Authorities

- Any institution approved for investments including high quality supranational banks such as the European Central Bank
- UK public and private sector pension funds
- Any other financial institution approved by the Prudential Regulation Authority, (this is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms)
- Capital market bond investors, either over the counter or through electronic trading platforms

Borrowing instruments

The council may only borrow money by use of the following instruments:

- Bank overdrafts
- Fixed term loans
- Callable loans or revolving credit facilities where the council may repay at any time (with or without notice)
- Callable loans where the lender may repay at any time, but subject to a maximum of £150m in total
- Lender's option borrower's option loans, but subject to a maximum of £100m in total
- Bonds, notes, bills, commercial paper and other marketable instruments
- Sale and repurchase (repo) agreements

Loans may be borrowed at either a fixed rate of interest, or at a variable rate linked to a market benchmark interest rate, such as the Sterling Overnight Index Average (often referred to as SONIA) which is administered by the Bank of England. The balance between fixed and variable rates will be subject to the limits on interest rate risk approved in this Treasury Management Strategy.

Debt restructuring

The council regularly monitors both its debt portfolio and market conditions to evaluate potential savings from debt restructuring.

Other borrowing

The council may borrow for short periods of time to cover unexpected cash flow shortages and to take deposits on the shared investment scheme. Also to provide cash flow support for the Preston, South Ribble and Lancashire City Deal project. This is to cover the gap between the cost of construction of infrastructure and the payment of contributions from other organisations including the government and developers. This borrowing is temporary but will be reflected within the prudential limits.

Policy on Borrowing in Advance of Need

The council will not borrow more than, or in advance of need, with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is appropriate in the following circumstances:

a) Where there is a defined need to finance future capital investment that will materialise in a defined timescale of two years or less; and
b) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or
c) Where in the view of the Section 151 Officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing beyond the two year horizon.

Having satisfied the criteria above, any proposal to borrow in advance of need would be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, with the value for money of the proposal fully evaluated.
b) The merits and demerits of alternative forms of funding.
c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

All decisions will be documented reflecting the assessment of these circumstances and criteria.

Treasury Management Investments Strategy

The council holds reserves and other cash items on its balance sheet which are invested. In investing these cash balances the council follows guidance issued by the Chartered Institute of Public Finance and Accountancy and the Ministry of Housing, Communities and Local Government.

The guidance requires treasury management investments to prioritise security, liquidity and yield in that order of importance. The council will not make any investments with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares.

The council has in recent years pursued a policy to hold as investments a sum as close as possible to the cash value of its reserves and balances. This policy will continue in 2021/22 but it will be regularly reviewed to ensure value for money is achieved especially when bearing in mind the potential for negative interest rates.

Business model for holding investments

Under the IFRS 9 (International Financial Reporting Standard), the accounting for certain investments depends on the council’s “business model” for managing them. In general, the authority holds investments to either collect the contractual cash-flows or a mixture of holding for the contractual cash-flows and sale proceeds. Neither of these would result in changes in market value to be charged against council tax at year end. However, if investment assets are held for the purpose of trading, any changes in the asset value is charged to the revenue account. The business model for the main treasury management investments are as follows:

Local authority investments - these are principally investments for a fixed term which are held to maturity. In addition, the authority holds some long term bonds issued by local authorities which are also held to maturity. In both cases interest is received on agreed dates and are held for the contractual cash-flows therefore they will be valued at amortised cost.

Gilts - the holding of gilts represent a key part of the strategy for holding investments to back up the reserves and balances while maintaining a low credit risk portfolio. They are also a liquid asset and periodic sales will be incurred in reaction to market movements to enhance the overall yield of the holdings but this is not the primary aim of the holding and therefore gilts will be held at fair value through 'other comprehensive income' which means that market value changes will not be charged against council tax.

Other bonds - the council also holds other high credit quality corporate bonds. These are held primarily for the purposes of liquidity providing a low credit risk holding. These are bought and sold in relation to cash needs and therefore the valuation will be such that the market value changes will not be charged against council tax.

Approved counterparties

The counterparty credit matrix is at the heart of the council's Treasury Management Strategy and has always been conservatively constructed to protect the council against credit risk whilst allowing for efficient and prudent investment activity.

However, the council does not rely solely on credit ratings in assessing counterparties. Other market information is also monitored such as information from the credit default swap market and any press releases in general, to ensure the council transacts with only the highest quality counterparties**.**

The council requires very high credit ratings for an organisation to be considered a suitable counterparty for investment purposes. These are set out as follows:

For short term lending of up to one year, the short term ratings from the ratings agencies will be used and that a counterparty must have a minimum of the following:

Moody's	P1
S&P	A1
Fitch	F1

Short term ratings were specifically created by the agencies for money market investors as they reflect specifically the liquidity positions of the institutions concerned.

For medium term investments in the form of tradeable bonds or certificates of deposit (1 to 5 years, where immediate liquidation can be demonstrated), a blended average of the ratings will be taken (averaging across all available ratings), with a minimum of:

Long term	AA3/AA-,
Short term	P1/F1+/A1+

For longer term investments (five years and above) in the form of tradeable bonds where immediate liquidation can be demonstrated, a blended average of the ratings will be taken, with a minimum of:

Long term AA2/AA
Short term P1/A1+/F1+

The detailed calculation methodology of the blended average will be agreed with the council's advisers and set out in the treasury management practices document.

If the counterparty of an existing investment falls outside the policy due to a change in credit rating, full consideration will be made, taking into account all relevant information, as to whether a premature settlement of the investment should be negotiated.

The minimum sovereign rating for investment is AA- with the exception of the UK. The UK's latest rating issued by Moody's is a long term rating of Aa2 which is the third highest grade.

Although the rating still falls within the current strategy, it is possible if there is an economic downturn that there will be further downgrades. This could result in investments in UK government gilts, treasury bonds and bodies guaranteed by the UK government falling outside the Treasury Management Strategy. However, even if there is a further reduction in the UK credit rating, the UK government is still deemed a safe investment. The government has never defaulted on its payments and as an ultimate solution it could prevent insolvency by printing money. Therefore it is proposed that the AA- minimum sovereign rating is not applied to the UK.

The following table shows the approved investment counterparties and limits:

Instrument	Minimum Credit Rating (blended average)	Maximum individual Investment (£m)	Maximum total Investment (£m)	Maximum Period
UK Government Gilts, Treasury Bills, Debt Management Office & bodies guaranteed by UK Government	UK Government	unlimited	unlimited	No limit
Sterling Supranational Bonds & Sterling Sovereign Bonds	AA-	150	300	No limit
Corporate Bonds (Short Term less than 1 year to maturity)	P1/A1/F1	50	200	1 year
Corporate Bonds (Medium term up to 5 years)	AA- P1/A1/F1	100	300	5 years
Corporate Bonds (Long term)	AA P1/A1+/F1+	50	200	No limit
Government Bond Repurchase Agreements (Repo/ Reverse Repo)	UK Government	500	500	3 years
Repurchase Agreements (Repo/ Reverse Repo)	Other AA-	200	200	1 year
Bond Funds with weighted average maturity maximum 3 years	AA Rated weighted average maturity 3yrs	50	100	These investments do not have a defined maturity date

Bond Funds with weighted average maturity maximum 5 years	AAA Rated	50	100	These investments do not have a defined maturity date
Collateralised lending agreements backed by higher quality government or local government and supra national sterling securities	AA- with cash or AA- for any collateral	300	300	25 years
Call accounts with UK and Overseas Banks (domiciled in UK)	P1/A1/F1 Long term A Government support	100	200	Overnight in line with clearing system guarantee (currently 4 years)
Unsecured deposits/CDs to Banks and Building Societies	AA	10	50	1 year
Equity, property, multi asset or credit Pooled Funds	Ratings are not produced for such Funds	50	100	These investments do not have a defined maturity date
Local authority fixed term deposits	Government	30	450	50 years
Local authority bonds	Government	50	300	60 years

Other than call account and operational bank accounts the council does not currently make unsecured investments with banks. This is as a result of the risk following the implementation of 'bail-in' legislation, which ensures that large investors, including local authorities, will rescue failing banks instead of taxpayers in the future. However, the option to undertake small scale lending, widely spread, may have some value and is therefore included in the policy.

Regarding investments with other local authorities, Arlingclose state that they are comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting the approved strategy. For periods longer than two years they recommend that additional due diligence is undertaken prior to a loan being made. On this basis it is proposed that the nominal value of investments to local authorities are limited as follows:

	Maximum individual investment	Maximum total investment	Maximum period
Up to 2 years	£30m	£450m	2 years
Over 2-10 years	£25m	£300m	10 years
Over 10 years	£25m	£100m	50 years

In addition to fixed term deposits, local authorities occasionally issue bonds. The investment policy allows the county council to purchase such bonds as an investment which are generally held to maturity. The holding of the bonds is considered to be outside the limits expressed above but for the purpose of risk management, the total of the bonds plus fixed term deposits with any one authority should not exceed £50m.

The council's day to day transactional bank, National Westminster, lies outside the investment credit matrix but overnight deposits may be placed with them. In practice the balances are considered on a daily basis. If there was a failure of National Westminster it is anticipated that they would be subject to bank bail-in rather than made insolvent. This increases the chance of the council maintaining operational continuity but any monies in the bank would be at risk of at least a partial loss.

Long term investments

The Treasury Management Code requires that where an authority invests, or plans to invest, for periods longer than one year, an upper limit for investments maturing in excess of one year is set. The authority does have fixed term deposits which are for longer than a year and the bonds usually purchased have a maturity date which is in excess of one year and these could be held to maturity.

However, the investments are held in government and supranational securities, which are highly liquid. In addition the council holds a secondary liquidity investment book of very high quality covered floating rate notes which are typically issued for a three to seven year term. Because these instruments have their rates re-fixed, at current market rates every three months, their price shows a very low sensitivity to changes in market rates. This means that although they are classified as long term instruments, in practice they operate as fixed instruments with a maximum of three months to maturity and can be liquidated with one or two days' notice. Therefore the 'long term investments' total contains instruments which operate with a short term horizon and which are central to achieving the council's security and liquidity objectives.

As a result of the nature of the assets held it is considered appropriate to have a high limit which is related to the forecast of reserves and balances held (currently forecast to be £550m at 31 March 2022. However, it is anticipated that during the year cash-flow will be positive requiring a higher level of investments to be held. In particular, if a borrowing is taken before the debt it is replacing matures or the capital expenditure is incurred then there will be a temporary increase in cash which will be invested. Therefore the proposed limit for 2021/22 is £800m.

In recent times, a wider range of investment instruments within the area of sterling deposits have been developed by financial institutions. All of these afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns. The Director of Finance will, in liaison with the council’s external advisers, consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the council. Decisions on whether to utilise such instruments will be taken after an assessment of whether their use achieves the council's treasury management objectives.

Policy on the Use of Financial Derivatives

The council will only use financial derivatives (such as swaps, forwards, futures and options) on a standalone basis, where it can clearly be demonstrated that, as part of the prudent management of the council's financial affairs, the use of financial derivatives will have the effect of reducing the level of financial risks that the council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Many embedded derivatives are already used by local authorities across England and Wales including Lancashire, although unlike the government, commercial sector and other public service areas, stand-alone derivatives have not generally been used.

A derivative is a financial instrument with three main features:

- The value changes in response to an underlying variable.
- The transaction requires no initial investment, or an initial net investment smaller than would be required for other types of contract with a similar expected response to market changes.
- The contract is settled at a predetermined future date.

The underlying variable represents an existing external risk for which the hedge is required. Examples are a specified interest rate, a commodity price, a credit rating, a foreign exchange rate or any other variable. However as the council's treasury activity is not directly exposed to all of these risks, for example foreign exchange or commodity prices, the council's use of derivatives would be restricted to the management and hedging of interest and inflation rate risk only.

The embedded and standalone derivatives which can be used by the council to manage interest rate risk are summarised as follows:

Class	**Use**	**Standalone**	**Embedded**
Forwards	To fix an interest or inflation rate for a single period in the future	Forward Rate Agreement, gilt lock, interest rate or gilt futures	Forward Deal
Swaps	To exchange interest or inflation rate exposures (e.g. fixed to floating)	Interest or inflation rate swap (IRS), basis swap.	Variable rate deposit, Floating rate note
Purchased Options	The right but no obligation to fix an interest or inflation rate in exchange for paying a premium	Caps, floors, collars, swaptions, puts, calls	Callable loan Collared deposit

The council will not sell interest rate or inflation rate options, (i.e. give another party the right to fix a rate) since these cannot reduce the council's risk. The only exception is where a sold option is combined with a purchased option of equal or higher premium to create a collar or other structured outcome where maximum is the total premium.

There are two methods of engaging in derivative contracts, exchange traded or settled derivatives and over the counter derivatives. The former are available in public markets and trade over a physical exchange with a clearing house acting as an intermediary and include futures and options. Over the counter contracts are privately negotiated and traded between two counterparties and can include swaps and forwards.

In a derivative contract both parties are often required to provide collateral (i.e. pools of valuable and liquid assets set aside specifically to back liabilities arising from the contract) to reduce credit risk. The method of assessing counterparty quality and suitability of collateral within the structure of the contracts is shown as follows:

Product	**Counterparty Quality**	**Security**	**Method**
Exchange traded or cleared product	Credit rating of exchange	Credit rating of clearing agent	Margin netting
Bilateral Forward rate agreements and swaps assuming netting	Credit rating of counterparty	Full 2-way collateral arrangements	Types of collateral agreed and any haircuts
Over the Counter Options	Credit rating of counterparty	Agreed full 2-way collateral	Types of collateral and haircuts
Intra Local Authority swaps	Assumed Credit rating	2-way collateral (cash)	No haircut

The credit quality of the collateral acceptable to the county council will be determined by the credit rating of the counterparty or exchange, along with credit default swap prices which react much quicker than credit rating agencies and can be used as early indicators of credit or liquidity problems.

The following table defines the appropriate limits for collateral quality:

Counterparty type	**Documentation**	**Collateral types**	**CDS levels**	**Rating**
Exchange	MIFCA	Cash margins	<75bp	AA
Bank	International Swaps and Derivatives Association/Credit Support Annex	Cash and Government bonds	<100bp	A3
Insurer and Pension Fund	International Swaps and Derivatives Association/ Credit Support Annex	Cash and Government bonds	<100 (Insurers)	A3 (Insurers)
Local Authority	Contract	Cash and Government bonds	England/Wales None	England and Wales None

The council will only use derivative contracts to hedge existing risks. This is reflected in the limits below. The 100% upper limit means that the council has the option to hedge all of, but not more than, its interest rate risk if felt appropriate.

Exposure Metric	Min Hedge	Max Hedge	Granularity	Tool
Interest rate	0%	100%	0-3 months 3-6 months, 6-12m months, 1 to 2 years, 2-5 years and 5 year blocks	Forward rate agreements, Futures, Options, Swaps Swaption
Inflation rate	0%	100%	1 to 2 years, 2-5 years and 5+ years blocks	Swap, Swaption, Option

In addition hedge accounting will be used to periodically test the effectiveness of the hedge. It is expected the hedge will work with between 80% and 125% effectiveness in accordance with accounting standards. If the effectiveness is measured as falling outside these parameters, the structure of the hedge will be changed in response.

The calculation method of interest rate risk to be hedged and hedge effectiveness will be set out in the treasury management practices document.

At all times the council will comply with Chartered Institute of Public Finance and Accountancy advice and guidance on the use of financial derivatives and have regard to their publications on risk management. However the council may need to seek its own legal advice.

It is anticipated that there may be occasions when it is appropriate to undertake transactions which seek to reduce the council's specific exposure to interest rate risk. A standard market technique involves selling gilts to be paid for at an agreed date in the future rather than the normal next working day. It is proposed that the advance date is restricted to one month and the limit on the transaction(s) outstanding is £250m in total.

Impact on the Council's Revenue Budget

With base rates at low levels, investment returns are likely to continue to be far lower than has previously been the case. However, in the knowledge that a portion of cash invested will not be required in the short term and to protect against continued low investment rates, investments may be made for longer time periods, depending on cash flow considerations and the prevailing market conditions.

The performance target on investments is a return above the average rate for seven day notice money.

The following table outlines the budget for the financing charges element of the council's revenue budget, and this will be amended to reflect the council's approved Medium Term Financial Strategy. The budgets will also be reviewed in light of any changes in the capital programme.

	Revenue Budget 2020/21 £m	Revenue Budget 2021/22 £m	Revenue Budget 2022/23 £m	Revenue Budget 2023/24 £m
Minimum Revenue Provision	15	19	21	21
Interest paid	25	27	26	26
Interest and other income earned	-14	-15	-15	-15
Total	26	31	32	32

The revenue budget above reflects a position which takes account of the views of both internal and external advisers, particularly in relation to interest rate movements. The position will be closely monitored by the Director of Finance and any changes will be reflected in forecasts presented to Cabinet.

Treasury Management Indicators

In line with the relevant legislation the county council has adopted the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice (2017) as setting the framework of principles for its treasury management activities. In accordance with the requirements of these codes the council produces each year prudential indicators which provide a framework for the prudent management of its treasury management including limits with regard to certain types of activity such as borrowing. The indicators below are a consequence of the activities set out within the treasury management strategy.

Authorised and operational Limits for debt

The 'authorised limit' is a prudent estimate of external debt, but allows sufficient headroom for unusual cash flow movements. Taking into account the capital plans and estimates of cash flow and its risks, the authorised limits for external debt are as follows:

	2020/21 Revised	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Borrowing	1,600	1,600	1,600	1,600
Other long term liabilities	150	400	400	400
TOTAL	1,750	2,000	2,000	2,000

Accounting standards are changing in relation to recording leases are anticipated during this period In effect more leases will be included on the council's balance sheet and therefore will be included against the other long term liabilities indicators. At this stage work is on-going to quantify the impact of the change and therefore the other long term liabilities limits will be subject to change.

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit will be carefully monitored during the year. The proposed operational limits for external debt are:

	2020/21 Revised	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Borrowing	1,200	1,200	1,200	1,200
Other long term liabilities	150	150	150	150
TOTAL	1,350	1,350	1,350	1,350

The actual external debt at 31 March 2020 was £1,545m.

Gross debt and the capital financing requirement (capital financing requirement)

Chartered Institute of Public Finance and Accountancy s Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast capital financing requirement over the next three years. The county council's borrowing is in excess of the capital financing requirement, however, in making this comparison certain borrowing is included in the total borrowing but does not count against the capital financing requirement. These include the premiums paid and the transferred debt.

	As at 31 March			
	2021	2022	2023	2024
	£m	£m	£m	£m
Borrowing capital financing requirement	978	1,009	1,038	1,066
Estimated total borrowing	1,062	1,088	1,112	1,135
Borrowing in excess of capital financing requirement	84	79	74	69
Represented by:				
Premiums	41	38	35	32
Borrowing relating to other authorities	43	41	39	37

The indicators and limits relating to specific treasury management activities are set out as follows.

Interest rate exposure

In order to control interest rate risk, the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50m

Maturity structure of debt

Limits on the maturity structure of debt help control refinancing risk.

	Upper Limit
Under 12 months	75%
12 months and within 2 years	75%
2 years and within 5 years	75%
5 years and within 10 years	75%
10 years and above	75%

Investments over 1 year

Limit on the level of long term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end (currently forecast to be £550m). The level of investments will be managed to be in line with the estimated reserves and balances and cash flow at 31 March 2022 (deemed an operational limit which will be reviewed during the year). However, it is anticipated that there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes. Therefore it is proposed that the limit for maturities in excess of one year is £800m for each of the years.

	Upper limit
Total invested over 1 year	£800m
Operational or forecast limit at 31 March 2022	£550m

Minimum average credit rating

To control credit risk the council requires a very high credit rating from its treasury counterparties.

	Benchmark
Average counterparty credit rating	A

Appendix B

Non-Treasury Investment Strategy 2021/22

This covers investments held to:

- support local public services by lending to or buying shares in other organisations, and
- earn investment income

In general, the council will continue its current policies regarding loans and the acquisition of shares. In addition the council will continue to review its services and if the opportunity exists to develop services that will provide opportunities for additional income generation (e.g. providing services to other authorities) these will be considered in the first instance by the appropriate service manager.

In considering any potential activity under the Non-Treasury Investment Strategy, the council will take into consideration statements from the Chartered Institute of Public Finance and Accountancy (CIPFA). This re-iterates that a local authority should avoid exposing public funds to unnecessary or unquantified risk.

Chartered Institute of Public Finance and Accountancy have also stated that "Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

As part of the statement there is a reminder that the informal commentary on the statutory guidance cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

Service Investments: Loans

The council provides loans as part of its service delivery and not primarily to generate of income. The authority has made loans to Lancashire County Development Ltd, which is an owned company that promotes economic development within the county and Local Pensions Partnership, which provides pension investment and administration services. The council also has an arrangement with Blackpool Council with respect to the waste service and Parish Councils and an employee loan scheme to promote alternatives to travelling by car.

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and it is proposed that this continues in 2020/21. The following table provides details of the loans outstanding at 31 March 20 and proposed limits for 2021/22.

Category of borrower	Outstanding at 31 March 20 £m	Proposed Limit 2020/21 £m
Subsidiaries	7.2	15.0
Other councils	29.2	40.0
Employees	0.1	1.0
Schools	0.2	5.0
Total	**36.7**	**61.0**

Service Investments: shares

The county council holds shares in Local Pensions Partnership and the Municipal Bond Agency for specific service delivery objectives**.**

Commercial Activities

The Ministry of Housing, Communities & Local Government - defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity, it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met, is in relation to smallholdings and Lancashire County Development Ltd. In 2020/21 the income generated from smallholdings was less than £0.1m while Lancashire County Development Ltd made a contribution to costs of some £2m.

Bonds including gilts - most of the bonds held are for treasury management purposes and not trading purposes, as outlined in the Treasury Management Strategy. However, there are occasions when cash flow and market projections make it possible to buy and sell bonds purely on a trading basis.

Bonds purchased for trading reasons will potentially be appraised at market value in the accounts. Therefore, any change in market value at year end will be charged against council tax therefore adding volatility to the council's financial position. It is proposed that the Director of Investments can invest in bonds for commercial purposes where cash-flow permits, but investments outside the current treasury management credit matrix will only be incurred after agreement with the Director of Finance.

Other investment proposals may arise during the year. The proposals could involve changes to current services or changing the use of existing assets. These will be examined by officers and approval sought from the appropriate council members.

Appendix C

Minimum Revenue Provision Statement 2021/22

1. Introduction

This annual Statement required to be approved by the county council arises from statutory guidance initially issued by the then Department of Communities and Local Government (DCLG) in 2008. This has been updated with the latest guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG) in 2018.

Local authorities are required each year to make a charge to the revenue account in respect of provision to repay capital expenditure financed by borrowing or credit arrangements (mainly finance leases or Private Finance Initiative contracts). The charge to revenue is one that the authority considers to be prudent and is referred to as the Minimum Revenue Provision (MRP).

Guidance issued by the Ministry for Housing Communities and Local Government continues to identify four options which can be used for the purpose of calculating the Minimum Revenue Provision. However the legal requirement is to set a prudent charge and therefore authorities are free to move away from the guidance if they feel it is appropriate.

2. The Four Options Explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

• Regulatory Method

Before the Prudential Code system of capital finance was introduced in 2004 the Minimum Revenue Provision was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of Capital Financing Requirement, which is derived from the Balance Sheet and broadly represents the outstanding debt used to finance the fixed assets. However, to avoid changes in the charge to revenue in 2004/05 an adjustment figure was calculated which would then remain constant over time. For technical accounting reasons this methodology would have led to an increase in the charge to revenue, and would therefore have had an impact upon the county council's budget, so this method has not been used and is not recommended for future use.

• Capital Financing Requirement (CFR) method

This option allows for the Minimum Revenue Provision to be calculated as 4% of the Capital Financing Requirement. This is derived from the Balance Sheet and represents the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the county council since the introduction of the Minimum Revenue Provision in 2004.

• Asset Life Method

Guidelines for this method allow for the charge to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways, namely:

a) .A calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset.
b) An annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

The latest guidance states that the asset lives to be used should not usually exceed 50 years. This maximum can be exceeded if the authority has received an opinion from an appropriately qualified valuer or the asset is leased or acquired under a Private Finance Initiative which is for a duration in excess of 50 years.

• Depreciation method

This requires a charge to be made of depreciation in line with normal accounting purposes. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

3. Finance Leases and Private Finance Initiative

Assets held under a Private Finance Initiative contract form part of the Balance Sheet. This has increased the capital financing requirement and, on a 4% basis, the potential charge to revenue. To prevent the increase the guidance permits a prudent charge to equate to the amount charged to revenue under the contract to repay the liability.

4. Application at Lancashire County Council

The relevant regulations require that the council make "prudent provision" for the repayment of debt, and departure from the options outlined above, which is permissible if an alternative option is considered more appropriate.

Supported borrowing

From 2008/09 to 2014/15 the Capital Financing Requirement option has been applied to all supported borrowing incurred before 1 April 2007. This charge was based on 4% of the outstanding capital financing. However, the charge was based on a 4% reducing balance which never effectively repays the debt. It was also considered that the 4% charge over-estimated the level of support within the revenue support grant. From 2015/16 the charge has still been made in reference to the capital financing requirement but it is based upon a 50 year life rather than a reducing balance. In 2017/18 it was considered that there had been an over-payment of Minimum Revenue Provision in earlier years and therefore the Minimum Revenue Provision for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2021/22 and therefore the Minimum Revenue Provision charge for the supported debt will be £1.

Unsupported borrowing

The Minimum Revenue Provision for Capital expenditure financed from unsupported borrowing has been calculated using the Asset Life Method on an annuity basis. It is proposed that this continues for calculating the Minimum Revenue Provision for 2021/22. This includes expenditure incurred in 2008/09 to 2014/15, when the Minimum Revenue Provision was initially calculated using the Asset Life method (Equal Charge approach).

Private Finance Initiative payments will be made in line with the amounts due to repay the liability under the contract.

Minimum Revenue Provision will not be made in relation to the following specific circumstances:

For assets constructed as part of the Preston, South Ribble and Lancashire City Deal where the borrowing will be repaid from other capital financing sources within the life of the City Deal. This is temporary borrowing that will be repaid from sources such as Community Infrastructure Levy and funding from the Homes and Communities Agency when the development facilitated by the construction of County Council assets has taken place. Thus an alternative prudent plan for repayment is in place. However, this position will be reviewed each year in the light of progress with the City Deal.

For new assets no Minimum Revenue Provision will be charged until the financial year after which the project is deemed to be operational.

Overpayments

The guidance does allow for charges in excess of the minimum to be made. It is not proposed that any overpayments will be made in 2021/22.

5. Recommendations

In respect of the methodology for applying the minimum revenue provision for the repayment of debt, it is recommend that the Full Council:

a) Approves the Capital Financing Requirement method and the Asset Life method for expenditure as outlined in section four.
b) Charges to revenue a sum equal to the repayment of any credit liability.
c) Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal subject to annual review.
d) Approve the policy of not starting charging revenue until the capital project is operational.